



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

FINAL MANAGEMENT REPORT

SARAH BAARTMAN DISTRICT MUNICIPALITY

Communicated to management on: 08 November 2016





SECTION 8: Summary of detailed audit findings

Page no.	Finding	Classification					Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
Procurement and contract management											
1	COAF5: Procurement: Insufficient reasons for deviations (Ex20)			✓			✓			2	Not addressed
Audit of pre-determined objectives											
2	COAF2: AOPO: Indicators are not well defined (Ex14)			✓			✓			2	Not addressed
3	COAF3: AOPO: Indicators not well defined (Ex18)			✓			✓			2	Not addressed
Leases											
4	COAF1: Revenue: No operating lease	✓						✓		0	Not applicable
Movable assets											
5	Resolved: COAF1: PPE: Change in estimate	✓						✓		0	Not applicable



6	COAF1: Expenditure: VAT incorrectly accounted for Ex12	✓						✓		0	Not applicable
7	Resolved: COAF4: Expenditure: Project costs Incorrect classification	✓						✓		0	Not applicable
Receivables											
8	Resolved: COAF4: Accrued interest: Incorrectly disclosed in the AFS	✓						✓		2	Not addressed
Revenue											
9	RESOLVED: COAF1: Amalgamation Grant treated as a conditional grant (Ex5)	✓						✓		0	Not applicable
Taxes											
10	COAF6 VAT: Input VAT overstated	✓						✓		0	Not applicable
Predetermined objectives											
11	Resolved: COAF2: AOPO: Inconsistency between reported targets and planned targets. Ex 8		✓					✓		2	Not addressed
12	COAF2: AOPO: Target not specific (Ex 9)		✓					✓		2	Not addressed
13	COAF2: AOPO: Inconsistency of target on SDBIP and APR (Ex11)		✓					✓		2	Not addressed
14	Resolved: COAF2: AOPO: Inaccurate and incomplete reported information (Ex13)		✓					✓		2	Not addressed



General controls											
15	COAF7: IT Governance Framework not developed.			✓				✓		2	Not addressed
16	COAF7: IT Security policy not approved			✓				✓		2	Not addressed
17	COAF7: Inadequate backup and restoration process			✓				✓		2	Not addressed
Procurement and contract management											
18	COAF5: Procurement: the municipality traded with a supplier who is in the service of the state (Ex17)			✓				✓		0	Not applicable
19	COAF5: Procurement : Declaration of interest and Tax clearance certificate not obtained (Ex21)			✓				✓		0	Not applicable
20	COAF5: Procurement: Bid advertised less than the required period (Ex31)			✓				✓		0	Not applicable
21	COAF5: Procurement: Advert did not describe construction minimum category (Ex32)			✓				✓		0	Not applicable
22	COAF5: Procurement: No declaration of interest obtained (Ex 33)			✓				✓		0	Not applicable
Operating expenditure											
23	COAF1: Expenditure: Suppliers not paid within 30 days Ex10			✓				✓		3	Not addressed



24	COAF6: Expenditure: Suppliers not paid within 30 days				✓			✓		3	Not addressed
General IT controls											
25	COAF7: Information Technology Steering Committee is not fully functional				✓			✓		2	Not addressed
26	COAF7: ICT Strategic Plan has not been approved and implemented				✓			✓		2	Not addressed
27	COAF7: The Disaster Recovery Plan (DRP) and Business Continuity Plan (BCP) have not been approved and implemented.				✓			✓		2	Not addressed
28	COAF7: Firewall policy is in draft and approved and therefore not enforceable				✓			✓		2	Not addressed
29	COAF7: Access to EFT payment file not adequately restricted.				✓			✓		2	Not addressed
30	COAF7: The municipality does not have Information Security Officer				✓			✓		2	Not addressed
Operating expenditure											
31	COAF1: Operating expenditure: No segregation of duties on receiving the goods				✓				✓	0	Not applicable



Detailed audit findings

ANNEXURE A: MATTERS AFFECTING THE AUDITOR'S REPORT

Heading 2

1. COAF5: Procurement: Insufficient reasons for deviations (Ex20)

Audit finding

In terms of Municipal Supply Chain Regulations 36 (1) a supply chain management policy may allow the accounting officer-

(a) To dispense with the official procurement processes established by the policy and to procure any required goods or services through any convenient process, which may include direct negotiations, but only -

- (i) in an emergency;
- (ii) If such goods or services are produced or available from a single provider only;
- (iii) If such goods or services are produced or available from a single provider only;
- (iv) For the acquisition of special works of art or historical objects where specifications are difficult to compile; acquisition of animals for zoos; or
- (v) In any other exceptional case where it is impractical or impossible to follow the official procurement

Insufficient reasons provided for deviating from the normal procurement processes:

Deviation number	Supplier	Amount	Expenditure
58/2016	SMADA SECURITY SERVICES (PTY) LTD	196 213.36	196 213.36
<p>Impractical to follow SCM process:</p> <p>A report was tabled at Mayoral Committee for consideration and the matter was deferred for a strategic session where the Senior Managers and Council will make a final decision on whether to continue outsourcing the function indefinitely or to try and insource the function over a period of time. It is impractical to procure services for a period of 3 months for security services using the normal SCM processes. It is therefore important to continue with the current security service provider for the period January 2016 until March 2016 until such time as the strategic session has been finalised.</p> <p>Comment:</p> <p>The deviation was approved as impractical to follow normal SCM processes because of a pending decision from management and council whether to insource or outsource the functions. The deviation is invalid since deliberations could have happened and concluded before the end of the contract or during the normal contract awarded then decision is taken during the execution of the contract.</p>			
20/2016	SMADA SECURITY SERVICES (PTY) LTD	392 426.72	392 426.72

Impractical to follow SCM process

When the biometric system was installed the Council wanted to explore the avenue of internalising or outsourcing the service. The tender process could not be finalised until such time as a report was submitted to Council on cleaning and security services in its totality and the likelihood of not outsourcing the functions. The report is due in Council during August 2015 which would provide a way forward. The Council cannot obtain three quotes as changing the services at this stage would place the Council at risk and a new service provider would have to be reintegrated with the biometric system, staff procedures etc. The deviation period of 6 months would therefore allow the Council sufficient time to finalise the required process.

Comment:

The deviation was approved as impractical to follow normal SCM processes because of a pending decision from management and council whether to insource or outsource the functions. The deviation is invalid since deliberations could have happened and concluded before the end of the contract or during the normal contract awarded then decision is taken during the execution of the contract.

19/2016	LUKHONA CATERING CONSTRUCTION AND CLEANING SERVICES	165 974.88	165 974.88
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Impractical to follow SCM process

The cleaning services contract came to an end and the tender process for the cleaning services were not finalised. The Council undertook to investigate alternative methods of rendering the service which would benefit all parties. A report was tabled at Council for consideration and there is more information required before a final decision can be taken to either outsource the function or look at the possibility of rendering the service internally. This report is scheduled to be tabled during September 2015 Mayoral Committee for consideration then Council for adoption.

Comment:

The deviation was approved as impractical to follow normal SCM processes because of a pending decision from management and council whether to insource or outsource the functions. The deviation is invalid since deliberations could have happened and concluded before the end of the contract or during the normal contract awarded then decision is taken during the execution of the contract.

This was a result of council and management were still considering to outsource the cleaning and security services

This will result in contravention of SCM regulations and irregular expenditure of R754 614.96

Internal control deficiency

Leadership: Review and monitor compliance with applicable laws and regulations.

Recommendation

Management should ensure that the sufficient and relevant reasons are documented on the deviations. Furthermore the deviations should only be made for exceptional cases only: emergency, sole provider, special works and impossible to follow the official procurement.

Management's response

Management has reviewed the finding and maintains that it was impractical to follow supply chain processes due to a pending strategic decision whether to in-source or continue with the out-source arrangement. Therefore, Management does not regard the expenditure as irregular expenditure.

Name: Riaaz Lorgat
Position: Director: Finance and Corporate Services
Date: 28 October 2016

Auditor's conclusion

Management response has been noted.

Management should have a reasonable estimate of how long will it take them to make the decision. These contracts have been extended at least twice in one year. This should have indicated how long the decision process will take. Management has in this process denied other service the opportunity to supply the services.

Therefore, the finding remains.

This is not material individually but will be aggregated with other irregular expenditure findings. AFS were subsequently adjusted for irregular expenditure and misstatements were resolved after auditing them.

Furthermore, this finding might have an impact with non-compliance with the legislation which will be reported under irregular expenditure in the audit report.

Predetermined objectives

2. COAF2: AOPO: Indicators are not well defined (Ex14)

Audit finding

In terms of MFMA section 62 (1) (c)(i) The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take reasonable steps:

- (c) That the municipality has and maintains effective, efficient and transparent systems-
- (i) of financial and risk management and internal control

Key performance indicators are not well defined:

Planned indicator	Reported indicator	Comment
8 SMME and Cooperatives and Business supported. SBDM facilitating an Agri-expo	8 SMME and Cooperatives and Business supported. SBDM facilitating an Agri-expo	There is no determination of what does support mean on the indicator
3 Co-ops for Honeybush Tea Project in Koukamma LM supported.	3 Co-ops for Honeybush Tea Project supported.	There is no determination of what does support mean on the indicator
To support at least 5 LTO's in the District	To support at least 5 LTO's in the District	There is no determination of what does support mean on the indicator

This is as a result of the district not knowing what will be the proposals from the local municipalities.

The reported performance information is not useful to the relevant users. Note

Internal control deficiency

Financial and performance management: Review and monitor compliance with applicable legislation.

Recommendation

Management should ensure that the key performance indicators are well defined so that there is ease of reference to the users. There must be a clear determination on the indicator of what it means without referring to other documents. I.e IDP, detailed plan, etc. Note

Management's response

Do not agree. During our planning stage, the word “support” in the KPI was crafted in terms of our support role we play to Local Municipalities as a District Municipality. This ‘support’ could include financial, expertise, training etc. The KPI was in the draft SDBIP 2015/16 that was published in the draft IDP for public comment. Furthermore, outreaches were also held with Local Municipalities, stakeholders and the general public to explain all the projects which affect their area.

The department explained that it is not always possible to know what type of support will be required from the Local Municipalities when the above type of projects is initiated. However, it is noted that the KPI could be improved to be more defined in terms of the actual support given to Local Municipalities, where possible, in pro-active planning.

Name: Graham Terblanche
Position: Senior Performance Manager
Date: 10 October 2016

Auditor’s conclusion

The management explained that it is not always possible to know what type of support will be required from the Local Municipalities when the above type of projects is initiated. However, it is noted that the KPI could be improved to be more defined in terms of the actual support given to Local Municipalities, where possible, in pro-active planning.

3. COAF3: AOPO: Indicators not well defined (Ex18)

Audit finding

In terms of MFMA section 62 (1) (c)(i) The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take reasonable steps:

- (c) That the municipality has and maintains effective, efficient and transparent systems-
- (i) Of financial and risk management and internal control

Furthermore the best practices require that indicators should be specific, measurable and time-bound.

National Treasury FMPPI paragraph 3.3 also stated that an institution should use standards and targets throughout the organisation, as part of its internal management plans and individual performance management system.

A useful set of criteria for selecting performance targets is the "SMART" criteria:

- **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.
- *Time-bound: the time period or deadline for delivery is specified.*

Key performance indicators are not well defined and not specific:

Planned indicator	Reported indicator	Comment
Rural Roads Asset Management System set up for SBDM	Rural Roads Asset Management System set up for SBDM	There is no clear indication of set up
75% construction of main road in Nomathamsanqa complete	75% Construction of main road in Nomathamsanqa complete	There is no clear indication of what extent of 75% on the main road

There was an assumption that the indicator was clear during the preparation of the SDBIP.

This will result on reported information not being useful.

Internal control deficiency

Financial and performance management: Review and monitor compliance with applicable legislation.

Recommendation

Management should ensure that the key performance indicators are well defined so that there is ease of reference to the users. There must be a clear determination on the indicator of what it means without referring to other documents. I.e IDP, detailed departmental plans, etc.

Management's response

Do not agree -The Rural Road Asset Management System involved collection of Road data in the district and development of a system to store such information on software. The system set up is the best indicator possible since it would involve both software installations with real time data information. The system has been installed in the District and 7 Local Municipalities.

Do not agree -The 75% Construction of Nomathasanqa Access Road can be difficult to unpack milestones for an annual indicator, as it constitute the construction of a road which involves preparation of road foundation, importation of material and construction of 5 layers works. This work constitutes 75% if the final layer is not done. The final layer would be more expensive than other layer works hence it was anticipated that at the end of the financial year 25% of the costs would be remaining unspent due to this milestone not achieved.

In future we will consider being more descriptive when setting up annual and quarterly targets.

Name: Graham Terblanche
Position: Senior Performance Management
Date: 10 October 2016

Auditor's conclusion

The Rural Road Asset Management System

Management response is noted.

Management was not specific in terms of explaining what set-up meant. Management needs to note that the report has to be clear for anyone to understand. This is not the case in on the above indicator. This is not material individually but material in aggregate with other indicators. Therefore, the finding remains.

75% Construction of Nomathamsanqa Access Road

Management response is noted.

However the finding remains due to the following:

1. It is not clear what the 75% refers to, in your response you referring to the 25% of costs that is unspent at the end but it is not clear if you intended to measure progress by means of the budget or construction work. This is why we are saying this is not well defined as the indicator is subject to many interpretations.
2. The manner in which this indicator is set up is not clear to the user of financial statements who doesn't have the background information that has been given on this report.

The above indicators are material in aggregate. Management cannot adjust these misstatements as they relate to the SDBIP. This results into a qualified conclusion on Infrastructure development on the management report and will be escalated to the audit report as the material finding.

ANNEXURE B: OTHER IMPORTANT MATTERS

Leases

4. COAF1: Revenue: No operating lease

Audit finding

57. Lessors shall, in addition to meeting the requirements of the Standard of GRAP on Financial Instruments, disclose the following for finance leases:

(a) A reconciliation between the gross investment in the lease at the reporting date, and the present value of minimum lease payments receivable at the reporting date. In addition, an entity shall disclose the gross investment in the lease and the present value of minimum lease payments receivable at the reporting date, for each of the following periods:

- (i) Not later than one year;
- (ii) Later than one year and not later than five years; and
- (iii) later than five years;
- (b) Unearned finance revenue;
- (c) The unguaranteed residual values accruing to the benefit of the lessor;
- (d) The accumulated allowance for uncollectible minimum lease payments receivable;
- (e) Contingent rents recognised as revenue in the period; and
- (f) A general description of the lessor's material leasing arrangements

The municipality did not disclose the operating lease note as required by GRAP 13, para 57.

Management only considered part of GRAP requirements in accounting for leases and the disclosure requirement was overlooked.

The disclosure notes are incomplete, as the operating lease disclosure note per GRAP 13, para 57 was not done.

Internal control deficiency

Financial and Performance Management: Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting

Recommendation

The management should ensure that all requirement of GRAP 13, para 67 are carefully considered and are applied correctly.

Management's response

Management has investigated the finding and agrees that the disclosure is incomplete. The necessary changes will be made to the financial statements to reflect the complete disclosure of operating leases.

Name: **Riaaz Lorgat**
Position: **Director: Finance & Corporate Services**
Date: **30 September 2016**

Auditor's conclusion

Management response has been acknowledged, however the finding will remain pending the adjustment of the annual financial statements.

Adjusted financial statement submitted but not disclosed, therefore the will be reported.

The municipality did not disclose the operating lease note as required by GRAP 13, para 57.

Management only considered part of GRAP requirements in accounting for leases and the disclosure requirement was overlooked.

The disclosure notes are incomplete, as the operating lease disclosure note per GRAP 13, para 57 was not done.

Internal control deficiency

Financial and Performance Management: Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting

Recommendation

The management should ensure that all requirement of GRAP 13, para 67 are carefully considered and are applied correctly.

Management's response

Management has investigated the finding and agrees that the disclosure is incomplete. The necessary changes will be made to the financial statements to reflect the complete disclosure of operating leases.

Name: **Riaaz Lorgat**
Position: **Director: Finance & Corporate Services**
Date: **30 September 2016**

Auditor's conclusion

Management response has been acknowledged, however the finding will remain pending the adjustment of the annual financial statements.

Adjusted financial statement submitted but not disclosed, therefore the will be reported.

Movable assets**5. Resolved: COAF1: PPE: Change in estimate****Audit finding**

Section 62(1) (b) of the MFMA states that: the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

GRAP 26.20 An entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.

Impairment of assets that were recognised for disposal has been incorrectly accounted for as additional depreciation due to a change in estimate instead of being accounted for as impairment loss at year end.

Details are as follows;

Item as per Statement of Financial Performance	Amount as per AFS (R)	Audited amount (R)	Difference:
Impairment loss	6,967	34,614	27,647

The cause was due to management changing the condition of a specific asset.

This results into understatement of impairment loss by R27 647, overstatement of depreciation by R27 647 and incorrect disclosure of the financials.

Suggested journal to correct the error:

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DR Impairment loss    27,647
                    CR Depreciation          27,647
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Internal control deficiency

Financial and performance management: Regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information were not prepared

Recommendation

Management should include all impaired assets under impairment loss as this doesn't constitute a change in useful life but a discontinuation of an asset.

Management's response

Management has investigated the finding and agrees that the amount is incorrectly reflected as depreciation and not impairment loss.

The necessary changes will be made to the financial statements to reflect the correct amounts and disclosures accordingly.

Name: **Riaaz Lorgat**
Position: **Director: Finance & Corporate Services**
Date: **30 September 2016**

Auditor's conclusion

Management response have been noted, however the finding will remain pending the adjustment of the annual financial statements.

Subsequently the adjusted financial statements were submitted and audited.

Finding: Resolved

6. COAF1: Expenditure: VAT incorrectly accounted for Ex12

Audit finding

Section 62(1) (b) of the MFMA states that: the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

VAT has been incorrectly calculated and processed to the GL

No	Supplier	Payment Voucher	Amount as per GL	Invoice Description	Date	Amount Incl VAT	VAT	Amount Excl VAT	Difference (between GL and amount excl VAT)
1	IMFO	748	31,988.00	Registration fee	15/09/04	31,988.00	2,906.98	29,081.02	2,906.98
2	TRINK CONSUMABLES (PTY) LTD	674	24,188.97	Stationery	15/04/26	26,206.94	2,381.61	23,825.33	363.64

This is due to human error.

Total estimated population misstatement at period-end (projected) amounts to: R52,682.93

VAT Input understated by R52 682.93

Expenditure overstated by R52 682.93

Internal control deficiency

Financial and performance management: Management did not implement proper controls over daily and monthly processing to ensure that payments are made within the required timeframes

Recommendation

Management must ensure that data is captured correctly from the source documents to ensure accounting records are accurate.

Management's response

Management agrees to the finding. It should be noted that Management is of the view that these are isolated clerical incidents as the internal controls are adequate. Management agrees however to review the internal controls to ensure the effectiveness thereof.

The municipality will once again undergo a VAT audit by SARS covering a period from 2013 to date – any VAT incorrectly accounted for will be identified and corrected accordingly.

Name: **Riaaz Lorgat**
Position: **Director: Finance & Corporate Services**
Date: **30 September 2016**

Auditor's conclusion

Management response has been noted, however the misstatement will go to overs and unders for evaluation in aggregation with others.

7. Resolved: COAF4: Expenditure: Project costs Incorrect classification

Audit finding

Section 62(1) (b) of the MFMA states that: the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

An amount that should have been classified as other grants and subsidies paid have been incorrectly recorded as project costs in the statement of financial performance. The details are as follows:

Supplier Name	Vote description	Purpose of transfer	Reference	Recorded amount	Audited amount
MAKANA MUNICIPALITY	CONTRIBUTIONS TO MUNICIPALITY	Contribution towards administration of fire services by the locals	2419	1,687,000.00	-
BAVIAANS MUNICIPALITY	CONTRIBUTIONS TO MUNICIPALITY		2420	1,534,000.00	-
CAMDEBOO MUNICIPALITY	CONTRIBUTIONS TO MUNICIPALITY		2961	496,000.00	-
KOUKAMMA MUNICIPALITY	CONTRIBUTIONS TO MUNICIPALITY		2587	1,015,000.00	-
TOTAL:				2,542,000.00	-

Management initially supported locals by constructing capital assets for them whose costs constituted project costs, however the cost structure was changed in the current year to form admin support in respect of fire services but the accounting thereof remained the same as prior year.

Project costs are overstated by R4 732 000 and other grants and subsidies are understated by R4 732,000.

Internal control deficiency

Financial and performance management: Regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information were not prepared.

Recommendation

Management should treat transfers to local municipalities as grant and subsidies paid where local municipalities act as principals when performing functions on behalf of the district municipality as expenses in relation to these functions are recorded by the local municipalities.

Management's response

Management does not agree with the finding.

The municipality's obligations on fire services in terms of legislation is encapsulated in section 84 (1) (j) of the Municipal Structures Act. The municipality, together with the local municipalities, agreed that the local municipalities will perform the function on behalf of the municipality and a service level agreement was entered into for an initial 3 year period and renewed annually thereafter.

In terms of the agreement, it was intended that the district municipality would provide a cash contribution (to certain municipalities) as well as undergo capital projects on fire within the local municipalities, in accordance with the district's available resources, which would be prioritized in terms of a fire risk assessment that was performed.

The municipality then budgeted for the cash component and the capital projects in a single vote called "Contribution to municipalities" disclosed under Project costs. In recent years, municipalities questioned whether the contribution to the local municipalities could be in a form of a substantial transfer or grant and not only in the form of capital projects.

During the 2015/16 financial year, the municipality specifically budget an amount under Contributions to Municipalities and agreed to assess the possibility of a transfer to local municipality. It was agreed that a fire funding model be developed to enable the district municipality to identify a transfer amount that would justify the services performed by the local municipality on behalf of the district municipality. The model had to be scientific and easy for all municipalities to understand.

During the mid-year assessment, the fire model was not yet agreed upon by the local municipalities and therefore an adjustment in terms of transferring the budgeted amount from "Project expenditure" to "other grants and subsidies" could not be done due to the uncertainty on whether it would be concluded before the end of the financial year and to limit the expectation raised by the municipality to transfer the amount to the local municipalities.

The funding model was then concluded towards the end of February 2016 and the amounts were transferred to the municipalities in accordance with the fire model.

When preparing the financial statements, Management had considered the fire transfers in terms of how it should be disclosed. It was noted that the budget does not reflect the contributions to the local municipalities and if it is disclosed under other grants and subsidies, it could be perceived to be unauthorized expenditure (Appropriation Statement) and therefore remained disclosed under "Project costs"

It must be noted that the municipality has disclosed the transfers to local municipalities under Project costs for all prior years that was audited by the Auditor-General and no findings were raised. Management is therefore of the view that no finding exists. However, should the Auditor-General acknowledge that a finding should have been raised and was not, the A-G should highlight this as an "emerging risk" and Management would address it in the following financial year?

Management acknowledges that now that the fire model has been developed and agreed upon, an amount will be budgeted for under "transfers and grants".

Name: Riaaz Lorgat
Position: Director: Finance and Corporate Services & CFO
Date: 26 October 2016

Auditor's conclusion

Management comment noted.

The statement of financial performance is prepared based on nature of expenses in terms of GRAP1 para 107. According to the above paragraph money transferred to locals are not project costs in nature but transfers hence this is not compliant to GRAP1 para 107.

1. 1. Disclosing the amounts transferred to locals as project costs is misleading to the users of financial statements as it gives the impression that this amount has been expended on projects which is not the case.
2. 2. This also represents inconsistencies in accounting treatment of similar items in the same financial statements which management is aware of and therefore is expected to know that fire services should be treated in the same way as environmental health care services which have similar SLAs.
3. 3. It must be noted that quarterly payments were made to the respective municipalities, so the statement which says that the funding model was concluded in February 2016 is not clear what it refers to. The method used to transfer funds to the local municipalities has been consistent throughout the year.

Therefore the finding remains. Management has the following options

1. 1. Adjust financial statements
 1. - We will audit the adjustment, however as this is a material adjustment; it will lead to non-compliance with section 122 of the MFMA in the audit report.
1. 2. Do not adjust financial statements
 1. - The misstatement identified is material; unfortunately, it will lead to us modifying our audit opinion to a qualification.

Subsequent adjusted AFS were submitted audited

Finding: Resolved.

Receivables

8. Resolved: COAF4: Accrued interest: Incorrectly disclosed in the AFS (Ex19)

Audit finding

Section 62(1) (b) of the MFMA states that: the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

Interest not yet received at year end (R1, 096,145) was included in cash and cash equivalents under short term deposits instead of receivables.

The cause of the exception was due an understanding that accrued interest (as it is receivable within 3 months) falls part of short term deposit in cash and cash equivalents as opposed to having it as accrued interest in receivables.

Receivables are materially understated by R1 096 145 and cash and cash equivalents are materially overstated by R1 096 145.

Internal control deficiency

Financial and performance management: Regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information were not prepared.

Recommendation

Management should ensure that interest not yet received is included in receivables and not short term deposits.

Management's response

Management does not agree with the finding.

All excess funds of the municipality is invested in terms of the Cash and Investment Policy, which requires all investments to be invested for a period not exceeding 12 months. In terms of GRAP, investments maturing after 3 months up to 12 months must be disclosed as "Short-term Investments" and all investments maturing within 3 months must be disclosed as part of "Cash and Cash Equivalents".

Management is of the view that whether the investment matures 1 day after the year end or 3 months after the year end, the investment amount will be regarded as part of "Cash and Cash Equivalents. When investing funds, the institutions request the municipality to indicate whether the interest portion of the investment should be paid monthly or at the maturity date of the investment.

As the municipality relies on the interest portion to fund a portion of the operational expenditure of the municipality, all interest on investments are paid monthly. Therefore, the interest amounts are regarded as part-maturity of investments.

When taking the finding into account, the part-maturity of the investment (interest portion), was received shortly after year end, within the 3 months and therefore should be regarded as “Cash and Cash Equivalents”. The municipality has therefore accounted for the maturity of the investment in terms of the interest portion correctly.

It must be noted that the municipality has disclosed the Cash and Cash Equivalents in this matter for all prior years that was audited by the Auditor-General and no findings were raised. Management therefore is in agreement that no finding exists. However, should the Auditor-General acknowledge that a finding should have been raised and was not, the A-G should highlight this as an “emerging risk” and Management would address it in the following financial year.

Name: Riaaz Lorgat
Position: Director: Finance and Corporate Services & CFO
Date: 26 October 2016

Auditor’s conclusion

Management comment noted. Accounting policy 1.9 states that cash and cash equivalents includes cash on hand held at the banks. This should be noted that this is not the case with Accrued interest. Interest accrued is not money that has been received and therefore cannot be regarded as being on hand. This also cannot be said to be money maturing as interest doesn’t mature but only the capital portion of the investment matures.

Accounting policy 1.14 Receivables exchange and non-exchange transactions. This policy states that amounts that are receivable within 12 months from the reporting date are classified as current assets. Accrued interest is receivable within 12 months; this is where this amount should be recorded.

The current year misstatement is not individually material but when aggregated may be material. However the comparative figure is material as it is above our overall materiality.

Therefore the finding remains. Management has the following options:

1. 1. Adjust financial statements
 1. - We will audit the adjustment, however as this will be a material adjustment; it will lead to non-compliance with section 122 of the MFMA in the audit report.
1. 2. Do not adjust financial statements
 1. - The misstatement identified is material; unfortunately, it will lead to us modifying our audit opinion to a qualification.

The finding was subsequently resolved after the audit of the adjusted AFS.

Revenue

9. RESOLVED: COAF1: Amalgamation Grant treated as a conditional grant (Ex5)

Audit finding

Section 62(1) (b) of the MFMA states that: the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

The municipal management incorrectly included the amalgamation grant which is a provincial grant with the conditional grants that were received per DORA.

The management realised close to finalisation of annual financial statement (AFS) that the Amalgamation grant should have not been included with grant received per DORA, as the notes were partially adjusted. However, the line item for conditional grants on the face of the AFS was not corrected adequately.

The revenue for conditional grants is overstated by R 500 000.00.

Internal control deficiency

Financial and Performance Management: Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Recommendation

Management should ensure that only conditional per DORA are reflected as such in the financial statements and also management should ensure that AFS are properly reviewed before being issued for audit.

Management's response

Management agrees to the finding – the grant was a Provincial Grant. As Management realized the error on the day of submission, insufficient time was available to correct the implications of the corrections. The necessary changes were made in the Consolidated Financial Statement submitted to the AG on 30 September 2016.

Name: **Riaaz Lorgat**
Position: **Director: Finance & Corporate Services**
Date: **30 September 2016**

Auditor's conclusion

Management comment noted, the finding still remains until a misstatement is corrected on the separate AFS before corrected to the consolidated AFS.

Subsequently adjusted financial statements reflecting amalgamation being excluded in the conditional grants have been submitted,

Finding: Resolved

Taxes

10. COAF6 VAT: Input VAT overstated

Audit finding

In terms of the VAT Act, 1991 (Act 89 of 1991)

Section 17 (Permissible deductions in respect of input tax)

Where goods or services are acquired or imported by a vendor partly for consumption, use or supply (hereinafter referred to as the intended use) in the course of making taxable supplies and partly for another intended use, the extent to which any tax which has become payable in respect of the supply to the vendor or the importation by the vendor, as the case may be, of such goods or services or in respect of such goods under section 7(3) or any amount determined in accordance with paragraph (b) or (c) of the definition of "input tax" in section 1, is input tax, shall be an amount which bears to the full amount of such tax or amount, as the case may be, the same ratio (as determined by the Commissioner in accordance with a ruling as contemplated in Chapter 7 of the Tax Administration Act or section 41B) as the intended use of such goods or services in the course of making taxable

(1) supplies bears to the total intended use of such goods or services: Provided that—

where the intended use of goods or services in the course of making taxable supplies is equal to not less than 95 per cent of the total intended use of such goods or services, the goods or services concerned may for the purposes of this Act be regarded as having been

(i) acquired wholly for the purpose of making taxable supplies;

Input VAT has been claimed for an expense which was not incurred in the process of making taxable supplies.

Date	Journal No	Description	Claimed amount	Correct claim	Difference
31 Aug 2016	J060133	Reversal of journal	R36 397.48	R0.00	R36 397.48

Journal number J060133 dated 30/06/2016 was incorrectly passed to cancel a reversal of an Input VAT amount which was claimed for an expense that was not incurred in the process of making taxable supplies as per the relevant legislation.

This has caused Input VAT to be overstated by R36,397.48 and expenditure understated.

Internal control deficiency

Financial and Performance management: Review and monitor compliance with applicable laws and regulations

Recommendation

Management should ensure that VAT should only be claimed on expenditure that is incurred in the course of making taxable supplies and other allowable expenses by SARS not expenditure related

to fraud or theft. In addition, strict controls should be put on authorising journals to determine validity thereof.

Management's response

It is important to note that the invoice relating to this expenditure was a valid tax invoice and the municipality was entitled to claim the VAT. It was later discovered that the payment was made into a fraudulent bank account and the full payment amount was thus transferred to a debtor suspense account. Upon preparation of the annual financial statements, it was realized that the amount do not meet the recognition criteria of a debtor as the debtor was unknown. The amount was then reversed using a journal entry and placed into the related expenditure account. The VAT was therefore claimed as part of the normal payment processes prior to identifying the payment as a fraudulent transaction.

Management agrees with the finding and will make the necessary adjustment

Name: Riaaz Lorgat
Position: Director: Finance and Corporate Services
Date: 8 November 2016

Auditor's conclusion

Management response has been noted; however the finding will remain pending the adjustment of the annual financial statements.

Predetermined objectives

11. Resolved: COAF2: AOPO: Inconsistency between reported targets and planned targets. Ex 8

Audit finding

Section 46 of the Municipal Systems Act, 32 of 2000 states that:

"(1) A Municipality must prepare for each financial year a performance report reflecting-

(a) The performance of the municipality and of each external service provider during that financial;

(b) A comparison of the performances referred to in paragraph (a) with targets set for and performances in the financial year; and

(c) Measures taken to improve performance.

2. An annual performance report must form part of the municipality's annual report in terms of the Municipal Finance Management Act."

Reported targets were not consistent when compared with planned targets:

Development priority	Target as per SDBIP	Target as per APR	Reported actual	Comments
Community and social services	Restoration and standardisation of 150 Fire Hydrants in Kouga, Makana and Ndlambe	Restoration and standardisation of 150 Fire Hydrants in Kouga, Makana and Ndlambe	This project is 100% completed.	Annual target is measured in terms of numbers and reported actual is measured in percentage.
	Training of 15 young people as artisans	Training of 15 young people as artisans	Training is progressing well but it was delayed by community unrest which prolonged for more than three months.	Reported actual does not address the planned annual target.
	Risk assessment of the 6 municipalities	Risk assessment of the 6 municipalities	The project is not on target. However the project is progressing well after prolonged	Reported actual does not address the planned annual target.

			delays due to procurement challenges.	
Economic Development	5 LTO's supported in the District	5 LTO's supported in the District	Support report with proposals submitted to the Mayco and SLA's signed with all nine LTO's	Reported actual does not address the planned annual target.
	3 Tourism infrastructure projects supported.	3 Tourism Infrastructure Development projects supported	Support report with proposals submitted to the Mayco and SLA's signed with Ndlambe and Kouga LM's.	Reported actual does not address the planned annual target.
	5 creative Industries projects supported in the District	5 creative Industries projects supported in the District	Support report with proposals submitted to the Mayco and SLA's signed with Ndlambe, Makana and Kouga LM's as well as National Arts Festival and Rhodes University	Reported actual does not address the planned annual target.
	3 new mentorship active and 5 existing mentorship sites mentored and monitored.	3 new mentorship sites active and 5 existing mentorship sites mentored and monitored	One site completed Mentorship evaluation i.e Sewenfontein. Prospective mentor for Koodovale has been identified. 3 sites in Sterterville, Camdeboo and Alexandria	Reported actual does not address the planned annual target.

			<p>have been closed off. Progress and 4th Q report has been submitted to Mayco at the end of June 2016. No new sites have been identified for this programme as the programme will be phased out and the DM to evaluate its role in the sector and with the advent of the Agri-Park programme. The new plan will also be determined by the new organisational strategy processes awaiting the new Council</p>	
Infrastructure Investments	Draft Regulations and status Quo Maps Complete	Draft Regulations and status Quo Maps Complete	<p>Draft regulations have been developed. Makana will be going taking this document to public for comments before council approves. Public comments will close in August 2016.</p>	<p>Annual target mentions status Quo Maps and reported actual only mentions drafts regulations. Annual target mentions</p>

				complete draft regulations and reported actual mentions developed draft regulations
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There are inadequate reviews performed prior to reporting ensuring that there is an alignment of the reported results of the set targets.

The inconsistency affects the usefulness and credibility of the annual performance report and service delivery budget implementation plan.

Internal control deficiency

Financial and performance management: Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

Recommendation

Management should ensure that the development objectives, indicators and targets in the SDBIP should be consistent with those reported in the annual performance report.

Management's response

Restoration and standardisation of 150 Fire Hydrants in Kouga, Makana and Ndlambe - Agree

In our view, it is clearly stated that the project is completed. In future we will ensure that reporting is aligned to the kpi e.g. quantity. The APR for 2015/16 will be updated accordingly.

Training of 15 young people as artisans - Agree

In our view, it is clearly stated that the project is completed, meaning 15 people were trained. We will ensure that reporting is aligned to the kpi e.g. quantity. The APR for 2015/16 will be updated accordingly.

Risk assessment of the 6 municipalities - Agree

We stated that the project is not on target due to procurement challenges. Furthermore, it was difficult to be specific on which municipalities to be assessed in the planning phase, as it would depend on prevailing circumstances. However, we agree that we should have stated that the 6 municipalities were not assessed completely in the actual comments, rather we stated the root cause thereof (e.g. procurement challenges). We will correct reporting in future to align it with the kpi. The APR for 2015/16 will be updated accordingly.

5 LTO's supported in the District- Agree



The 5 LTO's were supported in line with target with an additional 4 LTO's supported through a Mayoral Committee decision. In future we will ensure that reporting is aligned to quantity in the kpi. The APR for 2015/16 will be updated accordingly.

3 Tourism Development projects supported. – Agree

Only two out of the three Tourism Development projects were supported. In future we will ensure that reporting is aligned to the kpi. The APR for 2015/16 will be updated accordingly.

5 creative Industries projects supported in the District – Agree

Only four out of the five Creative Industries projects were supported. In future we will ensure that reporting is aligned to the kpi. The APR for 2015/16 will be updated accordingly.

3 new mentorship active and 5 existing mentorship sites mentored and monitored. – Agree

1 site out of 3 new planned sites is active and evaluated. 2nd site out of 3 new sites planned could not be supply chain management compliant. A 3rd new site could not be identified. 5 old sites evaluated and closed. In future we will ensure that reporting is aligned to the kpi. The APR for 2015/16 will be updated accordingly.

Draft Regulations and status Quo Maps Complete – Agree

The draft regulations and maps were developed. In future we will ensure that reporting is aligned to the kpi. The APR for 2015/16 will be updated accordingly.

Name: Graham Terblanche
Position: Senior Performance Manager
Date: 10 October 2016

Auditor's conclusion

Restoration and standardisation of 150 Fire Hydrants in Kouga, Makana and Ndlambe
Management response has been noted and the finding has been resolved as the management subsequently adjusted the APR to reflect 293 fire hydrants instead of 150 fire hydrants.

Training of 15 young people as artisans

Management response has been noted and the finding has been resolved as the management subsequently adjusted the APR to 60% as the progress of the training.

Risk assessment of the 6 municipalities

Management response has been noted and the finding has been resolved as the management subsequently adjusted the APR to reflect the 6 local municipalities that were initially planned for.

5 LTO's supported in the District

Management response has been noted and the finding has been resolved as the management subsequently adjusted the APR to reflect which LTO's were to receive support.

3 Tourism Development projects supported.

Management response has been noted and the finding has been resolved as the management subsequently adjusted the APR to reflect how tourism development projects were supported.

5 creative Industries projects supported in the District

Management response has been noted and the finding has been resolved as the management subsequently adjusted the APR to reflect how creative industries were supported.

3 new mentorship active and 5 existing mentorship sites mentored and monitored.

Management response has been noted and the finding has been resolved as the management subsequently adjusted the APR to reflect new mentorship sites established and existing sites were monitored and mentored.

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Draft Regulations and status Quo Maps Complete

Management response has been noted and the finding has been resolved as the management subsequently adjusted the APR to reflect status Quo maps.

12. COAF2: AOPO: Target not specific (Ex 9)

Audit finding

Section 41 of the Municipal Systems Act, 32 of 2000 states that:

A municipality must in terms of its performance management system and in accordance with any regulations and guidelines that may be prescribed –

(b) Set measurable performance targets with regard to each of those development priorities and objectives

Furthermore the best practices require that targets should be specific, measurable and time-bound.

National Treasury FMPPI paragraph 3.3 also stated that an institution should use standards and targets throughout the organisation, as part of its internal

Management plans and individual performance management system.

A useful set of criteria for selecting performance targets is the "SMART" criteria:

- **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.
- **Time-bound:** the time period or deadline for delivery is specified.

Performance target is not specific:

Target as per SDBIP	Target as per APR	Comments
Risk assessment of the 6 municipalities	Risk assessment of the 6 municipalities	The target is not specific as it does not specify as to which municipalities the risk assessment will be conducted.

This is as a result of not enough information available during the preparation and first approval of the SDBIP.

The nature and required level of performance will not be clearly identified.

Internal control deficiency

Financial and performance management: Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

Recommendation

Management should ensure that targets before being reported to service delivery budget implementation plan and annual performance report are clearly identified and specific. If the district is planning to provide any service to the local municipalities therefore should be clear which municipality out of nine local municipalities.

Management's response

Do not agree

At the time of crafting the KPI during the planning phase, it was not possible to know which local municipalities in the risk assessment would be done because there was a process of obtaining such information from the municipalities. But we were certain that we could do 6 municipalities at the time with the available budget.

Name: Graham Terblanche
Position: Senior Performance Manager
Date: 10 October 2016

Auditor's conclusion

Management response noted.

However the finding still remains, management has stated that it is not possible to know which municipality risk assessment will be performed on; this indicates deficiency in the planning process. The process of gathering this information needs to start early so that management become specific is planning for and which municipality will the risk assessment be done for.

However, the finding is not material and will not affect our conclusion on usefulness, but it will be included in the management report in the annexure of findings

13. COAF2: AOPO: Inconsistency of target on SDBIP and APR (Ex11)**Audit finding**

Section 46 of the Municipal Systems Act, 32 of 2000 states that:

"(1) A Municipality must prepare for each financial year a performance report reflecting-

(a) The performance of the municipality and of each external service provider during that financial;

(b) A comparison of the performances referred to in paragraph (a) with targets set for and performances in the financial year; and

(c) Measures taken to improve performance.

2. An annual performance report must form part of the municipality's annual report in terms of the Municipal Finance Management Act."

An inconsistency in number of years between the SBIP/APR and in Inception Plan /Appointment letter (of the service provider) has been noted for the following project:-

Note

Priority	Project	Years per SDBIP	Years per APR
Infrastructure	District Wide Infrastructure	Five year Infrastructure Plan Developed for SBDM	The project entails the compilation of a 10 year District Wide Infrastructure Plan for the SBDM

Based on discussion with the Infrastructure Director, this was an error.

Reported information may not be accurate and reliable.

Internal control deficiency

Financial and performance management: Review and monitor compliance with applicable laws and regulations.

Recommendation

Management should ensure that the development objectives, indicators and targets in the SDBIP and APR are consistent with the information as per source documents.

Management's response

Agree. This was an admin error and/or oversight in the planning phase of the current IDP Cycle. The plan was for 10 years which started in the previous IDP Cycle.

Name: Graham Terblanche
Position: Senior Performance Manager

Date: 10 October 2016

Auditor's conclusion

Management response noted, however the finding still remains and will be reported in the management report since the actual reported information does not address annual target on the SDBIP and APR. This is not material individually and therefore doesn't result in the modification of audit conclusion on usefulness.

14. Resolved: COAF2: AOPO: Inaccurate and incomplete reported information (Ex13)**Audit finding**

In terms of MFMA section 62 (1) (c)(i) The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take reasonable steps:

- (c) That the municipality has and maintains effective, efficient and transparent systems-
 (i) Of financial and risk management and internal control.

The reported information does not agree to the supporting information:

Development priority	Indicators	Annual target	Reported target as per APR	As per progress reports
Community and social services	Restoration and standardisation of Fire Hydrants in Ndlambe, Kouga and Makana.	Restoration and standardisation of 150 Fire Hydrants in Kouga, Makana and Ndlambe	This project is 100% completed.	Actual 293 fire hydrants
	Integrated Emergency Response Centre completed in Ndlambe complete.	Initiation of project construction	This project is 70% complete	Actual 72.5% as complete.
	Establishment of a trained team of artisans	Training of 15 young people as artisans	Training is progressing well but it was delayed by community unrest which prolonged for more than three months.	No indication of progress in percentage
	Undertake a disaster risk and hazard analysis of the SBDM area.	Risk assessment of the 6 municipalities	The project is not on target. However the project is progressing well after prolonged delays due to procurement challenges.	Actual Kouga, Koukamma, Makana, Ndlambe, Blue crane, Sundays River valley.

Infrastructure investment	District Wide Infrastructure Plan	Five year District-wide infrastructure plan developed	This project is still at analysis phase. The consultant has developed a draft report but with many Municipalities not contributed due to their unavailability.	Actual 10 year District-wide infrastructure plan
	75% construction of main road in Nomathams anqa complete	75% construction of main road in Nomathams anqa complete	The project is at 80% construction progress.	Actual 75% construction complete
	Development of Air Quality Management plan in SBDM	Development of Air Quality Management plan	AQM Plan completed	Actual draft AQM plan

There are inadequate reviews performed prior to reporting ensuring that there is an alignment of the reported results of the set targets.

The reported information may not be reliable.

Internal control deficiency

Financial and performance management: Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

Recommendation

Management should ensure that annual performance report agrees to the supporting information before submitted for audit. Reported performance information should be always supported by reliable supporting evidence in order to clearly achieve validity, accuracy and completeness of reported information. Note

Management's response

Restoration and standardisation of Fire Hydrants in Ndlambe, Kouga and Makana.

Agree that the project was at actual 293 hydrants completed because of the additional 143 fire hydrants that were standardized. In future we will have to make sure that additional/actual work is taken into consideration when reporting. The APR for 2015/16 will be updated accordingly.

Integrated Emergency Response Centre completed in Ndlambe complete.

Agree that the additional 2, 5% was not included in the final report. In future we will have to make sure that additional work is taken into consideration when reporting. The APR for 2015/16 will be updated accordingly.

Establishment of a trained team of artisans

Agree. The intention of the project was to have the training fully completed for 15 people to qualify as artisans. We stated that the project is not on target. Hence, it is not possible to accurately measure in percentage how far the project has progressed. Furthermore, percentages were not used as measurement yardstick in the kpi and performance target. The APR for 2015/16 will be updated accordingly.

Undertake a disaster risk and hazard analysis of the SBDM area.

Agree. Will ensure that reported information reflect the municipalities that form part of the projects. The APR for 2015/16 will be updated accordingly.

District Wide Infrastructure Plan

Agree. This was an admin error and/or oversight in the planning phase of the current IDP Cycle. The plan was for 10 years which started in the previous IDP Cycle.

75% construction of main road in Nomathamsanqa complete

Agree that reported information as 80% was not accurate. We will ensure that accurate percentages are reported on where possible. The APR for 2015/16 will be updated accordingly.

Development of Air Quality Management plan in SBDM- Agree.

Agree that reported information in the plan was completed and not accurate. The APR for 2015/16 will be updated accordingly.

Name: Graham Terblanche
Position: Senior Performance Manager
Date: 10 October 2016

Auditor's conclusion

Restoration and standardisation of Fire Hydrants in Ndlambe, Kouga and Makana.

Management response has been noted and the finding has been resolved as the management subsequently adjusted the APR to reflect 293 fire hydrants instead of 150 fire hydrants.

Integrated Emergency Response Centre completed in Ndlambe complete.

Management response has been noted and the finding has been resolved as the management subsequently adjusted the APR to reflect 72.5% progress.

Establishment of a trained team of artisans

Management response has been noted; however the finding will remain and be reported on the management report since there is no evidence of the actual 60% reported on the APR.

Undertake a disaster risk and hazard analysis of the SBDM area.

Management response has been noted and the finding has been resolved as the management subsequently adjusted the APR to reflect which municipalities the risk assessment was performed on.

District Wide Infrastructure Plan

Management response has been noted; however the finding will remain and will be reported on the management report since the indicator and target on the SDBIP is still reflecting 5 years.

75% construction of main road in Nomathamsanga complete

Management response has been noted and the finding has been resolved as the management subsequently adjusted the APR to reflect 75% in progress.

Development of Air Quality Management plan in SBDM

Management response has been noted and the finding has been resolved as the management subsequently adjusted the APR to reflect that Air Quality Management Plan is still in draft not completed.

General controls

15. COAF7: IT Governance Framework not developed.

Section 62(1)(c)(i) of the MFMA states that, the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains an effective, efficient and transparent systems of financial and risk management and internal control.

The district municipality presently does not have a formal IT Governance framework in place which provides comprehensive guidelines for IT decision making. Further, the ICT Governance principles, clear responsibilities and authority levels are not explicitly addressed in any of the IT Governance documents (IT Strategy Plan, ICT Steering Committee Charter, IT Policy and Change Management Policy) developed by Sarah Baartman District Municipality.

The management agreed to develop IT Governance after elections have taken place for approval by the new councillors.

The lack of a formal IT Governance framework may deprive the IT decision environment of the necessary support structures, processes and co-ordinating mechanism that are essential to foster effective IT decision making. Consequently, the IT department may not be able to deliver optimal business value within acceptable risk boundaries.

An IT governance framework is a critical element in ensuring proper control and governance over information and the systems that create, store, manipulate and retrieve. Without this framework, there is a risk that the:-

- IT strategy will not be aligned with that of the Sarah Baartman District Municipality's operations and vision
- IT performance will not be reliably measured;
- IT risks will not be adequately addressed; and
- Sarah Baartman District Municipality will not receive value for their IT spend.

This means mechanisms for the implementation of the Corporate Governance of ICT cannot be achieved as not all the principles and their relevant authority are set.

Internal control deficiency

Financial and performance management: Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information

Recommendation

Management should develop IT Governance and Management framework in line with the Municipal Corporate Governance of Information and Communication Technology Policy (MCGICTP).

The Governance and Management framework should contain what Sarah Baartman District Municipality should do to implement governance and management of ICT within the IT unit.

Management's response

Management agrees with the finding.

Management is in the process of addressing the key matters required in terms of the ICT Governance Framework, which stipulates that an ICT Governance Framework is required by 30 June 2017. Management has developed the ICT Steering Committee Charter, related Policies; etc. and will be tabling a detailed report to Council.

Name: Riaaz Lorgat
Position: Director: Finance and Corporate Services
Date: 8 November 2016

Auditor's conclusion

Management response has been acknowledged, however the finding will be reported in the management report for follow up the next financial year.

16. COAF7: IT Security policy not approved (Ex26)

Section 62(1)(c)(i) of the MFMA states that, the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains an effective, efficient and transparent systems of financial and risk management and internal control.

It has been noted that the IT Security policy is implemented but not yet approved.

The management agreed that the policy to be approved after elections have been taken by the new councillors.

Without a formally adopted and approved ICT Security policy, the municipality is exposed to a risk of inconsistent implementation and practice of ICT controls, which may negatively impact the confidentiality, integrity and availability of their information technology resources. It may also result in financial and reputational loss.

Internal control deficiency

Financial and performance management: Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information

Recommendation

Management should prioritise the finalisation and approval of the ICT Security policy.

Management's response

Management agrees with the finding.

Management is in the process of addressing the key matters required in terms of the ICT Governance Framework, which stipulates the key policies that are required by 30 June 2017. Management has developed the related Policies and will be tabling a detailed report to Council.

Name: Riaaz Lorgat
Position: Director: Finance and Corporate Services
Date: 8 November 2016

Auditor's conclusion

Management response has been acknowledged, however the finding will be reported in the management report for follow up in the next financial year.

17. COAF7: Inadequate backup and restoration process

Audit finding

Section 62(1)(c)(i) of the MFMA states that, the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains an effective, efficient and transparent systems of financial and risk management and internal control.

There is no approved and implemented backup policy. Backup media was not stored in a fireproof safe offsite.

The management agreed to wait for the election to take place so the policy be approved by the new councillors.

Without regular testing of the success of backups, and regular backup recovery testing the Municipality may not be able to recover backups when needed, resulting in loss of data. Without a periodic check to assess the integrity of backup media, the risk exists that data/programs on the tapes are not recoverable when required.

Internal control deficiency

Financial performance management: Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information

Recommendation

The municipality should investigate alternatives for off-site storage. In the event that the municipality enters into an arrangement with a third party, then an agreement should be signed by both parties clearly describing the responsibilities of the service provider to ensure that there is adequate security over backup media stored at the location.

Management's response

Management notes the recommendation and will investigate alternatives for off-site storage. This will be factored into the policy that will be tabled to Council.

Name: Riaaz Lorgat
Position: Director: Finance and Corporate Services
Date: 8 November 2016

Auditor's conclusion

Management response has been acknowledged, however the finding will be reported in the management report for follow up the next financial year.

Procurement and contract management

18. COAF5: Procurement: the municipality traded with a supplier who is in the service of the state (Ex17)

Audit finding

Section 44 of the Municipality's SCM policy states that the accounting officer must ensure that irrespective of the procurement process followed, no award may be given to a person:-

- (a) Who is in the service of the state; or
- (b) If that person is not a natural person, of which any director, manager, principal shareholder or stakeholder is a person in the service of the state; or
- (c) A person who is an advisor or consultant contracted with the municipality.

The Municipality traded with the following suppliers who are in the service of the state

N O	Name	State institution where employed	Supplier name	Description of the award	Amount
1	CARRIE MARIE HEATLEY	EC: EDUCATION	HEATLEY AGENCIES	Deviation-26/2016	10 656.40
2	NTOMBEKHAYA MPEMVANA	EC: ROADS & PUBLIC WORKS	MPEMVANA CATERING CLEANING	Quotation for catering	8 000.00
3	NOMVUYISEKO KOZA	NAT: STATISTICS S.A.	MPEMVANA CATERING CLEANING	Quotation for catering	8 000.00

The municipality do not know when the supplier is in the service with the state when trading.

This will result in incurring irregular expenditure of R18 656.40.

Internal control deficiency

Leadership: Develop and monitor the implementation of action plans to address internal control deficiencies.

Recommendation

Management should ensure that all suppliers that are traded with have declared their interest in writing and the mentioned suppliers should not be traded with in future.

Management's response

Heatley Agencies	The procurement was based on an approved Deviation No. 26/2016. The reason for the deviation was that it was impractical or impossible to follow the official procurement process. It was indicated on the deviation that the supplier was not properly registered on the database, which would include that no updated declaration was provided.
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Mpemvana Catering Cleaning	Order No. 947, dated 30 June 2015, was issued for catering to the Mpemvana Catering Cleaning. As at the date of procurement, i.e. 30 June 2015, the supplier was properly registered on SBDM's database, which included a valid declaration for the 2014/15 financial year.
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It should be noted that the municipality was unable to verify whether the directors / members of the service providers were in the service of the state, as municipalities do not have access to the Persal or a central database and can therefore not verify information. The municipality has therefore ensured that a declaration of interest is obtained from service providers prior to doing business with the service providers.

Management is aware that this expenditure will not be reflected as irregular expenditure in the year under audit and that Management is required to investigate the incidents further. Management will act accordingly.

It should also be noted that the irregular expenditure amount indicated above is incorrect as the incident of R8 000 has been duplicated as 2 persons were in the service of the state for the one procurement transaction.

Name: Riaaz Lorgat
 Position: Director: Finance and Corporate Services
 Date: 28 October 2016

Auditor's conclusion

Management response has been noted, however the finding remains.

Heatley Agencies

Management clear states that they didn't obtain a declaration of interest from the supplier this indicates that management didn't take reasonable care to comply SCM regulation 13(c), hence regulation 44 has also not been complied with. Explanation given by management is not sufficient to clear the non-compliance.

Mpemvana Catering and Cleaning

It is not clear from management explanations what that valid declaration of interest entailed. Did it say the person was not employed by the state at that time? Interests held by people change from time to time, management should have processes in place to ensure that these are detected on a regular basis. This could have been done when requesting a quote from the said supplier. It was not impractical to obtain a declaration of interest from the supplier and therefore the explanation given doesn't rescind the occurrence of non-compliance.

This is not material individually but will be aggregated with other misstatements.

The AFS were adjusted for the irregular expenditure and correction was audited.

Furthermore, this finding does not have an impact with non-compliance with the legislation and will not be reported on the auditor's report as it is not material.

19. COAF5: Procurement : Declaration of interest and Tax clearance certificate not obtained (Ex21)

Audit finding

In terms of SCM regulations 13(c) (i) A supply chain management policy must state that the municipality or municipal entity may not consider a written quotation or bid unless the provider who submitted the quotation or bid-

(c) Has indicated-

(i) Whether he/she is in the service of state or has been in the service of state for the previous twelve months;

(ii) If the provider is not a natural person, whether any of its directors, managers, principal shareholders or stakeholders is in the service of the state, or has been in the service of the state in the previous twelve months; or

(iii) Whether the spouse, child or parent of the provider or a director, manager, shareholder or stakeholder of a provider who is a company or cc, is in the service of the state or has been in the service of the state for the previous twelve months.

In terms of Preferential procurement regulations 14 no tender may be awarded to any person whose tax matters have not been declared by the South African revenue services to be in order.

Paragraph 46 of the Municipality s SCM policy states that no award above R15 000 may be made in terms of this Policy to a person whose tax matters have not been declared by the South African Revenue Service to be in order.

The following companies did not submit the declaration of interest and Tax clearance certificate:

Supplier	Deviation no	Contract Amount	Actual expenditure
SAVANNAH HELICOPTERS CC	66/2016	196213.36	196213.36
AFRICORP INTERNATIONAL PROPERTIES (PTY) LTD	12/2016	190 000.00	190 000.00
Total		386 213.00	386 213.00

The municipality do not request declaration of interest and tax clearance certificate from the service providers when a deviation was approved.

Tax clearance certificate

This will results in irregular expenditure of R190 000

Declaration of interest

This will result in non-compliance to the SCM regulation

Internal control deficiency

Leadership: Develop and monitor the implementation of action plans to address internal control deficiencies.

Recommendation



Management should ensure that the municipality obtain declaration of interest and valid tax clearance certificate documents and should form part of the tender evaluation process.

Management's response

Savannah Helicopters cc	The procurement was based on an approved Deviation No. 66/2016. The reason for the deviation was that it was an emergency, due to fire at St Francis Bay on the 23 February 2016. It was indicated on the deviation that the supplier was not registered on the database, which would include that no declaration nor tax clearance was provided.
Africorp International Properties (Pty) Ltd	The procurement was based on an approved Deviation No. 12/2016. The reason for the deviation was that it was impractical or impossible to follow the official procurement process. It was indicated on the deviation that the supplier was not properly registered on the database, which would include that no updated declaration or tax clearance was provided. The supplier has been requested on numerous occasions to provide the required documentation in order to register on the database, but to no avail. The service provided is for parking space at Transport House, Grace Street. SBDM has experience tremendous difficulty in ascertaining alternative parking space for official vehicles.

Based on the above responses, Management is of the view that no irregular expenditure can be raised on the approved deviations.

Also, the recommendation requires Management to ensure that the municipality obtains declaration of interest and valid tax clearance certificate documents and **should form part of the tender evaluation process** – no evaluation process was required in terms of the deviation.

Name: Riaaz Lorgat
 Position: Director: Finance and Corporate Services
 Date: 28 October 2016

Auditor's conclusion

Savannah Helicopters cc

Management comment has been noted and in this case we accept that this was an emergency situation and therefore the finding is resolved.

Africorp International Properties (Pty) Ltd

Management response has been noted. Management should comply with the SCM regulations, all suppliers transacting with state should comply with the SCM regulations. An approved deviation does not exempt an entity from complying with the SCM 13(c) (i) and PPR 14.

This is not material individually but will be aggregated with other irregular expenditure findings.

Therefore the finding remains. Management has the following options

1. 1. Adjust financial statements

- 1. - We will audit the adjustment, however as this is a material adjustment; it will lead to non-compliance with section 122 of the MFMA in the audit report.

1. 2. Do not adjust financial statements

- 1. - The misstatement identified is material when aggregate; unfortunately, it will lead to us modifying our audit opinion to a qualification.

Furthermore, this finding might have an impact with non-compliance with the legislation which will be reported under procurement management in the audit report.

20. COAF5: Procurement: Bid advertised less than the required period (Ex31)**Audit finding**

In terms of SCM regulations 22 (1)(b)(i) A supply chain management policy must determine the procedure for the invitation of competitive bids, and must stipulate-

(b) The information a public advertisement must contain, which must include-

(i) the closure date for the submission of bids, which may not be less than 30 days in the case of transactions over R10 million (VAT included), or which are of a long term nature, or 14 days in any other case, from the date on which the advertisement is placed in a newspaper

The bid was advertised for a period of not less than or 14 days as required.

Bid No	Date advertised	Closing date	No of days
11/2015	17 July 2015	30 July 2015	13

There was an assumption that the first day of the advert as counted as the first while SCM policy excludes the first day.

This will result in understatement of irregular expenditure by R242 638.38 and non-compliance with SCM regulations 22 (1) (b) (i)

Internal control deficiency

Financial and performance management: Review and monitor compliance with applicable legislation

Recommendation

Management should ensure that the closing date for the submission of bids, which may not be less than 30 days in the case of transactions over R10 million (VAT included), or which are of a long term nature, or 14 days in any other case, from the date on which the advertisement is placed in a newspaper

Management's response

Management has reviewed the bid documents to verify the finding and it was found that the number of days was miscalculated. Management will amend the disclose note accordingly.

Name: Riaaz Lorgat
 Position: Director: Finance and Corporate Services
 Date: 28 October 2016

Auditor's conclusion

Management response has been noted, however the finding remains and pending the management adjustment to the irregular expenditure disclosure note.

21. COAF5: Procurement: Advert did not describe construction minimum category (Ex32)

Audit finding

In terms of Construction Industry Development Board Regulations 25 (1), in soliciting a tender offer or an expression of interest for a construction works contract, a client or employer must stipulate that only submissions of tender offers or expressions of interest by contractors who are registered in the category of registration or higher may be evaluated in relation to that contract.

The tender invitation for a construction works contract did not stipulate the minimum category which the bidders must be registered at with the CIDB in order to qualify evaluation.

The municipality had an impression that if the minimum category is provided on the actual bid document putting it on the tender advert is over and above of the requirement.

This will be a non-compliance with the Construction Industry Development Board Regulations

Internal control deficiency

Financial and performance management: Review and monitor compliance with applicable legislation

Recommendation

Management should ensure that all the minimum required compliance categories are clearly stipulated on the tender advert.

Management's response

Bid 7/2015 was evaluated using the CIDB minimum requirements, as stipulated in the bid document. The non-inclusion of the minimum CIDB requirements was an omission in the advertisement. Management undertakes to include the CIDB requirements on all relevant advertisements.

It would be appreciated that in future, the audit finding makes reference to the Bid number.

Name: Riaaz Lorgat
Position: Director: Finance and Corporate Services
Date: 28 October 2016

Auditor's conclusion

Management response has been noted; however the finding remains since it relates to non-compliance and will be reported in the management report.

Therefore the finding remains. Management has the following options

1. 1. Adjust financial statements
1. - We will audit the adjustment, however as this is a material adjustment; it will lead to non-compliance with section 122 of the MFMA in the audit report.

1. 2. Do not adjust financial statements

1. - The misstatement identified is material when aggregate; unfortunately, it will lead to us modifying our audit opinion to a qualification.

Furthermore, this finding might have an impact with non-compliance with the legislation which will be reported under procurement management in the audit report.

22. COAF5: Procurement: No declaration of interest obtained (Ex 33)**Audit finding**

In terms of SCM regulations 13(c) (i) A supply chain management policy must state that the municipality or municipal entity may not consider a written quotation or bid unless the provider who submitted the quotation or bid-

(c) Has indicated-

(i) Whether he/she is in the service of state or has been in the service of state for the previous twelve months;

(ii) If the provider is not a natural person, whether any of its directors, managers, principal shareholders or stakeholders is in the service of the state, or has been in the service of the state in the previous twelve months; or

(iii) Whether the spouse, child or parent of the provider or a director, manager, shareholder or stakeholder of a provider who is a company or cc, is in the service of the state or has been in the service of the state for the previous twelve months

Declaration of interests were not obtained from the winning service providers

Quote No	Service provider	Quoted amount	Expenditure
5/2016	Trink Consumables (Pty) Ltd	60241.24	60 241.24
1/2016	Workstation Office Furniture	59 945.76	59 945.76
			120 187.00

The municipality did not require the documents to be submitted since the suppliers were correctly registered on the database.

This will result to non-compliance with the SCM regulation 13(c)

Internal control deficiency

Financial and performance management: Review and monitor compliance with applicable legislation

Recommendation

Management should ensure that a service provider submits a declaration of interest declaring from the previous twelve months up until to the submission of written quotation or bid.

Management's response

SBDM requires prospective service providers to complete and submit a Supplier Database Registration Form or a Re-registration Form, annually. In order for a supplier to be valid on the database, the following documents or forms must be provided with the Form:

1. - Declaration of Interest, signed by a Commissioner of Oaths
2. - A valid tax clearance certificate
3. - BBBEE certificate
4. - Certified banking details
5. - Billing clearance, etc.

At the time of award of the 2 Quotes, i.e. Numbers 5/2016 and 1/2016, the suppliers were valid on the database, which included a valid tax clearance certificate and a valid declaration of interest. Therefore, no irregular expenditure exists.

Name: Riaaz Lorgat
Position: Director: Finance and Corporate Services
Date: 28 October 2016

Auditor's conclusion

Management response has been noted, however the finding remains. Declaration of interest submitted on the database relates to the previous twelve months prior to registration supplier database, management has still has to obtain a declaration of interest that is up to date before accepting quotes from the supplier. Therefore on the award date there is uncertainty of interest unless the supplier declares on the written quotation.

Therefore the finding remains. Management has the following options

1. 1. Adjust financial statements
 1. - We will audit the adjustment, however as this is a material adjustment; it will lead to non-compliance with section 122 of the MFMA in the audit report.
1. 2. Do not adjust financial statements
 1. - The misstatement identified is material when aggregate; unfortunately, it will lead to us modifying our audit opinion to a qualification.

Furthermore, this finding might have an impact with non-compliance with the legislation which will be reported under procurement management in the audit report.

Operating expenditure

23. COAF1: Expenditure: Suppliers not paid within 30 days Ex10

Audit finding

In terms of the Municipal Finance Management Act 56 of 2003 section 65(1)-(2), the accounting officer of a municipality is responsible for the management of the expenditure of the municipality and must for the purpose of subsection (1) take all reasonable steps to ensure:

e) 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.

The following expenditure payments were not made within 30 days after receiving the supplier invoice:

Number	SUPPLIER	Amount	Pmt Voucher	Invoice Date	Payment Date	Days
1	OTIS (PTY) LTD	15 155.00	1375	01/09/2015	30/10/2015	59
2	MIE (PTY) LTD	4 173.33	2733	30/11/2015	15/03/2016	106
3	DIGI COPIERS CC	8 7545.52	3014	29/02/2016	12/04/2016	43
4	NELSON MANDELA BAY BUSINESS CH	20 000.70	2182	03/12/2015	03/02/2016	62

Below is the list that causes delays in payment of invoices within 30 days,

- 1) Awaited virement to be processed before payment could be made
- 2) Awaited supplier database form to be completed by supplier to ensure that tax matters were valid.
- 3) Internal query on supplier invoice

Late payments attract interest which result in fruitless and wasteful expenditure. This is also in contravention of section 66 of the MFMA.

Internal control deficiency

Financial and performance management: Management did not implement proper controls over daily and monthly processing to ensure that payments are made within the required timeframes

Recommendation

Management must ensure that all payments are made within 30 days as prescribed by the MFMA Act to avoid any interest charges and penalties. Management should ensure that there is a central point of receiving invoices as this will ensure that the finance department is made aware of invoices received.

Management's response

Management notes the finding. It should however be noted that Management always tries to ensure a high level of control environment with its limited resources and considering all practicalities.

Management however confirms that no interest was incurred by the municipality on late payment of the above service providers. Also, reasons for all late payments are required in terms of processing on the financial system and these instances is then reported in the section 71 monthly report to ensure proper oversight over late payments. It should also be noted that the reasons are mostly out of the officials' control and must be resolved prior to payment being made to ensure that the municipality maintains a high standard of compliance and internal control environment.

Name: Riaaz Lorgat
Position: Director: Finance & Corporate Services
Date: 30 September 2016

Auditor's conclusion

Management response has been acknowledged, however the finding will be reported in the management report for a follow up the next financial year.

24. COAF6: Expenditure: Suppliers not paid within 30 days**Audit finding**

In terms of the Municipal Finance Management Act 56 of 2003 section 65(1)-(2), the accounting officer of a municipality is responsible for the management of the expenditure of the municipality and must for the purpose of subsection (1) take all reasonable steps to ensure:

e) 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.

The following expenditure payments were not made within 30 days after receiving the supplier invoice:

Supplier Name	Payment Voucher No	Invoice Number	Invoice Date	Payment Date	Days between payment and invoice
PRO KHAYA CONSTRUCTION CC	1378	'101411	29/09/2015	05/11/2015	37
BUSIE'S CATERERS	3161	'22	18/03/2016	25/04/2016	38
KOUKAMMA MUNICIPALITY	3258	'KOU-198	30/03/2016	10/05/2016	41

The cause of the late payments was due to lack of controls to ensure that invoices received are noted and paid on time.

Late payments attract interest which result in fruitless and wasteful expenditure. This is also in contravention of section 66 of the MFMA.

Internal control deficiency

Financial and performance management: Management did not implement proper controls over daily and monthly processing to ensure that payments are made within the required timeframes

Recommendation

Management must ensure that all payments are made within 30 days as prescribed by the MFMA Act to avoid any interest charges and penalties. Management should ensure that there is a central point of receiving invoices as this will ensure that the finance department is made aware of invoices received.

Management's response

Management has reviewed the findings and confirms the correctness thereof. Management have a standard process whereby, all suppliers paid after 30 days is highlighted in a report on a monthly basis and a summary, together with reasons for the late payments is presented to Mayoral Committee as part of the section 71 Report.

The reason for late payment and month in which the incident was reported is as follows:

Council ref	Supplier Name	Reason for late Payment	Date Received	Reported to Mayco
1378	Pro Khaya Construction Cc	Invoice received late from employee	05/11/2015 (Creditors Section)	13/01/2016
3161	Busie's Caterers	Invoice received late from employee	25/04/2016 (Creditors Section)	01/06/2016
3258	Koukamma Municipality	Invoice received late from employee	10/05/2016 (Creditors Section)	15/06/2016

Management will assess the current controls and identify stronger controls to try and minimize incidents of this nature further.

Name: Riaaz Lorgat
 Position: Director: Finance and Corporate Services
 Date: 8 November 2016

Auditor's conclusion

Management response has been acknowledged, however the finding will be reported in the management report for follow up the next financial year.

General IT controls

25. COAF7: Information Technology Steering Committee is not fully functional

Audit finding

Section 62(1)(c)(i) of the MFMA states that, the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains an effective, efficient and transparent systems of financial and risk management and internal control.

Although the Municipality has established an ICT Committee, the following weaknesses were noted:-

- The Terms of reference have not yet been submitted to the Council for approval
- There is no evidence of the ICT Committee minutes of the meeting; and
- There is no evidence of developed Corporate Governance ICT Charter

There is no IT manager at the municipality to ensure that all key risks within the IT environment are identified and adequately monitored and mitigated.

There is a risk that strategic IT initiatives are not aligned with the overall municipal objectives as the committee would be responsible for ensuring that the municipality's information technology needs and objectivities are adequately addressed.

Internal control deficiency

Leadership: Establish an IT governance framework that supports and enables the business, delivers value and improves performance.

Recommendation

The terms of reference are submitted to the Council for approval, after ensuring that the include inter-alia, identification, development and monitoring of strategic initiatives, development and review of standards and policies, updating of standards.

The committee meet on a regular basis (at least quarterly).

Management's response

Management agrees with the finding.

Management is in the process of addressing the key matters required in terms of the ICT Governance Framework, which stipulates that the functioning of the ICT Steering Committee is required by 30 June 2017. Management has developed the ICT Steering Committee Charter, related Policies; etc. and will be tabling a detailed report to Council.

Name: **Riaaz Lorgat**
 Position: **Director: Finance and Corporate Services**
 Date: **8 November 2016**

Auditor's conclusion

Management response has been acknowledged, however the finding will be reported in the management report for follow up the next financial year.

26. COAF7: ICT Strategic Plan has not been approved and implemented

Audit finding

Section 62(1)(c)(i) of the MFMA states that, the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains an effective, efficient and transparent systems of financial and risk management and internal control.

Although the Municipality has documented an ICT Strategic Plan, it was noted that the documented plan has not been approved.

Management agreed to wait for elections to take place so that the plan is approved by the new councillors.

Without long-term strategic IT planning, there is a risk that the IT infrastructure and future IT expenditure will not be aligned to the overall organisational strategy, and therefore may result in fruitless and wasteful expenditure, and IT not meeting the business needs.

Internal control deficiency

Financial and performance management: Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information

Recommendation

The municipality should establish an IT Steering Committee composed of the relevant IT, and municipal representatives. The task of overseeing the updating and implementation of the Strategic Plan should be delegated to the Committee, with the aim of aligning the strategic direction of IT with that of the Municipality.

Management's response

Management agrees that an ICT Strategic Plan is required for the municipality – the municipality will commence its Strategic Planning Session on 10 November 2016 whereby the municipality's role as a District Municipality will be discussed to develop the key development priorities. The ICT Strategic Planning is dependent on the outcome of this session and the resolutions taken where the report is tabled to Council.

The ICT Strategic Plan will then be developed in line with the Strategic Objectives of the municipality and upon the establishment of the ICT Steering Committee.

Name: **Riaaz Lorgat**
Position: **Director: Finance and Corporate Services**
Date: **8 November 2016**

Auditor's conclusion

Management response has been acknowledged, however the finding will be reported in the management report for follow up in the next financial year.

27. COAF7: The Disaster Recovery Plan (DRP) and Business Continuity Plan (BCP) have not been approved and implemented.

Audit finding

Section 62(1)(c)(i) of the MFMA states that, the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains an effective, efficient and transparent systems of financial and risk management and internal control.

A comprehensive disaster recovery plan (DRP) and business continuity plan (BCP) has not been approved by the Municipality.

Management agreed to wait for the elections to take place so that the plans are approved by the new councillors.

The lack of a comprehensive and tested BCP and DRP may severely hamper employees from reacting to a major business disruption due to systems failure or any other disaster, in a timely and appropriate manner. In addition, a prolonged recovery may result in significant loss of revenue, reputation, the ability to meet stakeholder needs and third-party obligations.

Internal control deficiency

Financial and performance management: Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information

Recommendation

The municipality is reliant on its computer system for the daily support of business; by planning ahead for disaster situations, adverse business impact as a result of a disaster can be limited and exposure to financial loss from system failure can be reduced. We therefore recommend that a DRP and CBP be approved, implemented and tested.

Management's response

Management agrees with the finding.

Management is in the process of addressing the key matters required in terms of the ICT Governance Framework, which stipulates the key policies that are required by 30 June 2017. Management has developed the related Plan / Policies and will be tabling a detailed report to Council.

Name: Riaaz Lorgat
Position: Director: Finance and Corporate Services
Date: 8 November 2016

Auditor's conclusion

Management response has been acknowledged, however the finding will be reported in the management report for follow up the next financial year.

28. COAF7: Firewall policy is in draft and approved and therefore not enforceable

Audit finding

Section 62(1)(c)(i) of the MFMA states that, the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains an effective, efficient and transparent systems of financial and risk management and internal control.

The firewall policy is not yet approved therefore not enforceable.

The management agreed to wait for the election to take place so the policy to be approved by the new councillors.

In the absence of a policy that focusses on the firewall, the firewall may be misconfigured which could result in unauthorised access to programs and data. Furthermore, unauthorised firewall configurations may take place in the absence of the comprehensive policy that states the appropriate configuration for the firewall.

Internal control deficiency

Financial and performance management: Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

Recommendation

Management should ensure that standard operating policies and procedures for the firewall installation and configuration, its role in network security; change management, logging and the review and patch management are well documented, approved and implemented.

Management's response

Management agrees with the finding.

Management is in the process of addressing the key matters required in terms of the ICT Governance Framework, which stipulates the key policies that are required by 30 June 2017. Management has developed the related Policies and will be tabling a detailed report to Council.

Name: Riaaz Lorgat
Position: Director: Finance and Corporate Services
Date: 8 November 2016

Auditor's conclusion

Management response has been acknowledged, however the finding will be reported in the management report for follow up the next financial year.

29. COAF7: Access to EFT payment file not adequately restricted.

Audit finding

Section 62(1)(c)(i) of the MFMA states that, the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains an effective, efficient and transparent systems of financial and risk management and internal control.

No data of EFT file is encrypted when payment files are downloading from APPX and imported into ABSA online banking.

The EFT file could not be encrypted due to the human intervention that was required to insert decimal point as the format required by the bank when the file is uploaded

Unauthorised changes to the EFT upload file could lead to unauthorised payments being processed.

Internal control deficiency

Financial and performance management: Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information

Recommendation

Management should ensure that sensitive data on EFT file is encrypted.

Management's response

Management agrees with the recommendation.

It must be noted that the System Administrator is in the process of investigating the possibility of encrypting the EFT files. The complication on encrypting the files is that if the municipality encrypts the file, the file will not be able to be uploaded onto the banking system in the current format. The bank has been contacted to see how the encryption of the files can be accommodated.

It should however be noted that there are strong internal control to ensure that limited editing of eft files takes place – eft file only accessible on the designated banking computer.

Management will investigate the matter further.

Name: Riaaz Lorgat
Position: Director: Finance and Corporate Services
Date: 8 November 2016

Auditor's conclusion

Management response has been acknowledged, however the finding will be reported in the management report for follow up the next financial year.

30. COAF7: The municipality does not have Information Security Officer (Ex37)

Section 62(1)(c)(i) of the MFMA states that, the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains an effective, efficient and transparent systems of financial and risk management and internal control.

The municipality does not have Information Security Officer and roles and responsibilities were not delegated to a skilled and trained official within the municipality. The organisation structure provided does not accommodate the position for an ISO.

If the Information Security function is not delegated to a proper official and an independent security management reporting mechanism does not exist, IT security may not be in line with business requirements. Furthermore, the information security function may not provide for appropriate independence, objectivity and authority to assure applicable management oversight of the information security function.

Internal control deficiency

Financial and performance management: Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information

Recommendation

The official responsible for Information Security should be independent of IT operational tasks and should ideally reside within the municipality's governance function and the IT organisation structure should be updated to accommodate the position for an Information Security Official.

Management's response

Management will investigate the requirement of the Information Security Officer further and ensure that the ICT Steering Committee attends to this matter upon establishment.

Name: Riaaz Lorgat
Position: Director: Finance and Corporate Services
Date: 8 November 2016

Auditor's conclusion

Management response has been acknowledged, however the finding will be reported in the management report for follow up the next financial year.

ANNEXURE C: ADMINISTRATIVE MATTER

Operating expenditure

31. COAF1: Operating expenditure: No segregation of duties on receiving the goods Ex4

Audit finding

Section 62(1) (c) (i) of the MFMA states that: the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that

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

It has been noted that the same person who initiated the order (who ordered the goods) also receives them when they are delivered by the supplier.

This was caused by the fact that management, thought it will be easier for the person who made an order to receive them from the supplier as the person knows exactly what was ordered, the quality of the goods ordered as well as the quantity.

This is a lack of segregation of duties, this may compromise the internal controls, which might also lead to fraud as the requestor may make order for personal consumption as he/ she will also receive the goods ordered from the supplier.

Internal control deficiency

Leadership: Policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities was not established and communicated.

Recommendation

Management must ensure that all goods be received in one location by a designated person, a copy of the purchase order (also known as the GRN) be forwarded to such person when the goods are ordered from the supplier. Upon receipt of the goods, the person designated to receive the goods, must match the actual goods to the purchase order (also known as the GNR) and to the delivery note/ supplier invoice and signs the GRN and delivery note as evidence of receiving the goods in good condition.

Management's response

It should however be noted that Management always tries to ensure a high level of control environment with its limited resources and considering all practicalities.

Management however notes the recommendation and will investigate how to strengthen the control environment further.

Name: Riaaz Lorgat
Position: Director: Finance & Corporate Services



Date: 30 September 2016

Auditor's conclusion

Management response has been noted; however the finding will remain in the management report for follow up in the next audit / financial year.