

**AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL
PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE AMAJUBA DISTRICT
MUNICIPALITY**

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying consolidated financial statements of the Amajuba District Municipality, which comprise the consolidated statement of financial position as at 30 June 2010, the consolidated statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages xx to xx.

Accounting Officer's responsibility for the consolidated financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with Standards of Generally Recognised Accounting Practise (Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (DoRA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996, read with section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. 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.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.

6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, these financial statements present fairly, in all material respects, the consolidated financial position of the Amajuba District Municipality for the year ended 30 June 2010 and its consolidated financial performance and its cash flows for the year then ended, in accordance with the Standards of GRAP and in the manner required by the MFMA and DoRA.

Emphasis of matter

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

Irregular expenditure

9. As disclosed in note 20.10 to the financial statements the municipality has incurred irregular expenditure of R4,800 million as a result of non-compliance with Municipal Supply Chain Management Regulations, GNR 868 dated 30 May 2005 (Municipal SCM Regulations).

Additional matters

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

Other Information included in the annual report

11. I have not obtained the other information included in the annual report for my review and have not been able to identify any material inconsistencies with the financial statements.

Unaudited supplementary schedules

12. The supplementary information set out on pages xx to xx and 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 thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the PAA and in terms of *General Notice 1570 of 2009*, issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations; MFMA, Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA), Municipal Planning and Performance Management Regulations, Municipal SCM Regulations and financial management (internal control).

Predetermined objectives

13. Material findings on the report on predetermined objectives, as set out on pages xx to xx, are reported below:

Non-compliance with regulatory and reporting requirements

Municipal Systems Act

Management of IDP drafting and approval process

14. Contrary to section 30(b) of the MSA the executive committee did not assigned the responsibilities for the management, drafting and approval of the Integrated Development Plan (IDP) to the municipal manager.

Core components of performance management

15. Contrary to section 41(1)(d) of the MSA, the performance management system did not specifically provide for steps to be taken to improve performance with regard to those development priorities and objectives where performance targets were not met.

Service level agreement with the municipal entity

16. Contrary to section 93C of the MSA, a service delivery agreement had not been entered into between the municipality and uThukela Water (Pty) Ltd. to ensure that the municipality's key performance indicators had been linked to the function of the municipal entity.

Municipal Finance Management Act

Mid-year budget and performance assessment

17. Contrary to section 72(1) of the MFMA, uThukela Water (Pty) Ltd. had not report to the municipality its mid-year performance to the municipality to enable the accounting officer of the municipality to assess performance and monitor the reporting to the mayor and to both National and Provincial Treasury.

Functioning of audit committee with regard to performance information

18. Contrary to section 166(2)(a) of the MFMA and regulation 14(4)(a)(i)(ii) of the Local Government: Municipal Planning and Performance Management Regulations, 2001, the audit committee did not review quarterly reports on performance measurement, nor reviewed the effectiveness of the performance management system implemented.

Municipal Planning and Performance Management regulations

Inadequate content of integrated development plan

19. Contrary to regulation 9(1)(a) of the Local Government: Municipal Planning and Performance Management regulations, 2001, there were no details of input, output and outcome indicators documented in the IDP.

Usefulness of information

20. The following criteria were used to assess the usefulness of the planned and reported performance:
 - Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved IDP, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?

- **Relevance:** Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- **Measurability:** Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit findings relate to the above criteria:

Reported targets not reliable as inadequate supporting source information was provided

21. Comparisons between performance in the current year with targets set for the current and previous financial years were not disclosed in the annual performance report and supported by appropriate corroborating evidence.
22. Although measures taken to improve on performance were disclosed in the annual performance report the measures were not supported by appropriate corroborating evidence. In many instances the measures taken did not address the delay in the anticipated performance/target.
23. A logical link between reported objectives, indicators and targets for the development priority: access to free basic water and expansion of water service delivery to all consumers by 2010/12 did not exist for 53% of the targets selected for auditing.

Reliability of information

24. The following criteria were used to assess the reliability of the planned and reported performance:
 - **Validity:** Has the actual reported performance occurred and does it pertain to the municipality i.e. can the reported performance information be traced back to the source data or documentation?
 - **Accuracy:** Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
 - **Completeness:** All actual results and events that should have been recorded have been included in the reported performance information.

The following audit finding relates to the above criteria:

Planned and reported targets not specific and measurable

25. For the selected objective: access to free basic water and expansion of water service delivery to all consumers for 2010 to 2012 period, 46% of the planned and reported targets were not:
 - specific in clearly identifying the nature and the required level of performance;
 - measurable in identifying the required performance; and
 - time bound in specifying the time period or deadline for delivery.

Compliance with laws and regulations

Municipal Finance Management Act

Approval of annual budget

26. Contrary to section 24(1) of the MFMA, the municipality's annual budget was not approved at least 30 days before the start of the new financial year.

Reporting of irregular expenditure

27. Irregular expenditure had been incurred by uThukela Water (Pty) Ltd as a result noncompliance with supply chain management regulations and was not reported to Amajuba District Municipality in terms of section 102(1) of the MFMA. Moreover, this expenditure had not been presented to the council of Amajuba District Municipality for further action, as required by section 32(2)(b) of this act.

The municipality did not maintain effective financial and risk management systems

28. Contrary to section 62(1)(c)(i) of the MFMA, the municipality had not maintained effective, efficient and transparent systems of financial and risk management, as a risk assessment had not been performed during the year under review and reconciliation of subsidiary ledgers to the general ledger were not performed on a monthly basis.

Expenditure was not paid within the parameters set by the applicable legislation

29. Contrary to the requirements of section 65(2)(e) of the MFMA, expenditure was not paid within 30 days of receipt of the relevant invoices, unless prescribed otherwise for certain categories of expenditure.

The municipality did not prepare financial statements in accordance with applicable legislation

30. Consolidated financial statements were not prepare in accordance with the requirements of section 122(1) of the MFMA as the separate financial statements of Amajuba District Municipality and uThukela Water (Pty)Ltd were subjected to material adjustments, arising from the audit process.

Municipal Supply Chain Management Regulations

Expenditure was incurred in contravention of or not in accordance with applicable legislation resulting in irregular expenditure

31. Contrary to section 17(1)(c) of the SCM regulations, goods and services of a transaction value between R10 000 and R200 000 were procured without inviting at least three written price quotations and the deviation was not approved.

INTERNAL CONTROL

32. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the following key laws and regulations; MFMA, Municipal Supply Chain Management Regulations, Municipal Planning and Performance Management Regulations and the MSA, but not for the purpose of expressing an opinion on the effectiveness of internal control.
33. The matters reported below are limited to the significant deficiencies regarding the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

Leadership

34. The accounting officer did not exercise oversight responsibility over performance monitoring and reporting and compliance with laws and regulations and internal control. Actions were not taken to address risks relating to the achievement of complete and accurate financial and performance reporting.

Financial and performance management

35. The financial statements and report on predetermined objectives were not reviewed by leadership and the audit committee for completeness and accuracy prior to submission for audit as the financial statements were subjected to material adjustments.

Governance

36. The municipality did not have a formal risk assessment process. The municipality did not identify risks relating to the achievement of financial and performance reporting objectives. The audit committee did not fulfil its responsibilities as set out in legislation.

OTHER REPORT

Investigation in progress

37. An investigation into fraud and theft amounting to R6,428 million relating to supplier payments although the money was recovered at year end.

Auditor-General
Pietermaritzburg

23 December 2010



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Auditor - General



Mr D Ngwenya
The Acting Municipal Manager
Amajuba District Municipality
Private Bag X6615
Newcastle
2940

15 December 2010

Reference: 60631REG09-10

Dear Mr Ngwenya

CONSOLIDATED MANAGEMENT REPORT ON THE REGULARITY AUDIT OF THE AMAJUBA DISTRICT MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2010

INTRODUCTION

1. This management report relates to our audit of the consolidated financial statements and the audit of predetermined objectives for the year ended 30 June 2010.
2. The report contains the following main subsections:
 - The Auditor-General's responsibilities
 - The accounting officer's responsibilities
 - Misstatements in the financial statements
 - Matters to be brought to the attention of the users
 - Other legal and regulatory reporting requirements
 - Information technology systems
 - Specific focus areas
 - Details of significant deficiencies in internal control relevant to the audit of the financial statements, reporting on predetermined objectives and compliance with laws and regulations
 - Remedial action taken on audit outcomes of prior years
 - Matters that may give rise to future audit findings if not addressed
 - Ratings of the audit findings
 - Summary of detailed audit findings
3. Annexures A, B and C contain information on the detailed audit findings. The detailed findings were communicated during the course of the audit and this report includes management's responses.

THE AUDITOR-GENERAL'S RESPONSIBILITIES

4. Our responsibility is to express an opinion on the consolidated financial statements and to report on findings related to our audit of the report on predetermined objectives and compliance with key laws and regulations. Our engagement letter sets out our responsibilities in detail. These include the following:
 - Planning and performing the audit to obtain reasonable assurance about whether the consolidated financial statements and report on predetermined objectives are free from material misstatements, whether caused by fraud or error.
 - Performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements and report on predetermined objectives. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements.
 - Considering internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements, the report on predetermined objectives and compliance with laws and regulations.
 - Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management.
 - Evaluating compliance with applicable legislation regarding financial matters, financial management and other related matters.
 - Evaluating the appropriateness of systems and processes to ensure the accuracy and completeness of reporting on predetermined objectives.
 - Evaluating the overall presentation of the consolidated financial statements.
 - Expressing an opinion on the consolidated financial statements based on the audit in accordance with the International Standards on Auditing (ISAs).
 - Reading other information in documents containing the audited consolidated financial statements.
5. Because of the test nature and other inherent limitations of an audit, we do not guarantee the completeness and accuracy of the consolidated financial statements or report on predetermined objectives, or compliance with all applicable legislation.
6. Having formed an opinion on the consolidated financial statements, we may include additional communication in the auditor's report that does not have an effect on the auditor's opinion. The following paragraphs could be included in the auditor's report:
 - An emphasis of matter paragraph to draw users' attention to a matter presented or disclosed in the consolidated financial statements which is of such importance that it is fundamental to their understanding of the consolidated financial statements.
 - An additional matter paragraph to draw users' attention to any matter, other than those presented or disclosed in the consolidated financial statements, that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

THE ACCOUNTING OFFICER'S RESPONSIBILITIES

7. The accounting officer's responsibilities are set out in detail in the engagement letter. These include the following:
 - The preparation and fair presentation of the consolidated financial statements in accordance with the Standards of Generally Recognised Accounting Practice (SA standards of GRAP) issued by the Accounting Standards Board.

- Designing, implementing and maintaining internal controls relevant to the preparation of the consolidated financial statements.
- Selecting and applying appropriate accounting policies, and making accounting estimates that are appropriate in the circumstances.
- Disclosing known instances of non-compliance or suspected non-compliance with laws and regulations, the effects of which should be considered when preparing consolidated financial statements.
- Monitoring of, and reporting on, performance against predetermined objectives.
- Providing access to all information that is relevant to the preparation of the consolidated financial statements and performance information, such as records and documents.
- Disclosing all matters concerning any risk, allegation or instance of fraud.
- Accounting for and disclosing related-party relationships and transactions.

MISSTATEMENTS IN THE CONSOLIDATED FINANCIAL STATEMENTS

Material misstatements corrected

- The misstatements included in the two categories below were identified during the audit and have been corrected by management. These misstatements were not prevented or detected by the municipality's system of internal control. We urge management to address the matters reflected as the internal control deficiency for the misstatements.
- The following material misstatements arose from a difference between the amount, classification or presentation of a reported financial statement item and the amount, classification or presentation that is required in accordance with the applicable financial reporting framework.

Material misstatements		Dr	Cr	Internal control deficiency
Financial statement line item	Reason for misstatement	R	R	
<i>Property, plant and equipment</i>	<i>Upgrade costs not recognised</i>	12 338 270		<i>Financial management</i>
<i>Operating expenditure</i>			12 338 270	
<i>Property, plant and equipment – Community assets: Buildings</i>	<i>Capital costs incurred on community assets incorrectly classified to Other assets – Buildings</i>	1 866 212		<i>Financial management</i>
<i>Other assets: Buildings</i>			1 866 212	
<i>Operating expenditure</i>	<i>Overstatement as amount is in respect of uThukela WSP agreement.</i>	3 236 590		<i>Financial management</i>
<i>Debtors</i>			3 236 590	
<i>Unappropriated surplus</i>	<i>Redemption of Inca loan written off incorrectly</i>	10 682 318		<i>Financial management</i>
<i>Non-current portion of long term liability</i>			10 682 318	
<i>Accumulated surplus</i>	<i>Transfer from accumulated surplus as budgeted to operating income</i>	40 439 778		<i>Financial management</i>
<i>Other income</i>			40 439 778	
<i>Other assets</i>	<i>Capital costs not recognised</i>	3 350 240		<i>Financial management</i>
<i>Operating expenditure</i>			3 350 240	

- The following material misstatements arose from a difference between the disclosures in the consolidated financial statements and the disclosures required by the financial reporting framework.

Material misstatements		Amount R	Internal control deficiency
Financial statement line item	Reason for misstatement		
<i>General expenses</i>	<i>Notes to the following expenses have not been disclosed in terms of SA standards of GRAP</i>	92 793 876	<i>Financial management</i>
<i>Overall presentation of financial statements</i>	<i>Presentation in respect of financial statements did not comply with the requirements of the SA standards of GRAP Framework for the preparation and presentation of financial statements</i> <i>Notes to the AFS for VAT was disclosed as audit remuneration.</i>	7 842 808	<i>Financial management</i>
<i>Investments – Financial instruments</i>	<i>The misstatement of R1 369 804.52 for Investec is as a result of using the opening balance of R9 361 542 rather than the closing balance of R10 731 346.52.</i>	10 731 347	<i>Financial management</i>
<i>Investments – comparatives</i>	<i>Note 4 Investments is incorrectly stated as it does not agree to the statement of financial position.</i>	101 172 602	<i>Financial management</i>
<i>Notes and cash flow</i>	<i>Cash flow statement: It was noted that disclosure of cash and cash equivalent at the end of the year did not agree to the disclosure note (difference of R6 206 374)</i>	6 206 374	<i>Financial management</i>

MATTERS TO BE DRAWN TO THE ATTENTION OF THE USERS

EMPHASIS OF MATTER PARAGRAPHS

An emphasis of matter paragraph will be included in our auditor's report to highlight the following matters to the users of the consolidated financial statements:

Matters important to the users of the consolidated financial statements

Irregular expenditure

- As disclosed in note 20.10 to the consolidated financial statements, irregular expenditure to the amount of R4,8 million was incurred, as a result of non-compliance with supply chain management legislation and policy.

ADDITIONAL MATTER PARAGRAPHS

An additional matter paragraph will be included in our auditor's report to highlight the following matters to the users of the consolidated financial statements:

Other Information included in the annual report

- I have not obtained the other information included in the annual report for my review and have not been able to identify any material inconsistencies with the financial statements.

Unaudited supplementary schedules

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

OTHER LEGAL AND REGULATORY REPORTING REQUIREMENTS

Report on predetermined objectives

14. Included below are the findings identified during our audit of the report on predetermined objectives.

Non-compliance with regulatory and reporting requirements

Management of IDP drafting process

15. Contrary to section 30(b) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA), there was no evidence provided that the responsibilities for the management, drafting and approval of the Integrated Development Plan (IDP) had been assigned to the municipal manager.

Core components of performance management

16. Contrary to section 41(1)(d) of the MSA, the performance management system did not specifically provide for steps to be taken to improve performance with regard to those development priorities and objectives where performance targets were not met.

Service level agreement

17. Contrary to section 93C of the MSA, a service delivery agreement had not been entered into with uThukela Water (Pty) Ltd. to ensure that the municipality's key performance indicators had been linked to the function of the municipal entity.

Performance audit committee

18. Contrary to section 166(2) and (3) of the MFMA, the performance audit committee did not review the quarterly performance measurement reports tabled by the internal auditors and did not table reports on performance management to the council.

Mid-year budget and performance assessment

19. Contrary to section 72(1) of the MFMA, uThukela Water (Pty) Ltd. had not reported its mid-year performance to the municipality to enable the accounting officer to assess the performance of the municipality and to monitor the reporting to the mayor and to both National and Provincial Treasury.

Inadequate content of integrated development plan

20. Contrary to regulation 9(1)(a) of the Municipal Planning and Performance Management regulations, 2001, there were no details of input, output and outcome indicators documented in the IDP.

Usefulness of information

21. The following criteria were used to assess the usefulness of the planned and reported performance:
 - Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved IDP, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
 - Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?

- Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?
22. The following audit findings relate to the above criteria:
 23. Comparisons between performance in the current year with targets set for the current and previous financial years was not disclosed in the annual performance report and was not supported by appropriate corroborating evidence.
 24. Although measures taken to improve on performance was disclosed in the annual performance report, these were not supported by appropriate corroborating evidence, and in many instances the measures taken did not address the delay in the anticipated performance/target.
 25. A logical link between reported development priorities objectives, indicators and targets for access to free basic water and expansion of water service delivery to all consumers by 2010/12 did not exist for 53% of the targets selected for audit purposes.

Reliability of information

26. The following criteria were used to assess the reliability of the planned and reported performance:
 - Validity: Has the actual reported performance occurred and does it pertain to the entity i.e. can the reported performance information be traced back to the source data or documentation?
 - Accuracy: Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
 - Completeness: All actual results and events that should have been recorded have been included in the reported performance information.
27. The following audit findings relate to the above criteria:
28. For the selected objective of access to free basic water and expansion of water service delivery to all consumers by 2010/12, 46% of the planned and reported targets were not:
 - specific in clearly identifying the nature and the required level of performance;
 - measurable in identifying the required performance;
 - time bound in specifying the time period or deadline for delivery.

Compliance with laws and regulations

Municipal Finance Management Act

Approval of annual budget

29. Contrary to section 24(1) of the MFMA, the annual budget was approved on the 12 June 2009 and therefore not at least 30 days before the start of the new financial year.

Reporting of irregular expenditure

30. Irregular expenditure had been incurred by uThukela Water (Pty) Ltd as a result non compliance with supply chain management regulations and was not reported to Amajuba District Municipality in terms of section 102(1) of the MFMA. Moreover, this expenditure had not

been presented to the council of Amajuba District Municipality for further action, as required by section 32(2)(b) of this act.

31. Contrary to section 32(8) read with section 168(3)(b) of the MFMA, irregular expenditure incurred by uThukela Water as a result of non compliance with SCM Regulations during the year under review was not presented to the council of Amajuba Municipality.

Financial management

32. Contrary to section 62(1) of the MFMA, a risk assessment was not performed.
33. Contrary to section 62(1)(c)(i) of the MFMA, reconciliation of subsidiary ledgers to the general ledger were not performed on a monthly basis.
34. Contrary to section 65(2)(e) of the MFMA, payments were not made to suppliers within 30 days of receipt of invoice.

The municipality did not prepare financial statements in accordance with applicable legislation

35. Contrary to the requirements of section 122(1) of the MFMA, the municipality did not prepare financial statements in accordance with the above section. The consolidated financial statements were subjected to material adjustments, subsequent to submission for audit purposes.

Municipal Supply Chain Management (SCM) Regulations

Acquisition management

36. Contrary to Municipal SCM Regulation 16(c), there was no documented approval by the acting CFO where it was not possible to obtain three quotes and there was no reporting to the accounting officer.

INTERNAL CONTROL

Internal control table

37. The following table indicates the achievement of the objectives of internal control as they relate to the three fundamentals of internal control. The assessment is based on significant deficiencies which give rise to matters included in the auditor's report for the findings on predetermined objectives and compliance with laws and regulations. The reasons for this assessment are discussed below. Other deficiencies in internal control, which require the attention of management, are included in the detailed findings attached to this report.

Fundamentals of internal control Objectives of internal control	Operational	Accountability and reporting	Compliance	Safeguarding of resources
	Achieved? Yes/No	Achieved? Yes/No	Achieved? Yes/No	Achieved? Yes/No
Leadership				
• Oversight responsibility	No	No	No	Yes
• Tone at the top	No	No	No	Yes
• Action to mitigate risks	No	No	No	No
Financial and performance management				
• Quality, reliable annual financial statements	No	No	No	No

• Proper record keeping	Yes	Yes	Yes	Yes
• Adequate systems	Yes	Yes	Yes	Yes
Governance				
• Risk identification	No	No	No	No
• Fraud prevention	Yes	Yes	Yes	Yes
• Internal audit	Yes	Yes	Yes	Yes
• Audit committee	No	No	No	No

Achievement of internal control objectives

38. Below is a summary of the internal control deficiencies that resulted in the above assessment, as well as findings on predetermined objectives and compliance with laws and regulations. Additional information on significant internal control deficiencies is provided later in this report.

Leadership

39. The accounting officer did not exercise oversight responsibility over financial and performance monitoring and reporting and compliance with laws and regulations and internal control. Actions were not taken to address risks relating to the achievement of complete and accurate financial and performance reporting.

Financial and performance management

40. The consolidated financial statements and other information included in the annual report were not reviewed by leadership and the audit committee for completeness and accuracy prior to submission for audit as the consolidated financial statements were subjected to material adjustments.

Governance

41. The municipality did not have a formal risk assessment process. The municipality did not identify risks relating to the achievement of financial and performance reporting objectives. The audit committee did not fulfil its responsibilities as set out in legislation.

Remedial action taken on audit outcomes of prior years

42. The improvement in the audit outcomes from the previous year can be attributed to the following:

- Leadership
The tone at the top and oversight responsibilities, including the strengthening of the internal control environment have improved.
- Financial and performance management
Monthly reconciliation of accounts and continuous review thereof, as well as the monthly preparation of schedules that support/analyse information in the annual financial statements were prepared.

OTHER REPORT

Investigation in progress

43. An investigation is being conducted into fraud and theft amounting to R6,428 million relating to supplier payments. The money was recovered.

SPECIFIC FOCUS AREAS

SIGNIFICANT FINDINGS FROM THE AUDIT OF PROCUREMENT AND CONTRACT MANAGEMENT

44. The audit included an assessment of procurement processes, contract management and controls of the municipality which should ensure a fair, equitable, transparent, competitive and cost-effective supply chain management (SCM) system that complies with legislation and that minimises the likelihood of fraud, corruption, favouritism and unfamiliar and irregular practices.

Irregular expenditure

45. R4,8 million (2008/09:R16,145 million) of irregular expenditure was incurred in the period as a result of the contravention of the SCM policy and legislation. At date of the report none of the SCM irregular expenditure incurred in the current and previous period had been investigated by the council.

Awards to persons/family members in the service of the state

46. In order to determine whether a potential provider is in the service of the state reliance is placed on the declaration of the provider and the person in the service of the municipality. Staff did not make declarations in contracts in which they have an interest. Non-disclosure may constitute a corrupt and fraudulent act and should be investigated and dealt with in accordance with the measures outlined in the SCM policy and SCM regulation 38 which includes cancelation of the contract with the provider.

Procurement processes and contract management

47. The table below provides a summary of other findings on procurement and contract management as well as limitations experienced in performing the audit procedures relating to the audit findings. It provides an indication on the identified number of instances (#) of findings or limitations and the related rand value of the awards.

Detail	Findings		Limitations	
	#	R- value	#	R- value
Price quotations				
Goods and services of a transaction value between R10 000 and R200 000 were procured without inviting at least three written price quotations from accredited prospective providers and the deviation was not approved by the CFO or his/her delegate.	2	R398 125		
A deviation was approved for the invitation of three written price quotations from accredited prospective providers even though it was possible to comply with the requirement.	11	R1 554 914		
The list of accredited prospective providers was not administered in accordance with the SCM policy and regulations.	3	R407 000		
Invitations to submit price quotations for goods and services with a transaction value above R30 000 were not advertised.	14	R3 345 056		
Quotations were accepted from providers who did not have tax clearance from SARS confirming that their tax matters are in order.	7	R1 925 640		

Detail	Findings		Limitations	
	#	R- value	#	R- value
The preference point system was not applied in the procurement of goods and services above R30 000 through written price quotations.	9	R1 702 336		
Quotations that did not have the lowest price or that did not score the highest on other predetermined criteria were accepted without justification.	2	R1 551 984		
Competitive bidding				
Deviations from competitive bidding were approved on the basis of it being an emergency, even though proper planning would have prevented such emergency.	5	R1 573 720		
Public invitations for competitive bids were not advertised in a newspaper commonly circulating locally.	5	R1 573 720		
Final awards and/or recommendation of bids to the accounting officer were not made by an adjudication committee which was constituted in accordance with the SCM policy.	8	R12 413 624		
The preference point system was not applied in the procurement of goods and services through competitive bids.	5	R1 573 720		
Contracts were awarded without justification to bidders who did not score the highest points.	1	R1 171 984		
Contracts, contract management and payment				
Contracts were amended or extended without approval by a delegated official.	1	R500 000		
Contracts were amended or extended without tabling the reasons to the council and/or notifying the public as required by the MFMA.	1	R500 000		
Contracts were extended or renewed to such an extent that competitive bidding processes were being circumvented.	1	R500 000		
Payments were made for goods and services either were not received or were not delivered in accordance with the criteria documented in the quotation or contract.	1	R199 500		
Payments were made to providers at prices/rates different from those agreed upon in the contract or quotation.	3	R605 316		
Other findings				
Payments were made to suppliers without valid supporting documentation.	8	R2 549 060		

Fundamental controls

48. The table below provides a summary of our findings on the significant control deficiencies in procurement and contract management that should be addressed.

Leadership
SCM officials were not adequately trained.
SCM policy was not reviewed annually
Financial management
There was a lack of an effective internal monitoring system to determine, on the basis of a retrospective analysis, whether the authorised SCM processes were being followed and whether the desired objectives were being achieved.
If a tender other than the one recommended in the normal course of implementing the SCM policy was approved, the accounting officer did not notify in writing the Auditor-General, the relevant provincial treasury and the National Treasury of the reasons for deviating from such recommendation.
The accounting officer or the CFO was not notified in writing, on a monthly basis, of all written and verbal quotations and formal written price quotations accepted by officials acting in terms of a sub-delegation.
The accounting officer did not, within 30 days after the financial year-end, submit a report on the implementation of the SCM policy of the municipality and of any municipal entity under its sole or shared control, to the council of the municipality.
Reasons were not documented and approved in cases where it is was not possible to obtain at least three quotations.
No record was maintained or report made to the accounting officer of cases where it was not possible to obtain three quotes.
The accounting officer did not record the names of potential providers requested to provide quotations with their quoted prices through written or verbal quotations.
Governance
Processes had not been established for officials in the SCM unit to report to the accounting officer any alleged irregular conduct in the SCM system which they become aware of, including any alleged fraud, corruption, favouritism, unfair conduct or breach of the code of ethical standards.
The accounting officer had not appointed a neutral or independent observer for an attendance or oversight process to ensure fairness and promote transparency.
No controls were in place to ensure that orders for goods and services were not deliberately split into parts or items of a lesser value to avoid complying with the policy.
No policy or procedures existed for the accounting officer to report all cases of alleged irregular expenditure that constituted a criminal offence, and theft and fraud to the SAPS.
Other findings
Staff did not make declarations in contracts in which they had an interest.
The accounting officer did not annually review the implementation of the supply chain management policy.
The accounting officer did not report quarterly to the mayor on the implementation of the supply chain management policy.

Inadequate password controls and sharing of passwords were detected relating to the supplier database.

DETAILS OF SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL RELEVANT TO THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS, THE REPORT ON PREDETERMINED OBJECTIVES AND COMPLIANCE WITH LAWS AND REGULATIONS

LEADERSHIP

Oversight responsibility over reporting

49. The accounting officer did not review the interim/monthly reports or the consolidated financial statements and the report on predetermined objectives prior to their submission for audit and thus the following matters were not identified and corrected:
50. The municipality did not have sufficient monitoring controls to ensure adherence to the internal policies and procedures at an objective level, as well as for purposes of taking corrective action.

Availability of key personnel

51. Despite the fact that we had discussed and agreed upon the importance of the availability of key personnel throughout the audit process during our initial engagement meeting, as well as the importance of providing timely responses to audit findings, certain key personnel were frequently not available to the audit team and many responses to exceptions were received late. This delayed the progress of the audit process significantly.

Adequacy and competence of personnel responsible for reporting

52. There is an urgent need to appoint both a municipal manager and a chief financial officer with appropriate skills and experience. The municipality has not made appointments to these positions which have, in the case of the municipal manager been vacant for almost a year, and in the case of the chief financial officer for more than a year. Consequently, the municipality had to employ consultants at a cost of R367 359 to prepare the consolidated financial statements submitted for auditing.

Implementation of appropriate key controls (policies and procedures)

53. There were no processes or procedures in place to ensure that the supply chain management legislation and policy is being enforced and monitored, resulting in a high incidence of non-compliance with the legislation being reported. There were also inadequate processes or procedures in place to ensure the completeness and accuracy of the reported financial information, as differences were found with cash and bank, budget amounts, investments, repairs and maintenance etc.

FINANCIAL AND PERFORMANCE MANAGEMENT

Related party transactions

54. The municipality had not implemented controls to ensure that staff make declarations in contracts in which they have an interest.

Use of consultants in the preparation of the consolidated financial statements

55. The municipality made use of consultants for the preparation of the consolidated financial statements due to the fact that the chief financial officer position had been vacant for more than a year. The appointment of a consulting firm did not reduce the number of material misstatements reported, and the annual financial statements contained many omissions and

disclosures which did not comply with SA standards of GRAP. The consolidated financial statements submitted for audit had to be materially adjusted.

GOVERNANCE

Risk identification and management

56. The municipality did not conduct a risk assessment as required by the MFMA. Consequently, a number of control deficiencies were identified. These included a failure to ensure compliance with supply chain management legislation and the review of quarterly performance information.

Audit committee

57. The audit committee initially consisted of two members, and hence, was not fully functional/legally compliant for the majority of the financial year. The third member of the committee only received his appointment letter on 5 May 2010. Consequently the audit committee did not review the performance management system, did not table reports on performance management to the council, did not conduct an effectiveness assessment of the internal audit function, and did not review the quarterly performance measurement reports tabled by the internal auditors.

REMEDIAL ACTION TAKEN ON AUDIT OUTCOMES OF PRIOR YEARS

Actions taken by management and those charged with governance to address matters previously reported

58. An action plan to address audit outcomes has been implemented and monitored by management and reported on to EXCO. The drafting, tabling, implementation and monitoring of the GRAP Implementation plan.

RATINGS OF DETAILED AUDIT FINDINGS

59. 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 – deficiencies that could adversely affect the entity's ability to initiate record, process and report financial data consistent with the assertions of management on the financial statements and in accordance with the applicable basis of accounting. Unacceptable risk that errors and irregularities may occur that will not be prevented or detected by the internal controls in good time.
These matters should be addressed within the next 12 months.
 - Administrative matters – non-material non-compliance with applicable legislation, or misstatements in the financial statements that are unlikely to affect the decisions of a user and do not affect the financial statements as a whole, or opportunities for improvement, or other matters of governance interest.
These matters should be addressed at the discretion of the entity.
60. Failure to address matters reported in a particular category may result in the matter being rated as more significant in the next financial year.

Yours sincerely

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SUMMARY OF DETAILED AUDIT FINDINGS

Page. no.	Finding	Classification					Rating			In which years was it reported		
		Financial statements	Predetermined objectives	Compliance	Internal control	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2008/09	2007/08	2006/07
Employee costs												
34	Overtime paid constitutes more than 30% of salary			✓				✓		✓	✓	
35	Overtime				✓			✓			✓	
35	Leave forms are not completed				✓			✓				
39	Sick leave				✓			✓				
Governance												
40	The audit committee does not submit reports on performance management to council			✓			✓					
21	Annual budget not approved timeously			✓			✓					
21	No risk assessment performed			✓			✓					
43	Audit committee not functional			✓				✓				
43	Monthly budget statements and general reporting obligations			✓				✓				
45	Assessment of internal audit by the audit committee			✓				✓				
22	Irregular expenditure	✓					✓					
40	Assessment of the audit committee			✓				✓		✓		

Page. no.	Finding	Classification					Rating			In which years was it reported		
		Financial statements	Predetermined objectives	Compliance	Internal control	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2008/09	2007/08	2006/07
42	Internal audit plan and charter not approved			✓				✓				
Investments												
46	Reporting requirements				✓			✓				
47	Investment register				✓			✓				
47	Investment portfolios/reconciliations not reviewed on a monthly basis				✓			✓				
Leases												
48	Lease payments	✓						✓				
Moveable assets												
49	Assets useful lives not reviewed	✓						✓				
50	Asset register minimum information	✓						✓	✓	✓		
51	Assets reconciliations and reviews	✓						✓				
Operating expenditure												
52	No control in place for staff member to declare interest			✓				✓				
53	Adoption and amendment of supply chain management policies			✓				✓				
54	Internal monitoring of SCM			✓				✓				
54	Approval of tenders not recommended			✓				✓				

Page. no.	Finding	Classification					Rating			In which years was it reported		
		Financial statements	Predetermined objectives	Compliance	Internal control	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2008/09	2007/08	2006/07
56	No reporting in terms of sub-delegations			✓				✓				
55	Oversight role of the Amajuba council			✓				✓				
62	Formal written price quotations not received			✓			✓					
57	Procedures for procuring goods or services			✓				✓				
57	Written or verbal quotations			✓				✓				
58	Written or verbal quotations			✓				✓				
59	Committee system for competitive bids			✓				✓				
60	Procedures for procurement of goods and services in excess of R30 000			✓				✓				
60	General preconditions for consideration of written quotations or bids			✓				✓				
61	General preconditions for consideration of written quotations or bids			✓				✓				
62	Formal written price quotations			✓				✓				
63	Lists of accredited prospective providers			✓				✓				
64	Public invitation for competitive bids			✓				✓				
65	Bid adjudication committees			✓				✓				
66	Contracts and contract management			✓				✓				
24	Reconciliations not performed on a monthly basis			✓			✓			✓	✓	✓

Page. no.	Finding	Classification					Rating			In which years was it reported		
		Financial statements	Predetermined objectives	Compliance	Internal control	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2008/09	2007/08	2006/07
50	Process for reporting fraud and irregular conduct			✓				✓				
67	Awards were not made in line with the proudly SA campaign			✓				✓				
68	Controls relating to the splitting of orders				✓			✓				
69	No process for reporting of theft and fraud to SAPS				✓			✓				
70	Competency levels of SCM officials			✓				✓				
71	No SCM procedures for petty cash purchases			✓				✓				
72	Tax clearance certificate were not submitted by suppliers			✓				✓				
72	Lowest quoted price not awarded contract			✓				✓				
72	No requisition received for payment				✓			✓				
75	Order date after invoice date			✓				✓				
75	Control weaknesses regarding the supplier database				✓			✓				
76	No valid supporting documentation for payment				✓			✓				
78	Assets written off to repairs and maintenance	✓						✓				
79	No oversight over expenditure management			✓				✓				
80	Supplier not a vendor but charges Vat			✓				✓				
Payable												

Page. no.	Finding	Classification					Rating			In which years was it reported		
		Financial statements	Predetermined objectives	Compliance	Internal control	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2008/09	2007/08	2006/07
24	Payments to suppliers not made within 30 days			✓			✓					
80	Vat input not captured			✓				✓		✓		
Predetermined objectives												
25	Performance management system		✓				✓			✓		
26	Key performance indicators		✓				✓			✓		
27	Predetermined objectives relating to uThukela Water (Pty) Ltd.		✓				✓			✓		
28	Monitoring, measurement and review of performance		✓				✓			✓		
29	Assessment of performance information in the annual performance report		✓				✓					
31	Measurability of targets	✓					✓					
81	Drafting the IDP	✓						✓		✓	✓	
Receivables												
82	Goods received notes not utilised			✓				✓				

ANNEXURE A: MATTERS AFFECTING THE AUDITOR'S REPORT

Governance

1. The audit committee did not submit reports on performance management to council

Audit Finding

In terms of section 166(2)(a)(v) and (vii) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), "The audit committee is an independent advisory body which must advise municipal council, the political office bearers, the accounting officer and the management staff of the municipality or the board of directors, the accounting officer and management staff of the municipal entity on matters relating to:

- (v) performance management
- (viii) performance evaluation."

Furthermore, in terms of section 166(3)(b) of the MFMA, "In performing its functions, an audit committee must liaise with the internal audit unit of the municipality and the person designated by Auditor-General to audit the financial statements of the municipality or municipal entity."

It was established that the audit committee did not table reports on performance management to the council, did not review the performance management system, and did not review the quarterly performance measurement reports tabled by the internal auditors.

The audit committee was not a full and functional committee for the majority of the financial year as it only consisted of 2 members, and legislation requires the audit committee to consist of 3 members.

Council did not have the opportunity to assess whether the committee was effective in discharging its responsibilities, and the council could not assess whether there was an effective system for performance management.

Internal control deficiency

The audit committee did not fulfil its responsibilities as set out in legislation and in accordance with accepted best practice.

Recommendation

Management should ensure that the audit committee discharges all its responsibilities as per the relevant legislation.

Management response

Auditor General's Recommendations is noted. The situation experienced was beyond Management's Control in that the appointed third person had withdrawn his availability citing that the rates payable were too low but Management needed a written confirmation which took time and we could not appoint any person from the list until a written confirmation on withdrawal from him was received. The matter was taken to Council in appointing the 4th person in the list of suitable candidates and the matter was resolved with regard to the procedures and processes to ensure that the Audit Committee functions as required by the legislation are in place.

The Municipality is going to establish an assessment of Audit Committee functionality mechanism by e.g. establishing a Municipal SCOPA and Councillor oversight Committee to ensure compliance to legislation. This will only be effective and implemented in the 2010-11 financial year.

Auditor's conclusion

Management response noted, this matter will be followed up next year

2. Annual budget not approved timeously

Audit Finding

In terms of section 24(1) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), "The municipal council must at least 30 days before the start of the budget year consider approval of the annual budget."

Per inspection of council minutes it was confirmed that the annual budget was approved on the 12 June 2009, and therefore not at least 30 days before the start of the new financial year.

The district municipality did not have processes or procedures in place to monitor full compliance with the legislated requirements of the MFMA. A lack of proper planning and foresight has resulted in the annual budget not being approved at least 30 days prior to the commencement of the next financial year.

Council were not complying with the requirements of the MFMA, which could impact negatively on service delivery and project management.

Internal control deficiency

The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control to ensure that the budget was approved timeously.

Recommendation

Meetings of council for the consideration of approval of annual budgets should be scheduled at least 30 days prior to the commencement of the new financial year so as to comply with section 24 of the MFMA.

Management response

The Auditor General's Recommendations is noted, the budget for the 2010/11 financial year was approved on the 31st of May 2010. Taking into consideration that the budget for the 2009/10 financial year was approved on the 12 June 2009 and 18 days before the 1st day of the budget year and in all due respect Management will like to draw your attention to Section 25(3), 26 and 55 of the MFMA, we have fulfilled all legislative requirements therefore Section 26 and Section 55 was not applicable and non compliance measures as indicated in the Act was not necessary. The Budget for the 2010/2011 Financial Year was approved on the 31 May 2010.

Auditor's conclusion

Management response noted, this matter will be followed up next year

3. No risk assessment performed

Audit Finding

In terms of section 62(1)(c)(i) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003), "The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control."

It was established that no risk assessment was performed in the current year (2009-10).

No formalized processes are in place to ensure that risk assessment is carried out on a regular basis.

Internal control deficiency

The entity did not have a formal risk assessment process and did not identify risks relating to the achievement of financial and performance reporting objectives.

Recommendation

Steps should be taken to ensure that a risk assessment is performed at least on an annual basis, and that suitable controls are designed and implemented to address the risks identified.

Management response

Risk Assessment workshop was conducted in the current financial year in conjunction with KZN Provincial Treasury on the 27 July 2010. A Risk Management Plan has been formulated for the 2010/2011 financial year. A further Risk and Control Self Assessment Workshop was conducted on the 20-21 September 2010. Management was aware that a risk assessment was not conducted in the 2009/10 financial year and Management has rectified this in the 2010/11 financial year.

Auditor's conclusion

Management response noted, this matter will be followed up next year.

4. Irregular expenditure

Audit Finding

In terms of section 32(2) of the the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003)(MFMA), " A municipality must recover unauthorised, irregular or fruitless and wasteful expenditure from the person liable for that expenditure unless the expenditure—

(a) in the case of unauthorised expenditure, is—

- (i) authorised in an adjustments budget; or
- (ii) certified by the municipal council, after investigation by a council committee, as irrecoverable and written off by the council; and

(b) in the case of irregular or fruitless and wasteful expenditure, is, after investigation by a council committee, certified by the council as irrecoverable and written off by the council."

Both the prior and current year annual financial statements reflect irregular expenditure totaling R16 145 472 and R4,8 million respectively. It was established that these amounts had not been investigated by a council committee, with a view to making recovery thereof.

The district municipality does not have SCM processes or procedures in place to monitor full compliance with the legislated requirements of the MFMA. A lack of proper planning and foresight has resulted in the supply chain legislation and policy being circumvented.

Internal control deficiency

The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control to ensure that their was compliance with SCM

Recommendation

Steps should be taken to ensure that a council committee investigates the cases disclosed in both the prior and current annual financial statements, with a view to ensuring full compliance with the

legislated requirements of the MFMA. Evidence of the investigation and the final results should be produced for audit purposes.

Management response

The Annexure H of the Annual Financial Statements for the 2008/2009 was not properly reviewed by the CFO which lead to an amount R16 million reported as irregular expenditure. The accuracy of these deviations were therefore not confirmed. In the 2009/2010 financial year an accurate confirmation was performed which resulted in R4.8 mil which is about 2% of our total budget. Our Supply Chain Management Policy allows for deviations and all reasons for deviations have been recorded in Annexure H of the Annual Financial Statement.

Auditor's conclusion

Management response noted, this matter will be followed up next year.

5. Formal written price quotations

Audit Finding

In terms of regulation 17(2) of the Municipal Supply Chain Management Regulations (GNR868 dated 30 May 2005), "A designated official referred to in sub-regulation (1)(c) must within three days of the end of each month report to the chief financial officer on any approvals given during that month by that official in terms of that sub-regulation."

It was established that reasons were not documented and approved in cases where it is not possible to obtain at least three quotations.

The district municipality did not have procedures and processes in place to ensure full compliance with the aforementioned regulations.

The SCM policy was not followed and this will be perceived as a weakness both inside and outside the municipality.

Internal control deficiency

The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Steps should be taken to ensure that in all instances where three quotations could not be obtained, the reasons therefore should be documented and approved by the chief financial officer, and copies thereof retained for control and audit purposes.

Management response

The Auditor-General's recommendations are noted. The municipality does have procedures in place and should a supply not follow the correct SCM Procedures it is regarded as a deviation and disclosed in the Annual Financial Statements. Reasons for not obtaining at least three quotations are documented and supported by a memorandum approved by the Accounting Officer to allow for the deviation.

Auditor's conclusion

Management response noted, this matter will be followed up next year.

6. Reconciliations not performed on a monthly basis

Audit Finding

In terms of section 62(1)(c)(i) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003), "The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control."

Per enquiry and inspection it was established that the following internal control was not performed:

- Reconciliation of subsidiary ledgers to general ledger (eg. Debtors, creditors and assets)

The above matter was reported in the 3 previous financial years, however, no corrective action has been implemented.

The municipality did not respond in an appropriate manner to control weaknesses raised by the Auditor-General South Africa.

The absence of reconciliations compromises reliance over the completeness and accuracy of recorded employee costs, creditors and debtors accounts, and asset records. Suppliers could be overpaid without being detected timeously. Non-payment of accounts may not be detected within established timeframes, resulting in the payment of avoidable interest and penalties.

Internal control deficiency

Manual or automated controls are not designed to ensure that the transactions occurred, are authorised, and are completely and accurately processed.

Recommendation

Reconciliations should be performed on a monthly basis, be reviewed and signed off by a senior staff member, and the evidence thereof should be retained for internal control and audit purposes.

Management response

The municipality has committed itself in taking the Auditor-General's recommendations and is taking reasonable steps to ensure that the municipality maintains effective, efficient and transparent systems of financial and risk management and internal control.

Auditor's conclusion

Management response noted, this matter will be followed up next year.

Payables

7. Payments to suppliers not made within 30 days

Audit Finding

In terms of section 65(2)(e) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003)(MFMA), "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."

In the process of testing expenditure cut-off, it was established that the following service providers were not paid within 30 days of receipt of the invoice:

Voucher no.	Service provider	Invoice date	Payment date	Amount	Total days in excess of 30 days
15009062	Huge Telcom	31/08/2009	17/11/2009	51 121.58	48
15009467	Joat Consultants	10/12/2009	28/01/2010	100 000.00	19
15009605	Staten investments	27/11/2009	2/02/2010	89 319.00	37
15011181	Nashua	08/04/2010	20/07/2010	10 260.00	63

The municipality did not have adequate procedures and processes to ensure compliance with the MFMA.

Emerging suppliers may be exposed to unnecessary hardship and cash flow constraints, and expenditure may be understated.

Internal control deficiency

The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Steps should be taken to ensure that the controls surrounding the payment of suppliers are improved.

Management response

Auditor-Generations are noted. The Municipality has committed itself in taking the Auditor-General's recommendations and implementing it effectively in the Current Financial Year.

Auditor's conclusion

Management response noted, this matter will be followed up next year.

Predetermined objectives

8. Performance management system

Audit Finding

In terms of section 41(1)(c) to (e) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000)(MSA), "A municipality must in terms of its performance management system and in accordance with any regulations and guidelines that may be prescribed:

- (c) with regard to each of those development priorities and objectives and against the key performance indicators and targets set in terms of paragraphs (a) and (b)—
 - (i) monitor performance; and
 - (ii) measure and review performance at least once per year;
- (d) take steps to improve performance with regard to those development priorities and objectives where performance targets are not met; and
- (e) establish a process of regular reporting to—
 - (i) the council, other political structures, political office bearers and staff of the municipality; and
 - (ii) the public and appropriate organs of state."

Per review of the documented performance management system, it was not evident that the system specifically provides for policies and procedures to take steps to improve performance with regard to those development priorities and objectives where performance targets were not met.

The district municipality did not have processes and procedures in place to ensure that its performance management system is fully compliant with the MSA.

Processes and procedures may not be in place to address areas in a timely manner, where performance targets are not being achieved.

Internal control deficiency

The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Steps should be taken to ensure that the performance management system includes steps to improve performance with regard to those development priorities and objectives where performance targets are not met.

Management response

The Auditor-Generals recommendations are noted. The Municipality has committed itself in implementing the Auditors –Generals recommendations to ensure that its performance management system is fully compliant with the MSA.

Auditor's conclusion

Management response noted, this matter will be followed up next year.

9. Key performance indicators

Audit Finding

Regulation 9(1)(a) of the Municipal Planning and Performance Management Regulations, 2001 states that "A municipality must set key performance indicators, including input indicators, output indicators and outcome indicators, in respect of each of the development priorities and objectives referred to in section 26(c) of the Act."

Per review of the IDP it was evident that the document only contained details of KPA's (Organisational and National). No details of input, output and outcome indicators are documented.

The district municipality did not have adequate processes and procedures in place to ensure full compliance with the MSA.

Key performance indicators may not have been set in accordance with the above mentioned legislation.

Internal control deficiency

The entity did not have competent individuals who understood the financial reporting framework and performance management requirements.

Recommendation

Steps should be taken to ensure compliance with the legislation when setting key performance indicators.

Management response

The IDP does contain these indicators and has been listed as one of the best IDP's in the Province based on the information contained within it. The Auditor-Generals recommendations are noted, but with all due respect the drafting of the IDP has fully complied with financial and reporting framework of the Municipal Systems Act.

Auditor's conclusion

Management response noted, this matter will be followed up next year.

10. Predetermined objectives relating to uThukela Water (Pty) Ltd.

Audit Finding

In terms of section 76(2)(b) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000)(MSA), in providing mechanisms for provision of services, "A municipality may provide a municipal service in its area or a part of its area through an external mechanism by entering into a service delivery agreement with a municipal entity."

In terms of section 87(2) and (3) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), in considering budgets, "The parent municipality must consider the proposed budget of the entity and assess the entity's priorities and objectives. If the parent municipality makes any recommendations on the proposed budget, the board of directors of the entity must consider those recommendations and, if necessary, submit a revised budget to the parent municipality not later than 100 days before the start of the financial year. The mayor of the parent municipality must table the proposed budget of the municipal entity in the council when the annual budget of the municipality for the relevant year is tabled."

Regulation 9(2)(b)(ii) of the Municipal Planning and Performance Management Regulations, 2001 states that, "In setting key performance indicators, a municipality must ensure that—
(b) the key performance indicators inform the indicators set for—
(ii) every municipal entity and service provider with whom the municipality has entered into a service delivery agreement."

No evidence could be provided that a service delivery agreement had been entered into with uThukela Water (Pty) Ltd., and which had been linked to the district municipality's key performance indicators.

No evidence could be provided that the district municipality considered uThukela Water (Pty) Ltd's proposed budget and assessed the priorities and objectives for any recommendations, and tabled the proposed budget in council.

No evidence could be provided that the district municipality entered into a mutual agreement determining and regulating measures to ensure that annual performance objectives and indicators for UW were established by agreement with uThukela Water (Pty) Ltd. and included in uThukela Water (Pty) Ltd's multi-year business plan.

The district municipality did not have processes and procedures in place to ensure that its performance management system is fully compliant with both the MFMA and MSA.

uThukela Water (Pty) Ltd. may not be delivering services to the required quantity and quality standards.

Internal control deficiency

Performance was not measured.

Recommendation

Steps should be taken to ensure that uThukela Water (Pty) Ltd's performance is suitably measured in accordance with the aforementioned legislation, and that evidence thereof is retained for control and audit purposes.

Management response

Taking into consideration that the Annual Financial Statements dating back from 2004 to 2009 were only completed during the 2009 and 2010 financial year, the municipality was not in a position to assess the performance of Uthukela Water, the Annual Financials have been updated and ADM will now fully comply with assessing the performance of the entity.

Auditor's conclusion

Management response noted, this matter will be followed up next year.

11. Monitoring, measurement and review of performance

Audit Finding

In terms of section 72(1) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), "The accounting officer of a municipality must by 25 January of each year—
(a) assess the performance of the municipality during the first half of the financial year, taking into account—

(iv) the performance of every municipal entity under the sole or shared control of the municipality, taking into account reports in terms of section 88 from any such entities.

(b) submit a report on such assessment to—

(i) the mayor of the municipality;

(ii) the National Treasury; and

(iii) the relevant provincial treasury."

No evidence could be provided that uThukela Water (Pty) Ltd. (UW) reported its mid-year performance to Amajuba District Municipality, and that the accounting officer took this report into account when assessing the performance of the municipality.

Furthermore, no evidence could be provided that the aforementioned report had been submitted to the mayor and both National and Provincial Treasury.

The district municipality did not have adequate processes and procedures in place to ensure full compliance with the MFMA.

The district municipality may not be fulfilling its governance and monitoring responsibilities, and the mid-year reporting may be incomplete and inaccurate.

Internal control deficiency

The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Steps should be taken to ensure that reports on performance are received from UW on a timely basis, and that these are considered when performing mid-year assessments. Steps should also be taken to ensure that documentary evidence supporting the district municipalities processes and internal controls is retained and suitably archived for reference and audit purposes.

Management response

Taking into consideration that the Annual Financial Statements dating back from 2004 to 2009 were only completed during the 2009 and 2010 financial year, the municipality was not in a position to assess the performance of uThukela Water, the Annual Financials have been updated and ADM will now fully comply with assessing the performance of the entity.

Auditor's conclusion

Management response noted, this matter will be followed up next year.

12. Assessment of performance information in the annual performance report

Audit Finding

In terms of National Treasury's Framework for Managing Programme Performance Information, the word "Relevant" in the context of reporting on performance information, is defined as "the indicator must relate logically and directly to an aspect of the institution's mandate, and the realisation of strategic goals and objectives."

In terms of section 46 of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000), a municipality must prepare for each financial year a performance report reflecting the performance of the municipality and of each external service provider during that financial year, a comparison of the performance with targets set for and performances in the previous financial year, and measures taken to improve performance.

Per inspection of the annual performance report, it was noted that a logical link between reported development priorities objectives, indicators and targets did not exist for the following:

Development priority	Indicator	Target
To ensure access to free basic water and expansion of water service delivery to all consumers by 2010/12	Attract additional investment in the expansion of water networks-Close out phase	Provide access to 20h/h. Eradicate water backlog in the buffalo flats 1
To ensure access to free basic water and expansion of water service delivery to all consumers by 2010/12	Attract additional investment in the expansion of water networks	Provide access to 1662h/h. Eradicate water backlog in the buffalo flats 2
To ensure access to free basic water and expansion of water service delivery to all consumers by 2010/12	Attract additional investment in the expansion of water networks	Provide access to water to 460 household
To ensure access to free basic water and expansion of water service delivery to all consumers by 2010/12	Attract additional investment in the expansion of water networks	Eradicate water backlog in the at schools and clinics
To ensure access to free basic water and expansion of water service delivery to all consumers by 2010/12	Attract additional investment in the expansion of water networks	Completed Infrastructure Asset Management Plan
To ensure access to free basic water and expansion of water service delivery to all consumers by 2010/12	Attract additional investment in the expansion of water networks	Completed Feasibility study towards the Mig/DWAF water b/p
To ensure access to free basic water and expansion of water service delivery to all consumers by 2010/12	Attract additional investment in the expansion of water networks	Completed Crèche

Development priority	Indicator	Target
To ensure access to free basic water and expansion of water service delivery to all consumers by 2010/12	Attract additional investment in the expansion of water networks	Conduct water and sanitation campaigns

It was also noted that comparisons between performance in the current year with targets set for the current and previous financial years was not disclosed in the annual performance report and was not supported by appropriate corroborating evidence.

Similarly, although measures taken to improve on performance was disclosed in the annual performance report, these were not supported by appropriate corroborating evidence, and in many instances the measures taken did not appear to address the delay in the anticipated performance/target. The measures were also found to be poorly worded, contained spelling errors, and contained abbreviations and wording which the average reader in the public domain would not understand. The following serve as example:

Target	Corrective measure
Completed Water Services Development Plan	Reviewed TOR in order to align the requirements with the New DWA template, Appointed PSP, Plan to commence in August 2010
Completed Water Conservation/Water Demand Plan	Fast tracking the current tariff settings with new bylaws, task is now complete, awaiting close out report from PSP. Transfer of Study to new Financial SDBIB in order to ensure implementation.
Report on no of boreholes provided	Fast track the Basic assessments in order to evaluate and assess the boreholes. The following Boreholes were drilled to sustain water supply: Zimbuthu, Scorpareen, Doringkop, Clones, Cooper, Kranskop farm
Provision of access to water services to 880 households	Verdriet NDH ward 3 Annville NDH ward 7 Kiel Kiel Farm NDH ward 5 Alan Farm NDH ward 1 Hattingspruit NDH ward 1 Fouty two NDH ward 10 Scorpareen NDH ward 1
Eradicate water backlog in the at schools and clinics	DWA to make presentation of project progress at next technical forum meeting in order to verify challenges and changes to project
Completed Infrastructure Asset Management Plan	Status depended on WSP to approve assets register, awaiting PSP to submit proposal on intervention, Call DWA to intervene in terms of fast tracking procedure
Completed Crèche	Project to start in the new financial year

The district municipality did not have procedures and processes in place to ensure full compliance with the framework.

The relevance and presentation criterion of the annual performance report is materially and pervasively misstated.

Internal control deficiency

The entity did not have competent individuals who understood the financial reporting framework and performance management requirements.

Recommendation

Steps should be taken to ensure that a logical link exists between reported development objectives, indicators and targets, and that comparisons between performance in the current year

with targets set for the current and previous financial years are disclosed in the annual performance report and which must be supported by appropriate corroborating evidence.

Management response

The Auditor-General's recommendations are noted. Improvements to our SDBIP will be effective once a review of the Annual Budget for 2010/11 is considered in January 2011.

Auditor's conclusion

Management response noted, this matter will be followed up next year.

13. Measurability of targets

Audit Finding

In terms of regulation 12 of the Municipal Supply Chain Management Regulations (GNR868 dated 30 May 2005), "A municipality must, for each financial year, set performance targets for each of the key performance indicators set by it. A performance target set in terms of sub-regulation (1) must-

- (a) be practical and realistic;
- (b) measure the efficiency, effectiveness, quality and impact of the performance of the municipality, administrative component, structure, body or person for whom a target has been set;
- (c) be commensurate with available resources;
- (d) be commensurate with the municipality's capacity; and
- (e) be consistent with the municipality's development priorities and objectives set out in its integrated development plan."

Per inspection of the targets documented in the SDBIP for the development priority "To ensure access to free basic water and expansion of water service delivery to all consumers by 2010/12", it was noted that the following targets were not specific:

Development priority	Performance measure/indicator	Target	AGSA recommendations
To ensure access to free basic water and expansion of water service delivery to all consumers by 2010/12	Attract additional investment in the expansion of water networks	Report on no of boreholes provided	The target should indicate the area/region the report must cover
To ensure access to free basic water and expansion of water service delivery to all consumers by 2010/12	The provision of rudimentary water services. Replacement of water tanker deliveries with pipe water and boreholes.	Provision of access to water services to 20 households	The target should indicate the area/region where this service will be provided
To ensure access to free basic water and expansion of water service delivery to all consumers by 2010/12	The provision of rudimentary water services. Replacement of water tanker deliveries with pipe water and boreholes.	Provision of access to water services to 880 households	The target should indicate the area/region where this service will be provided
To ensure access to free basic water and expansion of water service delivery to all consumers by 2010/12	Attract additional investment in the expansion of water networks	Provide access to water to 460 household	The target should indicate the area/region where this service will be provided

Development priority	Performance measure/indicator	Target	AGSA recommendations
To ensure access to free basic water and expansion of water service delivery to all consumers by 2010/12	Attract additional investment in the expansion of water networks	Eradicate water backlog in the at schools and clinics	The target should indicate the area/region or which schools or clinics where this service will be provided
To ensure access to free basic water and expansion of water service delivery to all consumers by 2010/12	The provision of rudimentary water services	Provide access to water to 180 household	The target should indicate the area/region where this service will be provided
To ensure access to free basic water and expansion of water service delivery to all consumers by 2010/12	Attract additional investment in the expansion of water networks	Completed Crèche	Firstly, the target is not related to the indicator. Secondly, the target should indicate the area/region or the name of the crèche.
To ensure access to free basic water and expansion of water service delivery to all consumers by 2010/12	Attract additional investment in the expansion of water networks	Conduct water and sanitation campaigns	The target should indicate the area/region where these campaigns will take place

The municipality had not applied National Treasury's "SMART" criteria when setting targets.

The performance targets set by the municipality were not measurable.

Internal control deficiency

The entity did not have competent individuals who understood the financial reporting framework and performance management requirements.

Recommendation

Steps should be taken to ensure that all performance targets set are measurable and that National Treasury's "SMART" criteria are utilised for this purpose i.e.:

- Specific: the nature and the required level of performance can be clearly identified
- Measurable: the required performance can be measured
- Achievable: the target is realistic given existing capacity
- Relevant: the required performance is linked to the achievement of a goal
- Time-bound: the time period or deadline for delivery is specified

Management response

Auditor General's recommendations are noted and improvements to our current Performance targets and KPI's. The municipality will ensure the performance targets are measurable. This will be effective once a review of the Annual Budget for 2010/11 is considered in January 2011.

Name: Mr VB Mbatha
Position: Acting Municipal Manager
Date: 15/09/2010

Auditor's conclusion

Management response noted, this matter will be followed up next year

ANNEXURE B: OTHER IMPORTANT MATTERS

Employee costs

1. Overtime paid constitutes more than 30% of salary

Audit finding

In terms of section 10 of the Basic Conditions of Employment Act of South Africa, 1997 (Act No. 75 of 1997)(BCEA), it is implied that overtime paid must not constitute more than 30% of basic salary.

During the audit of overtime it was noted that the overtime paid for the following employees constitute more than 30% of basic salary.

Name	Employee ID	Month	Amount
B.S Mlangeni	7271	30/09/2009	12 507.12
J.A. Dhladhla	7231	31/10/2009	11 226.16
P.W Khumalo	7106	31/12/2009	14 058.02
M.H Xaba	7293	31/01/2010	10 439.00
P.M Mchunu	7279	30/04/2010	11 344.80
S.N Nzuza	7260	30/06/2010	14 074.64
N.J Thabede	7274	30/09/2009	13 059.42
A. Ndzotyana	7100	31/10/2009	8 118.54
P.E Mabele	7278	30/06/2009	9 792.00
T.M Mndebele	7252	31/01/2010	12 177.00

No formalised processes are in place to ensure that applicable legislation is complied with.

Overtime pay may be subject to abuse and unwarranted costs to the municipality.

Internal control deficiency

The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Steps should be taken to ensure that the BCEA is complied with, and that overtime is properly controlled, monitored and approved with a view to limiting abuse thereof.

Management response

Overtime was due to Emergency work done. The municipality is deciding to provide a fixed monthly allowance to tanker drivers rather than putting them on overtime. It is obvious that they will forever be working outside of their normal working hours due to water supply demand so we need to formalize it by providing fixed monthly allowance that will be equivalent to overtime they normally claim.

Also take note that Emergency work refers to work that must be done without delay because of circumstances for which the employer could not reasonably have been expected to make provision and which cannot not be performed by employees during their ordinary hours of work.

Auditor's conclusion

Management response note, this matter will be followed up next year.

2. Overtime

Audit finding

In terms of section 10(1A) of the Basic Conditions of Employment Act of South Africa, 1997 (Act No. 75 of 1997)(BCEA), "An agreement in terms of subsection (1) may not require or permit an employee to work more than 12 hours on any day."

During the audit of overtime it was noted that the following employees exceeded the maximum number of hours permitted per day.

Name	Date	From	To	Total hrs
B.S Mlangeni	10/08/2009	07h50	23h10	15.75
M.H Xaba	27/12/2009	09h00	06h00	20
P. Mchunu	28/03/2010	07h00	21h00	14
T. Mndebele	25/12/2009	06h00	19h30	13.5
N.J Thabede	10/08/2009	07h50	23h10	15.30

No formalised processes are in place to ensure that applicable legislation is complied with.

Overtime pay may be subject to abuse and unwarranted costs to the municipality.

Internal control deficiency

The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Steps should be taken to ensure that the BCEA is complied with, and that overtime is properly controlled, monitored and approved with a view to limiting abuse thereof.

Management response

Overtime was due to Emergency work done. The municipality is deciding to provide a fixed monthly allowance to tanker drivers rather than putting them on overtime. It is obvious that they will forever be working outside of their normal working hours due to water supply demand so we need to formalize it by providing fixed monthly allowance that will be equivalent to overtime they normally claim.

Also take note that Emergency work refers to work that must be done without delay because of circumstances for which the employer could not reasonably have been expected to make provision and which cannot not be performed by employees during their ordinary hours of work.

Auditor's conclusion

3. Management response noted, this matter will be followed up next year.

Leave forms are not completed

Audit Finding

In terms of section 65(1) of the Municipal Finance and Management Act the Accounting Officer of the Municipality is responsible for the management of the expenditure of the municipality. Sub-section 2 of section 65 states that the accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure :

(a) That the municipality has and maintains an effective system of expenditure control including procedures for the approval, authorisation, withdrawal, and payment of funds.

In terms of section 62 (1)(c) & (d) :

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

(c) That the municipality has and maintains effective, efficient and transparent systems -
(i) of financial risk management and internal control and
(ii) of internal audit operating in accordance with any prescribed norms and standards,

(d) that unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented.

Section 81 (1)(e) of the Municipal Finance and Management Act states that , The chief financial officer of a municipality must perform such budgeting ,accounting analysis, financial reporting , cash management, debt management , Supply chain management, financial management , review and other duties as may be in terms of section 79 be delegated by the Accounting Officer to the Chief Financial Officer

1.Selected time records for the period 01 July 2009 to 30 June 2010 in respect of staff members from the different departments.

Finance Department

- Acting Chief Financial Officer
- Assistant Chief Financial Officer
- Personal Assistant to Acting Chief Financial Officer
- Assistant Chief Financial Officer Procurement

2. Whilst inspecting time records for the above mentioned staff, established that there are periods of absence that cannot be traced to the leave report, thus indicating that leave forms are not completed, and that the total leave balance is not adjusted, when the employee does not submit a leave form.

3. Upon further inspection established that the Acting CFO works less than the normal working hours, but his remuneration is unaffected by this.

4. Enquired with the Acting Municipal Manager, as to whether the time records are reviewed, and he confirmed that time records are submitted to the department head on a monthly basis for review and with regards to the finance department , the report is submitted to the Acting Chief Financial Officer for review, and later to the Municipal Manager.

5. From the discrepancies identified, it's clear that time reports in the Finance dept are not reviewed at all.

Below is a brief summary per employee of the finance department:

Jabu Mnguni (Personal Assistant to Acting Chief Financial Officer)

1. Inspected time records for the following periods July 2009 to June 2010 and confirmed that on average she does work the standard working hours and not below.

2. Inspected the time records and the leave report and identified numerous discrepancies indicating that she does not fill out the leave form , and it is therefore not submitted for approval.

3. The following are dates of absence that could not be traced to the leave report:

31 July 2009, 17 Aug 2009, 09 Sep 2009, 14 Sep 2009, 24 Sep 2009, 2 & 3 Nov 2009, 13 Nov 2009, 17 Nov 2009, 18, 19, Nov 2009, 28 Dec ,29 Dec ,30 Dec ,31 Dec 2009, 12 Jan 2010, 13 ,25,26,27 Jan 2010, 09, 10,16 Feb 2010, 09, 10,11,12,22 March 2010, 5,8,27,30 April 2010, 13 April 2010 to 16th May 2010, 6th May 2010, 21 May 2010, 24 to 28 May 2010, 6,8,9,10,11,14,16,25,29,30, June 2010

The abovementioned dates are indicative that she did not fill out leave forms.

This is still under investigation, and the municipality will ensure that the recommendations of the Auditor General are implemented.

Sipho Hadebe (The Acting Chief Financial Officer)

1. Inspected time records for the period July 2009 to 30 June 2010 and established that he does not work the standard working hours, but works less than that time.
2. Upon further inspection of his time report and the leave report identified discrepancies that are indicative that he took leave without completing a leave form.
3. Below are dates that could not be traced to his leave report:

Jul 2009 (8th, 9th)
Aug 2009(3rd, 27th)
Sep 2009 (7th,8th,9th,10th,11th,21st,24th)
Oct 2009 (2nd, 5th,6th,7th,22nd,23rd,28th)
Nov 2009 (25th,30th)
Dec 2009 (1st,2nd,3rd,4th,7th,14th,16th,24th,25th,27th,30th,31st)
Jan 2010 (20th, 27th)
Feb 2010 (3rd,11th,18th)
Mar 2010 (3rd,9th,16th,22nd,30th)
April 2010 (5th,6th,13th,20th,27th)
May 2010 (3rd,5th,6th,10th,21st,24th,25th,26th)
June 2010 (7th,16th,21st,23rd,24th)
The above indicates that he did not complete a leave forms.

4. Inspected the time report and established that Sipho Hadebe works below the normal working hours, below is a summary extracted from his time records:

Date	Times	Hours worked
03/07/2009	08.47 - 13.04	4hrs
06/07/2009	10.15 - 16.30	6hrs
07/07/2009	08.13 - 08.38	25min
11/07/2009	09.57 - 10.34	40 min
12/08/2009	07.40 - 07.41	1 min
13/08/2009	07.33 - 07.35	2 min
14/08/2009	08.02 - 08.09	5 min
16/08/2009	12.01 - 12.37	30 min
23/08/2009	10.17 - 11.27	10 min
17/10/2009	07.33 - 08.28	1hr
07/11/2009	08.22 - 08.30	8 min
08/11/2009	13.03 - 13.13	10 min
17/06/2010	15.11 - 15.23	12 min
17/06/2010	16.33 - 17.37	1 hr
15/06/2010	19.53 - 19.59	5 min
10/04/2010	07.34 - 07.39	5 min
31/01/2010	11.14 - 11.50	30 min
08/02/2010	13.03 - 14.56	2hr
08/02/2010	14.56 - 14.59	3 min

This is still under investigation, and the municipality will ensure that the recommendations of the Auditor General are implemented.

Corporate Services

- Office Assistant
- Records Manager
- Records Assistant

Below is a brief summary per an employee in corporate services

Raksha Mathapersadh (Records Assistant)

1. Inspected time report for the period July 2009 to June 2010 and established that she does work the standard working hours and not below.
2. Upon further inspection of her time report and leave report established that on the dates listed below she did not fill in a leave form but was absent from work, the dates could not be traced to the leave report:
07 Aug 2009, 14th Jan 2010, 24 May 2010, 25 May 2010
3. Other dates of absence were traced satisfactorily to the leave report indicating that she did complete leave forms.

**Raksha Matherpersadh: Leave forms not completed will be rectified and checked in future
For the 7 August 2009 ,14 January 2010,24-25 May 2010.**

Usher Naidoo (Records Manager)

1. inspected her time report for the period July 2009 to June 2010 and established that she does work standard working hours and not below.
2. Upon further inspection of the time and leave report established that on the dates listed below she was not present at work and the said date is not reflected on the leave report indicating that no leave form was completed:

- 06 Aug 2009, 10 Mar 2010, 12 April 2010.

**6/08/2009 :Sick Leave –Leave form requested to be filled in.
10/03/2010 : IKS Expo Meeting
12/04/2010: Sick Leave –Leave form requested to be filled in.**

Community Services

- Manager Sports & Recreation

Below is a brief summary per employee in Community Services:

Ann Ndzotyana (Manager Sports & Recreation)

1. Inspected time reports for the period July 2009 to June 2010 and established that she does not work below the standard working hours.
2. Upon further inspection established that the she was absent on the dates listed below, and the said dates could not be traced to the leave report indicating that no leave form was completed by her:

01,03,16,23,24,29 July 2009, 14 Aug 2009, 7,8,9,10,11,15,16,17,18,24, Sep 2009, 12,13,14,22 Oct 2009, 16,17,18,19,20, Nov 2009, 19,20,21,22,25,26,27,28,29 Jan 2010 , 01 Mar to 31 Mar 2010, 1,2,3,4,5 April 2010, 11,12,13 May 2010 and 7th and 15 th June 2010.

This is still under investigation, and the municipality will ensure that the recommendations of the Auditor General are implemented.

Internal control deficiency

The accounting officer / accounting authority does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

1. Time records should be regularly reviewed by the heads of dept, and all discrepancies should be addressed to the municipal manager.
2. Once a discrepancy is identified in the time report corrective action should be taken immediately.
3. The Completion of leave forms is a control mechanism that should be enforced by the Dept head in every dept.
4. Comparisons should be made between the time report and the leave report per an employee frequently.
5. Excuses with regards to the access disk being left at home should not be tolerated, and the employee should be asked to sign a record that notes the time in and time out.
6. The above mentioned record book should be reviewed on a regular basis to identify employees whom regularly sign the book. Such employees should be questioned as to why they don t use their access disk.
7. The above control in point 6 could also assist in identifying persons that are not employees.
8. Should an employee forget his access disk , before signing the record, the security guard should request some sort of identification , to verify that the person in question is an employee, the security guard should also prior to allowing the person in , enquire with the relevant dept as to whether the person works there.
9. Time records should be protected by passwords, and should exist only in read only format to prevent alterations.

Management response

Individual Report per person indicated above. The Auditor-General's recommendations are noted and effective controls will be implemented.

Auditor's conclusion

Management response noted, this matter will be followed up next year.

4. Sick leave

Audit Finding

In terms of S 3.2.1 of SALBC states that, "an employer shall grant an employee eighty (80) days sick leave in a 3 year leave cycle".

During the audit it was noted that the following employee exceeded 80 days in a 3 year cycle.

Name	Emp. ID	Leave from	To	Total days exceeded
Shwala N.N	7263	07/07/2009	30/09/2009	44

No formalised processes were in place to ensure that applicable policies are carried out on a regular basis.

Internal control deficiency

Ongoing monitoring and supervision were not undertaken to enable an assessment of the effectiveness of internal control over financial and performance reporting.

Recommendation

Steps must be taken to ensure that applicable policies and procedures are followed.

Management response

This was unpaid Leave. All leave days taken was paid back to the Municipality over a period of three months.

Auditor's conclusion

Management response noted, this matter will be followed up next year.

Governance

5. Assessment of the audit committee

Audit finding

In terms of section 62(1)(c)(i) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003), "The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control."

It was established that council had not performed an assessment of the effectiveness of the audit committee on a periodic basis for the current year under review.

Per discussion with the acting Municipal Manager, Mr D Ngwenya indicated that the following caused the council not to assess the effectiveness of the committee:

- The councilors may not know how to assess the committee effectively as they don't have the required knowledge or understanding.
- The audit committee was not functional for the majority of the current year.

If an assessment of the audit committee is not performed it will not be known whether or not they are effective, and therefore no steps will be taken with a view to improve their effectiveness. Council may also be paying for a service for which they derive no benefit.

Internal control deficiency

The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Steps should to be taken to ensure that the effectiveness of the audit committee is assessed on a periodic basis. The under mentioned table serves as example of how this could be performed. The responses to the following probing questions could provide guidelines that the council could use in its deliberations when replacing or rotating members:

	Satis- factory	Good	Very good
Audit mandate			
1. Applicability to entity, its circumstances and the regular review thereof			
2. Acceptance, support and compliance by members, executive management, internal and external auditors			
Attributes of members			

	Satis- factory	Good	Very good
3. Dedication to and interest in committee and its activities			
4. Decision making and influence independent of management			
5. Appropriate business expertise and experience			
6. Familiarity with entity's business, its activities and role in its industry			
7. Familiarity with accounting issues and disclosure of information (GAMAP / GRAP)			
8. Conversance with information technology and corporate governance			
9. Familiarity with legal and regulatory procedures and framework			
Diligence towards duties and responsibilities			
10. Adequacy of preparation for meetings			
11. Appropriateness, timing and frequency of meetings			
12. Co-operation and consultation with internal and external audit components			
Feedback to the council / boar			
13. Appropriateness and applicability of reports			
14. Suitability for implementation of proposals and recommendations			
15. Speed with which existing and potential problems are identified and addressed			
16. Comprehensiveness and timeliness of minutes			
17. Availability and promptness of reactions to the board's concerns			
18. Review copies of the minutes of AC meetings for any decisions taken that may impact the financial statements and ensure that the effect has been correctly accounted for and/or disclosed.			
19. Set out any other audit procedures relating to audit committees.			

Management response

Auditor General's recommendations are noted and the Municipality is going to establish an assessment of Audit Committee functionality mechanism by e.g. establishing a Municipal SCOPA and Councillor oversight Committee to ensure compliance to legislation.

Name: Mr VB Mbatha
Position: Acting Municipal Manager
Date: 15/09/2010

Auditor's conclusion

The response is noted, however the matter impacts on the governance of the district municipality and will be reported accordingly.

6. Internal audit plan and charter not approved

Audit finding

In terms of paragraph 6.1, General duties and responsibilities of the Amajuba District Municipality's audit committee charter, it is the committees duty and responsibility, amongst others, to review and approve the audit plan of the internal auditors, and to approve an internal audit charter.

Per review of the minutes of meetings of the audit committee dated 21 April 2010, it was established that the audit committee was not a full performance and financial audit committee (PFAC), as it consisted of only two members, and legislatively the committee must have a composition of three members.

As indicated above, the internal audit plan and charter can only be approved once the PFAC is functional, and therefore both the charter and plan had not been approved by the audit committee. It was also established that an approval from the acting Municipal Manager had been granted to start auditing, although the plan was not approved by the PFAC.

The district municipality did not have processes or procedures in place which ensure that its affairs are conducted within the correct timeframes and sequence.

Valid inputs from the audit committee may not have been taken into consideration, and the audit committee's duties and responsibilities may have been compromised.

Internal control deficiency

The audit committee did not fulfil its responsibilities as set out in legislation and in accordance with accepted best practice with respect to the activities of the internal audit function, including its annual work programme

Recommendation

Management should ensure that the audit committee is functional throughout the year and operates in accordance with approved written terms of reference/legislation.

Management response

Auditor Generals Recommendations is noted. The situation experienced was beyond Management's Control in that the appointed third person had withdrawn his availability citing that the rates payable were too low but Management needed a written confirmation which took time and we could not appoint any person from the list until a written confirmation on withdrawal from him was received. The matter was taken to Council in appointing the 4th person in the list of suitable candidates and the matter was resolved with regard to the procedures and processes to ensure that the Audit Committee functions as required by the legislation are in place.

Name: Mr. VB Mbatha
Position: Acting Municipal Manager
Date: 15/09/2010

Auditor's conclusion

The response is noted, however the matter impacts on the governance of the district municipality and will be reported accordingly.

14. Audit committee

Audit Finding

In terms of section 166(4)(a) of the the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003), "An audit committee should consist of at least three members with appropriate experience, of whom the majority may not be in the employ of the municipality or municipal entity as the case may be."

It was established that the audit committee initially consisted of two members, and hence, was not fully functional/legally compliant for the majority of the financial year. The third member of the committee (Mr. I Peer) only received his appointment letter on 5 May 2010.

The municipality did not ensure that an audit committee was appointed in a timely manner.

Internal control deficiency

The audit committee did not fulfill its responsibilities as set out in legislation and in accordance with accepted best practice.

Recommendation

Management should ensure that the audit committee is functional throughout the year. When members resign or term of office comes to an end, new members should be appointed timeously.

Management response

Auditor-General's recommendations are noted. The situation experienced was beyond Management's Control in that, the appointed third person had withdrawn his availability citing that the rates payable were too low but management needed a written confirmation which took time and we could not appoint any person from the list until a written confirmation on withdrawal from him was received. The matter was taken to Council in appointing the 4th person in the list of suitable candidates and the matter was resolved with regard to the procedures and processes to ensure that the Audit Committee functions as required by the legislation are in place.

The Audit Committee was fully functional from May 2010.

Auditor's conclusion

Management response noted, this matter will be followed up next year.

15. Monthly budget statements and general reporting obligations

Audit Finding

In terms of section 71(1) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), "The accounting officer of a municipality must by no later than 10 working days after the end of each month submit to the mayor of the municipality and the relevant provincial treasury a statement in the prescribed format on the state of the municipality's budget reflecting the following particulars for that month and for the financial year up to the end of that month:

- (a) Actual revenue, per revenue source;
- (b) actual borrowings;
- (c) actual expenditure, per vote;
- (d) actual capital expenditure, per vote;
- (e) the amount of any allocations received;
- (f) actual expenditure on those allocations,..."

In terms of section 74(1) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), "The accounting officer of a municipality must submit to the National Treasury, the provincial treasury, the department for local government in the province or the

Auditor-General such information, returns, documents, explanations and motivations as may be prescribed or as may be required."

In terms of regulation 27(2) of the Municipal Budget and Reporting Regulations, municipalities are required to submit their draft budgets both in electronic form and printed copy to National Treasury and the relevant Provincial Treasury.

Per notification received from Provincial Treasury on 2 February 2010 regarding Municipal Finance Components circular 2 of 2010, and Provincial Treasury circular TC/RM 2 of 2010/11, the following had not been submitted by due date:

As at 31 January 2010, the following documentation had not been submitted to Provincial Treasury:

- Age debtors - November 2009
- Verified and signed conditional grant figures for quarter 1 of 2009-10

As at 15 July 2010, the following documentation had not been submitted to Provincial Treasury:

- Conditional grant returns 2009-10 for Municipal Infrastructure Grant - June 2010
- Conditional grant returns 2009-10 for Municipal Systems Improvement Programme Grant - June 2010
- Conditional grant returns 2009-10 for Water Services Operating Subsidy Grant - June 2010
- Adjustments budget documentation for 2009-10 - Balance sheet revised (BSR)

The municipality does not have processes or procedures in place to monitor full compliance with the legislated requirements of the MFMA.

Internal control deficiency

The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Steps should be taken to ensure that the municipality submits the information prescribed by the MFMA and Provincial Treasury.

Management response

The Municipality debtors are reflected in the Financial Reporting of the Water Service Provider (Uthukela Water Pty Ltd). The Municipality therefore does not have to submit this return.

The 1st Quarter Conditional Report was signed and submitted although it was late.

All returns due for the 2009/2010 financial year have been completed and submitted to National Treasury although it was late.

Taking into consideration the Conditional Grants Return, accurate information needs to be submitted to National Treasury as the Municipality is assessed on the expenditure of this report and should the grant reflect an unspent balance, this grant has to be paid back. Accurate reconciliations had to be done and therefore the accuracy of the expenditure to be reflected on the return resulted in a late submission. The report was submitted on the 23 July 2010 due date of the report was the 15 July 2010 (5 working days late).

See Attached Report from Igdatabase. National Treasury of all completed returns.

The Balance Sheet Revised was submitted on the 16 August 2010. The Final adjustment budget was finalised on the 29 March 2010. This was an oversight by Management.

Auditor's conclusion

Management response noted, this matter will be followed up next year.

16. Assessment of internal audit

Audit Finding

In terms of section 166(2)(a) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), "An audit committee is an independent advisory body which must advise the municipal council, the political office bearers, the accounting officer and the management staff of the municipality, or board of directors, the accounting officer and management staff of the municipal entity, on matters relating to-

- (i) internal financial control and internal audits;
- (vi) effective governance;
- (viii) performance evaluation."

Furthermore, in terms of section 166(3)(b) of the MFMA, "In performing its functions, an audit committee must liaise with the internal audit unit of the municipality."

Per enquiry with the PMS manager it was established that the audit committee had not conducted an effectiveness assessment of the internal audit function.

If an assessment of the internal audit is not performed it will not be known whether or not they are effective, and therefore no steps will be taken with a view to improve their effectiveness.

Internal control deficiency

The audit committee did not design a checklist to monitor its responsibilities as set out in legislation and in accordance with accepted best practice with regard to assessment of internal audit.

Recommendation

Steps should be taken to ensure that the audit committee fulfills all its responsibilities as per the above legislation which will promote good governance and accountability and enhance the overall effectiveness of the internal audit function.

Management response

The Auditor-General's recommendations are noted. The situation experienced was beyond Management's Control in that the appointed third person had withdrawn his availability citing that the rates payable were too low but Management needed a written confirmation which took time and we could not appoint any person from the list until a written confirmation on withdrawal from him was received. The matter was taken to Council in appointing the 4th person in the list of suitable candidates and the matter was resolved with regard to the procedures and processes to ensure that the Audit Committee functions as required by the legislation are in place. The Municipality is going to establish an assessment of Audit Committee functionality mechanism by e.g. establishing a Municipal SCOPA and Councillor oversight Committee to ensure compliance to legislation.

Auditor's conclusion

Management response noted, this matter will be followed up next year.

Investments

7. Reporting requirements

Audit Finding

In terms of regulation 9 of the Municipal Investment Regulations (GNR.308 of 1 April 2005, "The accounting officer of a municipality or municipal entity must within 10 working days of the end of each month, as part of the section 71 report required by the Act, submit to the mayor of the municipality or the board of directors of a municipal entity, a report describing in accordance with generally recognized accounting practice, the investment portfolio of that municipality or municipal entity as at the end of the month. The report referred to in sub-regulation (1) must set out at least-

- a) the market value of each investment as at the beginning of the reporting period;
- b) any changes to the investment portfolio during the reporting period;
- c) the market value of each investment as at the end of the reporting period; and
- d) fully accrued interest and yield for the reporting period."

Per enquiry with the control support officer, it was confirmed that monthly reports on investment portfolios are not submitted to the mayor and council in terms of regulation 9. Per inspection of council minutes of meetings it could not be established that such a report had been submitted on a monthly basis.

The district municipality does not have processes or procedures in place which ensure that its affairs of financial management are conducted effectively, as monthly reports of the investment portfolios have not been submitted in accordance with the requirements as laid out in the investment regulations and policy.

The mayor's oversight responsibility may be impaired as a result of him not being furnished with the legislated monthly reports.

Internal control deficiency

The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Management should provide evidence of compliance with the applicable requirement or furnish valid reasons for non-compliance. Steps should be taken to ensure that the requirements of the regulations are adhered to, and that suitable documentary evidence is retained for internal control and audit purposes.

Management response

The Auditor General's recommendations are noted, However Investments of the Municipality are disclosed to the on the Section 72 Reports(Half Yearly Report),Approved Original Budget 2009/2010 and Adjusted Budget 2009/2010.Regular reports on investments are requested by the Accounting Officer during Management Meetings but this is not documented. The Municipality will in future prepare monthly reports on investments.

Auditor's conclusion

Management response noted, this matter will be followed up next year.

8. Investment register

Audit Finding

In terms of section 62(1)(c)(i) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003), "The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control."

Per inspection of the investment register it was noted that the amounts reflected as invested and withdrawn are inaccurate.

Bank – Nedbank	Invested	Withdrawals
A/C 7165-008195-15	R15 000 000	R15 003 041.10
A/C 7165-008195-16	R15 000 000	R15 003 041.10
A/C 7165-008195-17	R15 000 000	R15 091 232.88
Total	R45 000 000	R45 097 315.08

The total amount invested is R30 000 000 and withdrawn is R74 195 293.42.

The district municipality does not have processes or procedures in place to ensure that the investment portfolio information is accurate.

Internal control deficiency

The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Management should ensure through monthly reviews that the investment register is accurate and complete.

Management response

Recommendations of Auditor General are noted. Cash and Investment Policy to be reviewed and implemented. Due date of all reviewed policies to be submitted to the executive committee for approval and implementation is the 31 December 2010.

Auditor's conclusion

Response noted, however no explanation has been provided for the difference.

9. Investment portfolios/reconciliations not reviewed on a monthly basis

Audit finding

In terms of section 62(1)(c)(i) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003), "The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control."

Per inspection of the investment file it was confirmed that reviews of the investments are not performed by a senior official on a monthly basis and initialled as evidence thereof. Further enquiry with the control support officer confirmed that reviews were not performed. Per enquiry with

the assistant CFO it was confirmed that reviews were done on a half yearly basis and forms part of the section 72 reports, and that monthly reviewing was not feasible.

The district municipality did not have processes or procedures in place which ensure that its affairs of financial management are conducted effectively as monthly reviews of the investment portfolios have not been implemented.

Non-performance/absence of monthly reviews by senior management did not promote an effective internal control environment over financial management and oversight responsibility, which may compromise the accuracy and completeness of financial information and may lead to errors not been detected timeously.

Internal control deficiency

The appropriate level of management did not regularly review monthly reporting in terms of best practice and as required by the MFMA.

Recommendation

Monthly reviews of investment portfolios and the investment reconciliation need to be performed by senior management and signed as proof of review, which will enhance the overall control environment and maintain an effective, efficient and transparent system of financial and risk management and internal control.

Management response

This was an oversight by management. The Auditor-General's recommendations have been noted and the Municipality will ensure full compliance.

Auditor's conclusion

Management response noted, this matter will be followed up next year.

Leases

10. Lease payments

Audit finding

In terms of section 65(1) and 2(a) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003), "The accounting officer of a municipality is responsible for the management of the expenditure of the municipality. The accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure—

(a) that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds."

It was confirmed by inspection of the lease agreement between Amajuba District Municipality and Xtec Pmb (Pty) Ltd. that the effective date of the price increase with regards to the leased item was 1 December 2009, but on further inspection of the lease payments made, it was established that the municipality commenced paying the new lease amount from 30 October 2009. The lease agreement does not mention the prices nor does it specify an amount for the proposed increase from 1 December 2009.

The original lease agreement was misplaced which also indicates that controls over storing of documents and records were weak.

It is possible that the municipality has overpaid Xtec Pmb (Pty) Ltd. as they started paying the increased lease amount from October 2009. Furthermore, many situations can arise as a result of records being lost/misplaced namely:

- Should a supplier default with regards to performance, the municipality will not be able to cancel the contract, as there would be no agreement with a clause that details the penalties and actions that ADM can take.
- Situations may arise whereby the supplier is still being paid although the contract has come to an end, due to the fact that the original agreement has been lost.

Internal control deficiency

The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

The lease agreement should be inspected and the payments reviewed and agreed thereto. The supplier should be requested to provide another lease agreement that is more detailed in terms of price and description of the asset being leased.

Management response

Audit recommendation will be implemented.

Auditor's conclusion

The matter will be followed up during the next audit.

Moveable assets

11. Assets useful life not reviewed at reporting date in terms of GRAP 17

Audit Finding

In terms of paragraph .61 of GRAP 17, "The residual value and the useful life of an asset shall be reviewed at least at each reporting date and, if expectations differ from previous estimates, the changes shall be accounted for as a change in an accounting estimate in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors."

During the audit of property plant and equipment it has been established that management had not reviewed the useful life of assets at reporting date.

The district municipality did not have useful review processes or procedures in place which monitor full compliance with the requirements of GRAP 17 as part of asset management.

Property, plant and equipment could be misstated in the financial statements as a result of useful lives not being reviewed annually.

Internal control deficiency

The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Management should implement controls to ensure that residual values and useful lives of assets are reviewed annually, in order to ensure compliance with GRAP 17.

Management response

Agree with audit. This will be revised in the next financial year.

Auditor's conclusion

Management response noted, this matter will be followed up next year

12. Asset register - minimum information

Audit Finding

In terms of section 63(2) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003), "The accounting officer must for the purposes of the subsection (1) take all reasonable steps to ensure-

- (a) that the municipality has and maintains a management, accounting and information system that accounts for the assets and liabilities of the municipality;
- (b) that the municipality's assets and liabilities are valued in accordance with generally recognized accounting practice; and
- (c) that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register, as may be prescribed."

During the audit of property, plant and equipment it was established that the asset register did not contain the following minimum information:

1. Method of Financing
2. Depreciation method and rate used
3. Impairment expense for the year
4. Accumulated Impairment for each class of assets
5. Details of any write-down or write-up in carrying value
6. Disposal date
7. Amount received for disposal of fixed asset and resultant profit or loss on the disposal
8. Physical condition of the asset.

The district municipality does not have processes and procedures in place to ensure that the an effective asset register is maintained.

The asset register may not be effective as pertinent information is not disclosed.

Internal control deficiency

Pertinent information was not identified and captured in a form and time frame to support financial and performance reporting.

Recommendation

The asset register should contain the above information in order to be able to verify the existence and value of the assets.

Management response

The asset register financial system is GRAP compliant and has been certified by PWC who is the service provider. PWC conduct annual asset counts and report to management and the municipality

took advantage of the transitional provision given by directive 4 to fully comply with GRAP 17 in 2011. Investigation and the alignment of the asset management policy and the asset register financial system will reviewed and aligned.

Auditor's conclusion

Management response noted, this matter will be followed up next year.

13. Assets - reconciliations and reviews

Audit Finding

In terms of section 62(1)(c)(i) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003), "The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control."

During the audit of property, plant and equipment it has been identified that reconciliations on a monthly basis between the asset register and general ledger and reviews by senior officials are not performed, furthermore a consultant has been appointed and is responsible for asset management system but this does not promote an effective record keeping to ensure that information is accurate and complete as reviews are not performed by senior officials.

The district municipality does not have processes or procedures in place which ensure that its affairs of financial management are conducted effectively as monthly reviews and reconciliations have not been implemented.

Non-performance/absence of monthly reviews by senior management does not promote an effective internal control environment over financial management and oversight responsibility, which may compromise the accuracy and completeness of financial information and may lead to errors not been detected timeously.

Internal control deficiency

Manual or automated controls were not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.

Recommendation

Monthly reconciliations and reviews need to be performed by senior management and signed as proof of review, which will enhance the overall control environment and maintain an effective, efficient and transparent system of financial and risk management and internal control.

Management response

The asset register financial system is GRAP compliant and has been certified by PWC who is the service provider. PWC conduct annual asset counts and report to management and the municipality took advantage of the transitional provision given by directive 4 to fully comply with GRAP 17 in 2011. Investigation and the alignment of the asset management policy and the asset register financial system will reviewed and aligned. Reconciliations will be performed as per audit recommendation.

Auditor's conclusion

Management response noted, this matter will be followed up next year.

Operating expenditure

14. Process for reporting fraud and irregular conduct

Audit finding

In terms of regulation 46(2)(i) of the Municipal Supply Chain Management Regulations (GNR868 dated 30 May 2005), "A municipal code of ethical standards must stipulate that an official or other role player involved in the implementation of the supply chain management policy of the municipality or municipal entity must report to the accounting officer any alleged irregular conduct in the supply chain management system which that person may become aware of including:

- any alleged fraud, corruption, favoritism or unfair conduct
- any alleged breach of the code of ethical standards."

It was established that the municipality did not have a process in place for officials to follow should they want to report irregular conduct or fraud.

The district municipality did not have procedures and processes in place to ensure full compliance with the aforementioned regulations.

Matters will not be reported and fraud and other irregular conduct will go unnoticed.

Internal control deficiency

The systems were not documented in the policy and procedures manual and the results of the monitoring process were not routinely communicated to all managers and staff. Processes were not in place to prevent and detect unauthorised, irregular and fruitless and wasteful expenditure.

Recommendation

Steps should be taken to implement policy and processes which will provide staff and SCM officials an avenue to report alleged cases of fraud and irregular conduct relating to expenditure.

Management response

The Auditor-General's recommendations are noted .Amajuba does have an approved anti-fraud and corruption policy in place. We are currently in the process of reviewing and amending the policy to include deficiencies that was found within the policy during the Anti-Fraud and Corruption Workshop that was convened in October. Councillor's also stated their concerns regarding their oversight responsibilities and the recommendations were taken into consideration to ensure effective oversight on all policies, procedures and processes applicable to the Municipality.

Name: Mr VB Mbatha

Position: Acting Municipal Manager

Date: 12/10/2010

Auditor's conclusion

The policy does not make provision for the legislated process, resulting in non-compliance.

17. No control in place for staff member to declare interest

Audit Finding

In terms of regulation 46(2)(e) of the Municipal Supply Chain Management Regulations (GNR868 dated 30 May 2005), "A municipal code of ethical standards must stipulate that an official or other role player involved in the implementation of the supply chain management policy of the municipality or municipal entity must declare to the accounting officer details of any private or business interest which that person, or any close family member, partner or associate, may have in any proposed procurement or disposal process of, or in any award of a contract by the municipality."

It was established that staff do not make declarations in contracts in which they have an interest.

The district municipality did not have disclosure of interest procedures and processes in place to monitor full compliance with the aforementioned regulations.

Awards made to family members of employees may be objected against and seem unfair, and tender processes may not be fair, transparent and independent.

Internal control deficiency

Integrity and ethical values were not developed and understood and do not set the standard for sound corporate governance.

Recommendation

Management sets the tone in an organization, therefore the importance of declaring an interest should be emphasised to staff by management.

Management response

On the attendance Register and undertaking of confidentiality and impartiality issued by National Treasury, all bid committee members are made to sign this register therefore declaring their interest in the contract.

Auditor's conclusion

Management response noted, this matter will be followed up next year.

18. Adoption and amendment of supply chain management policies

Audit Finding

In terms of regulation 3(1)(a) of the Municipal Supply Chain Management Regulations (GNR868 dated 30 May 2005), the accounting officer of a municipality must at least annually review the implementation of its supply chain management policy, and when the accounting officer considers it necessary, submit proposals for amendment of this policy to the council.

It was established that the implementation of the SCM policy is not reviewed on an annual basis.

The district municipality did not have policy review procedures and processes in place to monitor full compliance with the aforementioned regulation.

The effectiveness of the policy cannot be assured, and could be perceived as a weakness and will therefore make the SCM unit more vulnerable and susceptible to fraud and misconduct.

Internal control deficiency

The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Steps should be taken to ensure that the SCM policy is reviewed on an annual basis, and that evidence of this review is retained for record and audit purposes.

Management response

The SCM policy with other related Budget Policies are reviewed annually with the Approval of the Annual Budget before the start of the new financial year.(See attached Budget Overview 2009/2010)

Auditor's conclusion

Managements response is noted, this matter will be followed up in the next audit.

19. Processes to monitor compliance with SCM**Audit Finding**

In terms of regulation 42 of the Municipal Supply Chain Management Regulations (GNR868 dated 30 May 2005), "A supply chain management policy must provide for an effective internal monitoring system in order to determine, on the basis of a retrospective analysis, whether the authorised supply chain management processes are being followed and whether the desired objectives are being achieved."

It was established that the accounting officer had not established such an internal monitoring system.

The district municipality did not have internal monitoring procedures and processes in place to monitor full compliance with the aforementioned regulation.

As a result of an internal monitoring system not being established and implemented, deviations in the SCM unit have amounted to R4,8 million, which has been considered as irregular.

Internal control deficiency

The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

The accounting officer should establish and implement an internal monitoring system, without any further delay.

Management response

Deviations disclosed in Annexure H have been adjusted and reasons are provided for the deviations. This has been documented and disclosed in the adjusted Annual Financial Statements available for re-audit.

Auditor's conclusion

The management comment is noted and will be reported accordingly.

20. Approval of tenders not recommended

Audit Finding

In terms of section 114(1) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), "If a tender other than the one recommended in the normal course of implementing the supply chain management policy of a municipality or municipal entity is approved, the accounting officer of the municipality or municipal entity must in writing notify the Auditor-General, the relevant provincial treasury and the National Treasury and, in the case of municipal entity the parent municipality, of the reasons for deviating from such recommendation."

It was established that the accounting officer has not notified the aforementioned bodies of such cases.

The district municipality does not have deviation and reporting procedures and processes in place to monitor full compliance with the aforementioned act.

Internal control deficiency

The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Steps should be taken to ensure that the accounting officer furnishes reasons to the relevant bodies in writing for deviating from a recommendation made in the normal course of implementing the SCM policy.

Management response

There was one objection that was lodged with Municipality but no litigations resulted from this in the 2009/2010 Financial Year. It was therefore no necessary to document this complaint. Information regarding this is available from the Supply Chain Management Unit.

Auditor's conclusion

Management response noted, this matter will be followed up next year

21. Oversight role of the Amajuba council

Audit Finding

In terms of regulation 6(3) of the Municipal Supply Chain Management Regulations (GNR868 dated 30 May 2005), "The accounting officer must, within 10 days of the end of each quarter, submit a report on the implementation of the supply chain management policy to the mayor of the municipality."

It was established that the accounting officer did not submit any report to the mayor in this regard.

The district municipality did not have reporting procedures and processes in place to monitor full compliance with the aforementioned regulation.

The mayor will not be in a position to assess the effectiveness of the policy, and will not be in a position to make recommendations and changes thereto.

Internal control deficiency

The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Reports on the implementation of the SCM policy should be submitted to the mayor within 10 days of the end of each quarter in order to allow him to assess the effectiveness of the policy and make the necessary recommendations.

Management response

The SCM submits quarterly reports to the EXCO at the end of each quarter.

Auditor's conclusion

Management response noted, this matter will be followed up next year.

22. Sub-delegations

Audit Finding

In terms of regulation 5(3) and (4) of the Municipal Supply Chain Management Regulations (GNR868 dated 30 May 2005), "An official or bid adjudication committee to which the power to make final awards has been sub-delegated in accordance with subparagraph (2) must within five days of the end of each month submit to the official referred to in subparagraph (4) a written report containing particulars of each final award made by such official or committee during that month, including:

- (a) the amount of the award
- (b) the name of the person to whom the award was made, and
- (c) the reason why the award was made to that person.

A written report referred to in subparagraph (3) must be submitted -

- (a) to the accounting officer, in the case of an award by -

- (i) the chief financial officer
- (ii) a senior manager, or
- (iii) a bid adjudication committee of which the chief financial officer or a senior manager is a member, or

- (b) to the chief financial officer or the senior manager responsible for the relevant bid, in the case of an award by -

- (i) a manager referred to in subparagraph (2)(c)(iii), or
- (ii) a bid adjudication committee of which the chief financial officer or senior manager is not a member."

The district municipality did not have reporting on sub delegations procedures and processes in place to monitor full compliance with the aforementioned regulations.

Non-compliance with the SCM Policy will be perceived as a weakness in the municipality both by staff in the SCM unit as well as persons outside the municipality.

Internal control deficiency

The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control to ensure that proper reporting took place.

Recommendation

The SCM policy should always be adhered to, and the importance of adherence to the policy should be emphasised by top management and more specifically the accounting officer.

Management response

Recommendations of the Auditor-General have been noted and Management will ensure compliance with laws, regulations and internal control. A procurement strategy has been formulated in the current financial year in order to address this.

Auditor's conclusion

Management response noted, this matter will be followed up next year.

23. Procedures for procuring goods or services

Audit Finding

In terms of regulation 18(d) of the Municipal Supply Chain Management Regulations (GNR868 dated 30 May 2005), "The accounting officer or chief financial officer must on a monthly basis be notified in writing of all written or verbal quotations and formal written price quotations accepted by an official acting in terms of a sub-delegation."

It was established that monthly processes were not in place to ensure that an official acting in terms of a sub-delegation notifies the accounting officer or chief financial officer in writing indicating that a verbal or written quotation was accepted.

The district municipality did not have procedures and processes in place to ensure full compliance with the aforementioned regulations.

The SCM policy not being adhered to will indicate to both internal and external parties that a lack of control exists in the SCM unit and that the policy is merely a document rather than a control mechanism.

Internal control deficiency

The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Steps should be taken to ensure that the stated monthly reporting takes place in instances where an official acts in terms of a sub-delegation.

Management response

The municipality has in place a delegations of Authority which is reviewed annually. The delegations of authority does address the accounting officers responsibilities and also the sub-delegations contained within the document. The Municipality does appoint an impartial chairperson on case-by-case basis. The Legal Adviser can give the details of appointment and conditions

Auditor's conclusion

Management response noted, this matter will be followed up next year.

24. Written or verbal quotations

Audit Finding

In terms of regulation 16(c) of the Municipal Supply Chain Management Regulations (GNR868 dated 30 May 2005), "A supply chain management policy must stipulate the conditions for the procurement of goods or services through written or verbal quotations, which must include conditions stating that if it is not possible to obtain at least three quotations, the reasons must be recorded and reported quarterly to the accounting officer or another official designated by the accounting officer."

It was established that if it was not possible to obtain three quotes the acting CFO approves it but no record thereof was made. It was also established that no report was made to the accounting officer where three quotes cannot be obtained.

The district municipality did not have procedures and processes in place to ensure full compliance with the aforementioned regulation.

Non-compliance with the SCM regulations may be perceived as a weakness in internal controls. Staff and other role players may be influenced by the non-compliance to disregard the SCM regulations, which may lead to deviations and misconduct.

Internal control deficiency

The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Steps should be taken to ensure that the CFO adheres to the SCM regulations by recording instances where three quotations could not be obtained, and all such instances should be reported to the accounting officer. Documentation in this regard should be retained as evidence for internal control and audit purposes.

Management response

The Auditor General's recommendations are noted, the municipality does have procedures in place and should a supply not follow the correct SCM Procedures it is regarded as a deviation and disclosed in the Annual Financial Statements. Reasons for not obtaining at least three quotations are documented and supported by a memorandum approved by the Accounting Officer to allow for the deviation.

Auditor's conclusion

Management response noted, this matter will be followed up next year.

25. Written or verbal quotations

Audit Finding

In terms of regulation 16(d) of the Municipal Supply Chain Management Regulations (GNR868 dated 30 May 2005), "A supply chain management policy must stipulate the conditions for the procurement of goods or services through written or verbal quotations, which must include conditions stating that the accounting officer must record the names of the potential providers requested to provide such quotations with their quoted prices."

The accounting officer did not record the names of potential providers requested to provide quotations with their quoted prices.

The district municipality did not have procedures and processes in place to ensure full compliance with the aforementioned regulation.

The lack/absence of not recording potential providers may result in the award of a contract to a service provider that quoted a higher price than another service provider.

Internal control deficiency

The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

The accounting officer must ensure that all potential service providers are recorded, including their quoted price. When deciding on whom to award the contract to, reference should be made to the record listing all potential providers together with their quoted prices.

Management response

The Auditor-General's recommendations are noted. The municipality does have procedures in place and should a supply not follow the correct SCM Procedures it is regarded as a deviation and disclosed in the Annual Financial Statements. Reasons for not obtaining at least three quotations are documented and supported by a memorandum approved by the Accounting Officer to allow for the deviation.

Auditor's conclusion

Management response noted, this matter will be followed up next year.

26. Committee system for competitive bids

Audit Finding

In terms of regulation 26(1)(c) of the Municipal Supply Chain Management Regulations (GNR868 dated 30 May 2005), " A supply chain management policy must provide for an attendance or oversight process by a neutral or independent observer appointed by the accounting officer when this is appropriate for ensuring fairness and promoting transparency."

It was established that the accounting officer had not appointed a person to fulfill this role.

The district municipality did not have procedures and processes in place to ensure full compliance with the aforementioned regulation.

Oversight controls may be inadequate and may compromise the objective of achieving transparency in the procurement process.

Internal control deficiency

The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Steps should be taken to ensure that a neutral independent person is appointed to fulfill the legislated role of oversight.

Management response

The Auditor-General's recommendations are noted. A legal advisor has been appointed to deal with such cases.

Auditor's conclusion

Management response noted, this matter will be followed up next year.

27. Procedures for procurement of goods and services in excess of R30 000

Audit Finding

In terms of regulation 18(a) of the Municipal Supply Chain Management Regulations (GNR868 dated 30 May 2005), "A supply chain management policy must determine the procedure for the procurement of goods or services through written or verbal quotations or formal written price quotations, and must stipulate that all requirements in excess of R30 000 (VAT included) that are to be procured by means of formal written price quotations must, in addition to the requirements of paragraph 17, be advertised for at least seven days on the website and an official notice board of the municipality."

It was established that no such advertisements were made on the website or notice board of the municipality.

The district municipality did not have procedures and processes in place to ensure full compliance with the aforementioned regulation.

The principle of achieving a competitive bidding process may not be achieved.

Internal control deficiency

The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Steps should be taken to ensure that the legislated advertisement methodology is complied with.

Management response

This was in agreement with the Auditor-General, provided that all supporting documents are attached to the supply which is R30 000 up to R200 000 does not have to be advertised on websites and notice boards as this is regarded as a technical breach in compliance of the policy. Advertisement on Notice Boards and websites will only be applicable for purchases over R200 000 in order to allow for competitive bidding. The deviations have been amended with the assistance of the Auditor-General's as the focus was on the threshold of R30 000 rather than R200 000 as per SCM Regulations leading to an incorrect disclosure of R34 553 948 by the Supply Chain Management Unit. (No tenders would have to be advertised below the threshold of R200 000).

Auditor's conclusion

Management response noted, this matter will be followed up next year.

28. General preconditions for consideration of written quotations or bids

Audit Finding

In terms of regulation 13(a) of the Municipal Supply Chain Management Regulations (GNR868 dated 30 May 2005), a supply chain management policy must state that the municipality may not consider a written quotation or bid unless the provider who submitted the quotation or bid:

(a) has furnished that providers-

- (i) full name;
- (ii) identification number or company or other registration number; and
- (iii) tax reference number and vat registration number if any.

It was established that the following service providers did not furnish the required information, and yet the municipality proceeded to do business with them:

No.	Service provider	Voucher number	Amount
1	Sister Kay Speaking Ministry	15010774	196 500
2	Time and Envy Marketing	15010792	200 000
3	Inyameko Trading 515 CC	15008438	198 420

The district municipality did not have procedures and processes in place to ensure full compliance with the aforementioned regulation.

The municipality may be conducting business with unscrupulous or fictitious suppliers whose affairs may not be in order, and thereby exposing themselves to unnecessary risk.

Internal control deficiency

The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Steps should be taken to ensure that transactions are prevented from proceeding, until the service provider has complied with the legislated requirements.

Management response

The Auditor-General's recommendations are noted, the municipality is updating its supplier database and is committed in ensuring compliance with laws and regulations which is lacking in the Supply Chain Management Department.

Auditor's conclusion

Management response noted, this matter will be followed up next year.

29. General preconditions for consideration of written quotations or bids

Audit Finding

In terms of regulation 13(b) of the Municipal Supply Chain Management Regulations (GNR868 dated 30 May 2005), a supply chain management policy must state that the municipality may not consider a written quotation or bid unless the provider who submitted the quotation or bid has authorised the municipality to obtain a tax clearance from the South African Revenue Services that the provider's tax matters are in order.

2. MFMA circular 29 states as follows:

The tax clearance certificate requirements should be applicable to all transactions exceeding a value of R30 000 (thirty thousand rand, including VAT).

No tax clearance certificate was provided by the following service providers nor had they been obtained by the municipality:

Service provider	Amount
SS Media	300 000.00
TEEM	200 000.00
Sister Kay	196 500.00
Inyameko Trading 515 CC	198 420.00
Sibambisese Business	265 120.00
Sound Trader	385 600.00
Futuretainment	380 000.00

The district municipality does not have procedures and processes in place to ensure full compliance with the aforementioned regulations.

A possibility exists that the municipality may be contracting service providers whose tax matters are not in order.

Internal control deficiency

The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

The importance of compliance with the relevant acts and circulars must be emphasized to the staff of the municipality by senior officials. Mechanisms should be put in place to ensure compliance.

Management response

Supply's over the value of R200 000 follows a tender process and tenders are awarded by the bid adjudication committee. If the supply did not follow procedure the SCM Unit reports it as deviations. The Auditor-General's recommendations are noted and effective controls will be put in place to avoid this happening in the future.

Auditor's conclusion

Management response noted, this matter will be followed up next year

30. Formal written price quotations

Audit Finding

In terms of regulation 17(1)(a) of the Municipal Supply Chain Management Regulations (GNR868 dated 30 May 2005), "A supply chain management policy must stipulate the conditions for the procurement of goods or services through formal written price quotations, which must include conditions stating that quotations must be obtained in writing from at least three different providers whose names appear on the list of accredited prospective providers of the municipality."

Furthermore, regulation 17(c) states as follows:

"If it is not possible to obtain at least three quotations, the reasons must be recorded and approved by the chief financial officer or an official designated by the chief financial officer."

The required 3 quotations were not obtained for the following voucher numbers:

- 15008502 (2 quotations obtained)
- 15008038 (1 quotation obtained)

- 15008967 (2 quotations obtained)

The first 2 quotations were not approved by the CFO nor were they recorded:

- a) 15008502 Thermrch Trading R199 705.00
- b) 15008038 Inyameko Trading 515 CC R198 420.00 - No requisition, order and tax clearance certificate provided, but the payment was still approved.
- c) 15008967 Mainsys CC R13 703.00 - Reasons recorded and approved by CFO

Per enquiry with the Assistant CFO Procurement as to the reasons for less than 3 quotes being obtained, the following was ascertained:

- Thermrch Trading - The requisition was obtained on the 06/10/2009 and delivery expected 08/10/2009, therefore the time limitation was the reason for only 2 quotations being obtained.
- Inyameko Trading - No reason could be provided.
- Mainsys CC - Inspected an email that was sent to a prospective provider requesting them to provide a quote, but no response was received. Per enquiry with the Assistant CFO Procurement as to whether any other forms of communication was used to contact the provider, his response was no.

Reasons for the quotations not being approved and recorded, could not be furnished.

An insufficient audit trail exists for the decisions making processes relating to the procurement of goods and services, and hence insufficient evidence exists that internal controls were being complied with.

Internal control deficiency

The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Steps should be taken to ensure that a suitable audit trail exists supporting the internal controls and compliance with legislation.

Management response

This was an oversight of the Municipality and the Auditor-General's recommendations have been noted and tighter controls will have to be put in place to ensure compliance with supply chain management policies and procedures.

Auditor's conclusion

Management response noted, this matter will be followed up next year

31. Lists of accredited prospective providers

Audit Finding

In terms of regulation 17(b) of the Municipal Supply Chain Management Regulations (GNR868 dated 30 May 2005), "A supply chain management policy must stipulate the conditions for the procurement of goods or services through formal written price quotations, which must include conditions stating that quotations may be obtained from providers who are not listed, provided that such providers meet the listing criteria set out in paragraph 14(1)(b) and (c)."

Regulation 14(1) states that a supply chain management policy must at least once a year through newspapers commonly circulating locally, the website of the municipality and any other appropriate ways, invite prospective providers of goods and services to apply for evaluation and listing as accredited prospective providers and specify the listing criteria for accredited prospective providers.

The following service providers did not appear on the list of accredited prospective providers:

- Heavenly Creations
- Sister Kay Speaking Ministry
- Going places Constructions and Projects

Per enquiry with the demand clerk whether prospective providers were invited to apply for evaluation and listing, she provided an advert that went out to the public in May 2009 for database registration and information update. The demand clerk confirmed that no other advert went out to the public from May 2009 till present.

In regards to the service providers listed above, there is no evidence available that they applied for evaluation and listing.

The district municipality did not have procedures and processes in place to ensure full compliance with the aforementioned regulations.

Other suitable service providers may not be provided a fair opportunity to provide services to the municipality.

Internal control deficiency

The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

The SCM policy must be strictly adhered to and adherence must be monitored on a timely basis. Non-compliance must be dealt with immediately.

Management response

A new supplier database system is been sourced and will be fully implemented and complied within the current financial year.

Auditor's conclusion

Management response noted, this matter will be followed up next year

32. Public invitation for competitive bids

Audit Finding

In terms of regulation 22(1)(a) of the Municipal Supply Chain Management Regulations (GNR868 dated 30 May 2005), any invitation to prospective providers to submit bids must be by means of a public advertisement in newspapers commonly circulating locally, the website of the municipality or any other appropriate ways (which may include an advertisement in the Government Tender Bulletin).

Evidence does not exist that the aforementioned regulation was complied with for the following:

Voucher	Service provider	Amount
15010767	Sibambisese Bus	265 120.00
15010943	Futuretainment	380 000.00
	SS Media	300 000.00
	Xhakela Trading	243 000.00
15009665	Sound Trader	385 600.00

The district municipality did not have processes or procedures in place which ensure full compliance with the regulations.

Prospective suppliers are not being afforded an equal or fair opportunity to submit bids, which could impact on the municipality not obtaining the best price for the particular service.

Internal control deficiency

The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Steps should be taken to ensure full compliance with the aforementioned regulation.

Management response

The above listed suppliers are included in the deviation list annexure H of the AFS for the same reasons among others.

Auditor's conclusion

Management comment has been noted, however this will be reported on as a result of non-compliance.

33. Bid adjudication committees

Audit Finding

In terms of regulation 29(2) of the Municipal Supply Chain Management Regulations (GNR868 dated 30 May 2005), a bid adjudication committee must consist of at least four senior managers of the municipality which must include -

- (a) the chief financial officer or, if the chief financial officer is not available, another manager in the budget and treasury office reporting directly to the chief financial officer and designated by the chief financial officer; and
- (b) at least one senior supply chain management practitioner who is an official of the municipality; and
- (c) a technical expert in the relevant field who is an official of the municipality, if the municipality has such an expert.

Regulation 29(4) of the regulations states as follows:

"Neither a member of a bid evaluation committee, nor an advisor or person assisting the evaluation committee, may be a member of the bid adjudication committee."

1. Per inspection of the bid adjudication committee minutes dated 17 June 2009, it was established that the committee composition does not adhere to the requirements of the aforementioned regulations.

The committee consisted of 3 senior staff namely:

- CFO
- Director: Planning & Development
- Director: Community Services

Furthermore, no senior SCM practitioner was a member of the committee.

2. Per Inspection of the bid adjudication committee minutes dated 27 July 2009, it was established that only 3 directors were present at the meeting and the fourth party was the Assistant CFO Procurement.

The district municipality did not have procedures and processes in place to ensure full compliance with the aforementioned regulations.

The purpose, duties and functions of the adjudication committee may be circumvented if not properly constituted.

Internal control deficiency

The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Steps should be taken to ensure that the legislated SCM committees are properly constituted.

Management response

The Auditor-General's recommendations are noted, and the Municipality dedicates itself in exercising more control over SCM policies, processes and procedures.

Auditor's conclusion

Management response noted, this matter will be followed up next year.

34. Contracts and contract management

Audit Finding

In terms of section 116(3)(a) and (b) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003), "A contract or agreement procured through the supply chain management policy of the municipality or the municipal entity may be amended by the parties, but only after-

- (a) the reasons for the proposed amendment have been tabled in the council of the municipality, or in the case of municipal entity, in the council of its parent municipality; and
- (b) the local community-

- (i) has been given reasonable notice of the intention to amend the contract or agreement; and
- (ii) has been invited to submit representations to the municipality or municipal entity."

Per inspection of relevant documentation with regards to the Uddi Project Development Company, it was established that the contract was extended for a further 6 months at an amount of R500 000. The reasons for amendment were not tabled in council, instead a memo was sent to the CFO by the municipal manager to initiate the process for the extension of the contract. It was also established that the community were not notified of the intention to amend the contract. The

reasons documented in the memo to justify the bidding process not being followed and the use of the same service provider was not supported with adequate detail.

Senior officials were unaware of the requirements contained in the MFMA with regards to proposed amendments.

Internal control deficiency

The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Steps should be taken to ensure that all staff are familiar with the laws and regulations in both the supply chain management regulations and the MFMA. Corrective action should be taken against all incidents of non-compliance.

Management response

We agree with the finding, the accounting officer used the National Treasury's "Supply Chain Management: A guide for Accounting Officers for Municipalities and Municipal Entities" for February 2004. Paragraph 5.16.1.1.1 of the document reads as follows: "Any granting of a substantial extension of the stipulated time for performance of a contract, agreeing to any substantial modification of the scope of the services, substituting key staff, waiving the conditions of a contract, or making any changes in the contract that would in aggregate increase the original amount of the contract by more than 15 percent, will be subject to the approval of the accounting officer / authority or his / her delegate."

The Municipality is now taking the recommendations of the Auditor-General in ensuring that Accounting Officer effectively exercises oversight responsibility over reporting and compliance with laws and regulations and internal controls in the current financial year. As at final date for reporting, management had not submitted a written response despite being provided ample opportunity to do so.

Auditor's conclusion

Management response noted, this matter will be followed up next year.

15. Proudly SA campaign

Audit finding

In terms of regulation 34 of the Municipal Supply Chain Management Regulations (GNR868 dated 30 May 2005), "A supply chain management policy must stipulate to what extent the municipality supports the Proudly SA Campaign."

The municipality supports the Proudly SA Campaign to the extent that all things being equal , preference is given to procuring local goods and services from:

- Firstly - suppliers and businesses within the municipality and district
- Secondly - suppliers and businesses within the relevant province
- Thirdly - suppliers and businesses within the Republic

It was noted from the following, that the municipality did not award the contract to ROC Global Development, which is a local service provider, but instead awarded it to Mageba Projects CC. ROC Global Development objected to the awarding of the contract to Mageba Projects CC on the following grounds:

- Mageba Projects CC quoted a higher price
- Mageba Projects CC is a service provider outside the Amajuba District Municipality

Inspection of minutes of a meeting held on 5 November 2009 between the municipality and ROC Global Development to discuss the objection by the service provider revealed the following as reasons to support the municipality's decision not to award the contract to ROC Global Development:

- Tender form was not signed by the service provider, instead the company name was put in the place of signature
- The CM 1 (List of shareholders) did not correspond to list of shareholders
- The municipality does not bind itself to accept the lowest bid

The municipality may not be seen to be supporting the Proudly SA Campaign or following proper SCM regulations

Internal control deficiency

Processes were not in place to prevent and detect unauthorised, irregular and fruitless and wasteful expenditure with respect to awarding of tenders

Recommendation

Steps should be taken to ensure that the aforementioned SCM regulations are adhered to at all times to prevent any unauthorised, irregular and fruitless and wasteful expenditure

Management response

The AG's finding and recommendation is noted and will ensure that it is done going forward and its part of our turnaround strategy commitments.

Name: V.B. Mbatha

Position: Acting Municipal Manager

Date: 11 October 2010

Auditor's conclusion

Due to the fact that management is in agreement with the finding, the matter will be reported accordingly.

16. Controls relating to the splitting of orders

Audit finding

In terms of regulation 12(3) of the Municipal Supply Chain Management Regulations (GNR868 dated 30 May 2005), "A supply chain management policy must state that goods or services may not deliberately be split into parts or items of a lesser value merely to avoid complying with the requirements of the policy and that when determining transaction values, a requirement for goods or services consisting of different parts or items must as far as possible be treated and dealt with as a single transaction."

It was established that there were no controls in place to ensure goods and services were not deliberately split into parts or items of a lesser value to avoid complying with the requirements of the regulations.

The SCM policy was not being adhered to or adequately enforced.

Orders for goods and services are being split in order to circumvent controls relating to a competitive bidding process.

Internal control deficiency

Processes were not in place to prevent and detect unauthorised, irregular and fruitless and wasteful expenditure with respect to splitting of orders

Recommendation

Steps should be taken to ensure that the regulations are strictly adhered to and that management put a process in place to ensure that orders are not split to circumvent the system.

Management response

The Auditor-General's recommendations are noted. The Amajuba District Municipality presented its turnaround strategy and an organizational evaluation of the whole supply chain management processes, policies and procedures were considered, and the findings in deficiencies were considered and recommendations emanating from that were taken into consideration in shaping its Turnaround Strategy. (TSA Attached). Councillors and Senior Management made several recommendations to improve supply chain management. It recommended that there should be:

- Ongoing forensic or other specialised audits within the supply chain management process;
- Regular fraud detection reviews across supply chain management;
- Attempts to ensure segregation of duties.
- Adequate supervision of the procurement process;
- Encouragement given to whistle blowing on maladministration and corruption;
- Emphasis on the issue of formal requests for quotations; and insistence that there must be documented evidence in terms of verbal quotations;

ADM has set a target date of 31 December 2010 for this process to be completed

Name: Mr VB Mbatha

Position: Acting Municipal Manager

Date: 12/10/2010

Auditor's conclusion

The intervention is noted, however, for the reporting period under review no process or internal controls were in place.

17. Reporting of theft and fraud to SAPS

Audit finding

In terms of section 32(6) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), "The accounting officer must report to the South African Police Service all cases of alleged irregular expenditure that constitute a criminal offence, and theft and fraud that occurred in the municipality."

It was established that no policy or procedures exist at the municipality for the accounting officer to report incidents of this nature to the SAPS.

The district municipality did not have adequate policies and procedures in place to ensure full compliance with laws and regulations.

The tone in the organization is set by management, therefore if alleged misconduct and irregular expenditure that constitute a criminal offence is not reported to the SAPS, staff may perceive this as a weakness in management and therefore be more inclined to commit misconduct, fraud and theft.

Internal control deficiency

Processes were not in place to prevent and detect unauthorised, irregular and fruitless and wasteful expenditure.

Recommendation

Steps should be taken to ensure that a suitably documented and approved policy is formulated and implemented, in order to comply with the requirements of the MFMA.

Management response

The Auditor-General's recommendations are noted. Amajuba does have an approved anti-fraud and corruption policy in place. We are currently in the process of reviewing and amending the policy to include deficiencies that was found within the policy during the Anti-Fraud and Corruption Workshop that was convened in October 2010. Councillor's also stated their concerns regarding their oversight responsibilities and the recommendations were taken into consideration to ensure effective oversight on all policies, procedures and processes applicable to the Municipality.

Name: Mr. VB Mbatha
Position: Acting Municipal Manager
Date: 12/10/2010

Auditor's conclusion

Management response noted, this matter will be followed up next year

18. Competency levels of SCM officials

Audit finding

In terms of section 119(1) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), "The accounting officer and all other officials of a municipality or municipal entity involved in the implementation of the supply chain management policy of the municipality or municipal entity must meet the prescribed competency levels."

It was established that there was no manager appointed in the SCM unit.

The district municipality did not have procedures and processes in place to ensure full compliance with the aforementioned act.

The SCM unit may not possess the adequate skills required for the efficient and effective delivery of services and to comply with related laws and regulations.

Internal control deficiency

A proper authorisation procedure was not in place for expenses whereby only the appropriate level of management is responsible to approve expenditure before any disbursements are made.

Recommendation

Steps should be taken to ensure that the SCM unit is adequately staffed and skilled in terms of the aforementioned legislation.

Management response

There are two vacant positions in the SCM Unit of the Procurement Manager and Demand Analyst. The office space is a limiting factor. All vacant Positions will be advertised once office space becomes available.

Name: Henry Mthembu
Position: Assistant CFO: Procurement
Date: 11 October 2010

Auditor's conclusion

Management have agreed with the audit finding that a manager vacancy exists.

19. Petty cash purchases**Audit finding**

In terms of regulation 15 of the Municipal Supply Chain Management Regulations (GNR868 dated 30 May 2005), "A supply chain management policy must stipulate the conditions for the procurement of goods by means of petty cash purchases referred to in regulation 12(1)(a)."

At the municipality, no policy or procedures exist for petty cash purchases up to a transaction value of R2 000 (VAT included).

The district municipality did not have procedures and processes in place to ensure full compliance with the aforementioned regulations.

Staff may not have adequate guidance in the form of policy or procedures to guide them in their day-to-day activities when making petty cash purchases. Consequently, internal controls may be inadequate in this regard.

Internal control deficiency

A proper authorisation procedure was not in place for petty cash purchases whereby only the appropriate level of management is responsible to approve expenditure before any disbursements are made.

Recommendation

Steps should be taken to formulate policy and procedures for petty cash purchases, in order to enhance the internal control environment and to prevent any abuse of petty cash.

Management response

We disagree with finding; the reference to SCM Delegation, which is part of the Supply Chain Management policy, with regards to how petty cash purchases are made. The Municipality has drafted a petty cash policy which will be tabled at Council for adoption. The target date is the 31 December 2010 as indicated in our Turnaround Strategy for all policies to be reviewed and adopted.

Name: Henry Mthembu
Position: Assistant CFO: Procurement
Date: 11 October 2010

Auditor's conclusion

Due to the fact that the policy is still in draft and will be implemented in December 2010 confirms that there was no policy or procedures in place.

20. Tax clearance certificate

Audit finding

In terms of regulation 16 of the Preferential Procurement Policy Framework Regulations, 2001 (GNR. 725 of 10 August 2001), "No contract may be awarded to a person who has failed to submit an original Tax Clearance Certificate from the South African Revenue Services (SARS) certifying that the taxes of that person to be in order or that suitable arrangements have been made with SARS."

It was established via inspection that the following service providers failed to provide an original tax clearance certificate, but did provide to the municipality with a copy:

Date	Voucher number	Service provider	Amount
14/08/2009	15007888	Al Chair & Marquee	195 000.00
16/02/2010	15009683	4 Zo 's Trading Enterprise	188 000.00
12/10/2009	15008502	Themrich Trading	199 705.00

The municipality did not enforce the requirements of the above regulation.

Suppliers may be submitting falsified or outdated documentation, which could result in the municipality doing business with unscrupulous service providers.

Internal control deficiency

Procurement of goods and services were not made in accordance with Supply Chain Management regulations i.e. tender processes were not adhered to, proper authorisation procedures were not followed etc.

Recommendation

In relation to amounts exceeding R30 000, the municipality should ensure that a contract will be awarded to a service provider only if they furnish an original tax clearance certificate.

Management response

The above listed suppliers are included in the deviation list annexure H of the AFS for the same reasons among others.

Auditor's conclusion

Management response noted, this matter will be followed up next year.

21. Lowest quoted price not awarded contract

Audit finding

The supply chain management delegations state as follows:

(R400 to R10 000)

2.3) Quotations are considered based on price and compliance to specification.

2.6) If the lowest quotation is not chosen or selected valid reasons must be provided and approved by the CFO or his delegate before such purchases may take place.

(R200 000 to R5000 0000)

5.9) Bid evaluation committee prepares a report and recommends the supplier who scored the highest points in accordance with the predetermined criteria.

5.11) If the highest scoring bidder is not chosen and the bid is awarded to an alternate bidder valid reasons must be provided and approved by the accounting officer or his delegate before such purchases take place.

With regards to the following item, the contract was not awarded to the service provider who quoted the lowest price.

1501943 Futuretainment Trading Enterprise R380 000.00

On inspection of all documentation it was identified that :

- Futuretainment Trading Enterprise quote was R380 000.00
- Future Success quote was R120 000.00
- South Man Trading quote was R500 000.00

The document approving the quotations states that the contract was awarded to Future Success at a quote price of R380 000.00, but payment documentation reflects that Futuretainment was awarded the contract. No reason was furnished by the CFO. The CFO approved the quotation document.

The SCM policy is not being adhered to or adequately enforced.

Supply chain management policy is being circumvented, thereby impacting negatively on the purpose of a competitive bidding process.

Internal control deficiency

Procurement of goods and services were not made in accordance with Supply Chain Management regulations i.e. tender processes are adhered to, proper authorisation procedures are followed etc.

Recommendation

Steps should be taken to ensure that supply chain management controls and policy are adhered to at all times, and that any deviations there from are suitably documented and approved in terms of the said policy.

Management response

The supply chain management policy clearly states that the lowest tender does not have to be accepted. Due to the previous unreliability and poor service from Future success, and the market related value of the contract/tender it was identified that Future success had undercoated and that the company would not have been able to provide the services required. The municipality is

committed in cleaning up its Supplier database and has introduced the vetting system of Service providers which will be implemented in the current financial year.

Auditor's conclusion

Management response noted, this matter will be followed up next year.

22. No requisition

Audit finding

In terms of section 62(1)(c)(i) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003), "The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control."

It was established that voucher number 15010325, which relates to Bagabisile Trading for an amount of R132 500.00 did not have a requisition. Instead, the only supporting documentation available was as follows:

- Memo from Acting MM
- Bagabisile Trading Invoice
- Tax clearance certificate

The municipality's SCM controls are insufficient.

The amount was reflected as a deviation in the annual financial statements. The fact that the transaction was approved without a requisition implies that the control environment is weak, and therefore this will set the tone in the environment. Staff will not feel it necessary to comply with regulations, as management set the tone of not enforcing compliance.

Internal control deficiency

Procurement of goods and services were not made in accordance with Supply Chain Management regulations i.e. tender processes are adhered to, proper authorisation procedures are followed etc.

Recommendation

Management should set the tone in the environment by enforcing compliance to all rules and regulations. Compliance with laws and regulations may be promoted in numerous ways namely:

- Continuous monitoring of staff compliance to the SCM Policy as well as other regulations by senior management.
- Emphasizing the need for compliance by taking staff on workshops that will enable them to acquire more knowledge with regards to SCM processes.
- Supervision and review of staff work by senior management.
- All non-compliance by staff should be recorded, and suitable disciplinary procedures should be in place to ensure that compliance and internal control are taken seriously.
- Adequate training should be offered for new staff.
- Manuals should be easily accessible to all staff, thereby promoting awareness to the importance of compliance.
- A zero tolerance to non-compliance should be adopted.

Management response

The Auditor-Generals recommendations are noted and full compliance to legislation will be adhered to. The memorandum from the Accounting Officer allows for the deviation due to the urgency of the service provided.

Auditor's conclusion

Management response noted, this matter will be followed up next year.

23. Order date after invoice date

Audit finding

In terms of section 62(1)(c)(i) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003), "The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control."

Per inspection of payment voucher no. 15087688 in respect of Newcon Engineering CC for an amount of R12 659 it was established that the invoice was dated 14/07/2009, whereas the order was dated 16/07/2009.

Supply chain management policy and procedures are not being enforced.

Prior approval may not have been obtained to incur the expense.

Internal control deficiency

Procurement of goods and services were not made in accordance with Supply Chain Management regulations i.e. tender processes were not adhered to, proper authorisation procedures were not followed etc.

Recommendation

Order documentation should be completed and approved prior to placing the order. Due to the fact that the amount for repairs was R12 659.70 the municipality should have obtained a quote for the service, and the order documentation should have been completed from the quotation.

Management response

Taking into consideration the emergency of the situation, although the order number was given to the supplier before the service was carried out; The urgency of the service(Electrical Repairs) was imperative which has resulted in this deviation of supply chain management. Electrical Repairs needed to be done which has resulted in the order only written out on 16th although the order was communicated telephonically.

Auditor's conclusion

Management response noted, this matter will be followed up next year.

24. Control weaknesses regarding the supplier database

Audit finding

In terms of section 62(1)(c)(i) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003), "The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure

that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control."

Furthermore, in terms of regulation 18(b) of the Municipal Supply Chain Management Regulations (GNR868 dated 30 May 2005), when using the list of accredited prospective providers the accounting officer must promote ongoing competition amongst providers by inviting providers to submit quotations on a rotation basis.

Per enquiry with the demand clerk, it was established that she gives the procurement clerk her password to the supplier database, to capture suppliers onto the system occasionally. The demand clerk also confirmed that she does not change her password regularly, and commented on the weaknesses of the system on which the supplier database operates, namely the DIMS system. She commented as follows:

- The system does not allow deletion of service providers with whom the municipality no longer wishes to conduct business with.
- No error message is displayed should a user enter for example a company registration number/tax reference number that is applicable to another provider whom already exists on the database.
- The system does not allow the user to make corrections to providers already on the system.
- The system does not promote rotation of service providers.

There is a poor understanding of the need for internal control, namely segregation of duties and access controls.

Inadequate segregation of duties creates an opportunity for fraud and error. It is also possible for the procurement clerk to disregard the suppliers she has been instructed to add onto the system and add those that are in her best interest. The password could also be misused to carry out other illegal/unauthorised actions.

Internal control deficiency

Segregation of duties to prevent fraudulent data and asset misappropriation was not adequate. The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control

Recommendation

The significance, purpose and privacy of password protection and usage should be emphasised to all staff. Adequate segregation of duties should be maintained and solutions to the weaknesses should be sought.

Management response

We agree with the finding, the municipality is in the process of acquiring the new database management system in addition to district wide data communication network.

Auditor's conclusion

Management comment has been noted, however this will be reported on as a result of non compliance

25. Payment supporting documentation

Audit finding

In terms of section 62(1)(c)(i) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003), "The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control."

Per inspection of a sample of vouchers, it was noticed that payment processing occurs without valid supporting documents. The following are examples of payments processed with a minimum or no supporting documentation:

No.	Voucher No.	Supplier	Amount
1	11001290	Fahama Trading	600 000
2	1500915	SS Media	300 000
3	15010908	Buhle Benteedeka	323 544.49
4	15009989	Smanga	12 648.77
5	15010714	Cherangani Trading Enterprise	121 648.03
6	15010777	Little Creek	925 214.88
7	15010443	Lizanbo	150 000.00
8	15010558	Xhakela Catering	116 006.40

The following are examples which indicate that supporting documentation is not checked properly, prior to making payment:

- Voucher no. 15010774 in respect of Sister Kay Speaking Ministry for an amount of R196 500.00 reflected an error in calculation on both the invoice and quotation. The correct amount however was paid to the supplier.
- Voucher no. 15008527 in respect of Bagabisile Trading Company for an amount of R199 211.00 reflected a detail as well as calculation error as follows - an omission of 20 tyre brushes on the order, however this was included on the invoice and the quote. The amount reflected on the order is R1 992 211.00, whereas the actual amount was R199 211.00.
- Voucher no. 15008802 in respect of Themrich Trading for an amount of R199 705.00 reflected a calculation error on both the invoice and quotation. The correct amount should have been R209 605, and therefore the supplier was underpaid by R9 900.

Furthermore, per inspection of the relevant vouchers selected for audit purposes it was noted that the majority thereof are authorised by 2 staff members (CFO and assistant CFO), however, per inspection of vouchers which have resulted in SCM deviation, it was evident that these had only been approved by the CFO.

Internal controls relating to supporting documentation for payments and the approval processes are inadequate.

Errors may go unnoticed and a lack of documentation increases the risk of fraud.

Internal control deficiency

All supporting documents (quotation, supplier order, invoice, goods received note) were not thoroughly checked and reconciled, prior to effecting payment.

Recommendation

Generally the following supporting documentation in relation to a pending payment should be scrutinized and agreed to each other before payment processing

- Requisition (Which should be authorised)
- Order (Which should be authorised and accurate)

- Contract (If applicable)
- Invoice
- Goods received note

Once the abovementioned documentation has been agreed and inspected for errors and accuracy, and confirmed with regards to price, quantity and supplier details, the documentation together with the invoice should be sent to the relevant department for payment preparation.

Management response

Auditors recommendations are noted and review of SCM and Creditors processes and procedures to be reviewed and submitted to the executive committee on the 31 March 2011 in accordance to our Turnaround Strategy.

Auditor's conclusion

Management response noted, this matter will be followed up next year.

26. Assets written off to repairs and maintenance

Audit Finding

In terms of section 62(1)(c)(i) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003), "The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control."

Per audit of amounts in the breakdown of the repairs and maintenance figure in the annual financial statements it was established that 3 transactions in the sample selected were for the purchase of assets, but included as part of repairs and maintenance. The details are as follows:

- Voucher no. 15009142 in respect of Newcon Engineering CC dated 04/12/2009 was in respect of delivery and installation of an airconditioner for an amount of R24 652.00
- Voucher no. 15010501 in respect of Enzekayo Office Furniture dated 17/05/2010 was in respect of a purchase of office furniture for an amount of R26 083.00.

Estimated error was R615 665. This was not considered material.

Internal control deficiency

The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Stricter controls should be implemented to ensure that expenditure is allocated correctly.

Management response

Auditor Generals Recommendations are noted, An accuracy of the Fixed Asset Register will be completed in the Current Year, verifications and re-valuations have been assigned for in the current financial year. The Municipality has committed itself in taking the Auditor-Generals recommendations and implementing it effectively in the current financial year.

Auditor's conclusion

Management response noted, this matter will be followed up next year.

27. Expenditure management

Audit finding

In terms of section 65(1), 2(a) and (i) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003), "The accounting officer of a municipality is responsible for the management of the expenditure of the municipality. The accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure—

(a) that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds.

(i) that the municipality's supply chain management policy referred to in section 111 is implemented in a way that is fair, equitable, transparent, competitive and cost-effective."

Per inspection of voucher 15008503 dated 19/10/2009 in respect of Going Places Construction & Projects for an amount of R199 500.00, it was established that the amount paid was for a 1 300 seater white tent. On further inspection it was established that an amount of R195 000.00 was paid to Al Chair & Marquee Hire on 14 August 2009, was for a 10 000 seater tent.

The following are other transactions with Going Places Construction:

09/11/2009 an amount of R58 500.00 was paid in respect of catering

26/11/2009 an amount of R180 420.00 was paid in respect of Mayoral project materials

Per enquiry with the assistant CFO Procurement with regards to Going Places Construction, it was established that the supplier does not appear on CIPRO, and hence, could indicate a fictitious supplier.

Per inspection of vouchers 15008401, 15010173 and 15009143 with regards to services provided by Mbhibiyo Trading Enterprise CC, amounts were paid for supplier development programme and artisan training. On searching the CIPRO website for the company it was confirmed that the company is in the process of deregistration. No quotations were included in the supporting documentation.

The municipality does not have suitable processes and procedures in place to ensure compliance with legislation.

The municipality may be contracting with fictitious and unscrupulous suppliers.

Internal control deficiency

Processes were not in place to prevent and detect unauthorised, irregular and fruitless and wasteful expenditure.

Recommendation

Suitable explanations for the above observations are sought.

Management response

A fruitless, wasteful and irregular policy has been developed and implementation of the policy will be convened and submitted to Council for approval, due date as per Turnaround Strategy is the 31 December 2010.

Auditor's conclusion

The response is noted, follow-up will be conducted during the next audit.

28. Supplier not a VAT vendor but charges VAT

Audit Finding

In terms of section 62(1)(c)(i) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003), "The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control."

Per inspection of voucher no. 11001660 in respect of Menmat Motors (Pty) Ltd. for an amount of R96 299.79, R11 826.29 was the VAT component. Per search conducted on the SARS website it was confirmed that the supplier is not a vat vendor. The amount of R11 826.29 was traced to the VAT ledger.

The municipality does not perform proper searches on suppliers before contracting with them.

Internal control deficiency

The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Steps should be taken to ensure that prior to entering into a transaction with a respective supplier that appropriate checks are conducted on the supplier with regards to whether or not the said supplier is a registered VAT vendor, and has a valid company registration number.

Management response

As at final date for reporting, management had not submitted a written response despite being provided ample opportunity to do so.

Auditor's conclusion

The exception remains unresolved and will be reported accordingly.

Payable

29. Vat input not captured

Audit finding

In terms of section 62(1)(c)(i) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003), "The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control."

Per inspection of voucher no. 15010664 dated 21 May 2010 paid to Nkunzemnyama Construction CC for a total amount of R72 675, it was established that VAT input amounting to R8 925, had not been captured onto the system and did not reflect in the VAT reconciliation.

The municipality does not have adequate procedures and processes in place to ensure that transactions were correctly captured.

VAT input may be misstated which could result in penalties being raised by SARS or could affect VAT refunds.

Internal control deficiency

Adequate systems were not in place whether manual or computerised to record information required for accurate and complete reporting on financial information.

Recommendation

Steps should be taken to ensure that VAT was captured correctly and in a timely basis.

Management response

The Auditors General's recommendations are noted but in all due respect to your findings the Municipality has appointed MaxProf to audit all VAT that is not correctly claimed from SARS. Complete Audits are conducted twice a year by MaxProf.

Auditor's conclusion

Management response noted, this matter will be followed up next year.

Predetermined objectives

30. Drafting the IDP

Audit finding

In terms of section 30 of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000)(MSA), "The executive committee or executive mayor of a municipality or, if the municipality does not have an executive committee or executive mayor, a committee of councillors appointed by the municipal council, must, in accordance with section 29—

- (a) manage the drafting of the municipality's integrated development plan (IDP);
- (b) assign responsibilities in this regard to the municipal manager; and
- (c) submit the draft plan to the municipal council for adoption by the council."

Although documentation and processes exist for the management, drafting and approval of the IDP, no evidence could be provided that the responsibilities in this regard had been assigned to the municipal manager.

The district municipality did not have adequate processes and procedures in place to ensure full compliance with the MSA.

Internal control deficiency

Personnel were not aware of the allocation of duties, responsibilities and lines of reporting.

Recommendation

Steps should be taken to ensure that the responsibility of managing the drafting of the IDP is assigned to the municipal manager in writing.

Management response

The Auditor General's finding is noted but an Accounting Officer in terms of sections 2.10.10 and 11.1.3 of Delegations of Authority is clearly articulating that he/she is responsible for the implementation and progress monitoring of the IDP.

Name: V.B. Mbatha
Position: Acting Municipality
Date: 22 September 2010

Auditor's conclusion

Management's response is noted, however the delegation of the drafting of the IDP should be in writing

Receivables

31. Goods received notes

Audit finding

In terms of section 62(1)(c)(i) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003), "The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control."

Per enquiry with the Assistant CFO Procurement and during the audit of expenditure vouchers, it was established that goods received notes (GRN) are not utilised by the municipality.

Internal controls relating to expenditure and the receipt of goods are considered to be weak.

Failure to complete a GRN may result in incorrect quantities being received, damaged goods not being identified, or payments being made to suppliers when the goods or services have not been received.

Internal control deficiency

Control weaknesses are not analysed, and appropriate follow-up actions are not taken that address root causes.

Recommendation

The GRN serves as proof of delivery of goods and should be compared to the purchase requisition and order form to confirm that the correct quantity and description of the goods are received. No supplier should be paid unless there is an invoice and a GRN is completed as proof of delivery.

The following process should be followed:

- Have a designated receiving area.
- On delivery of goods by the supplier, the goods received clerk receives the goods.
- The clerk compares the goods received to the invoice and the purchase requisition in the requisition book.
- The clerk should identify damaged goods and note it on the GRN and invoice and return it to the supplier.
- If the goods received are correct as per the purchase requisition, the employee prepares a pre-numbered goods received note in duplicate.
- The clerk is required to complete the following information on the GRN:

- the department receiving the goods,
- the description, quantity and price of the goods,
- the corresponding requisition number,
- the name of the employee receiving the goods & their signature.

By implementing the above process this will enhance the procurement process, quality and quantity of goods received and minimise theft.

Management response

We agree with the finding, however due to cost consideration and the fact that the municipality does not keep stock centrally; each department receives, keeps and authorizes payments for all the invoices for its purchases. The suggested solution would be more appropriate where the central store is in existence. Due to the costs involved in the establishment and maintenance of stock section compared to stock requirement, it was felt that the costs outweigh the benefits.

Auditor's conclusion

Management comment has been noted.

ANNEXURE C: ADMINISTRATIVE MATTERS

No matters to report.