



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

FINAL MANAGEMENT REPORT

RATLOU LOCAL MUNICIPALITY

2011-06-30



MANAGEMENT REPORT

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2011-06-30

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FINAL MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THE RATLOU LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2011

INTRODUCTION

1. This management report includes audit findings arising from the audit of the financial statements, reporting on predetermined objectives and compliance with laws and regulations for the year ended 30 June 2011 which were communicated to management and includes their response to these findings. The report also includes information on the internal control deficiencies that were identified. Addressing these deficiencies will assist in ensuring an improvement in the audit outcomes.
 2. The management report consists of an executive summary and detailed audit findings which are contained in annexures A, B and C.
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THE AUDITOR-GENERAL'S RESPONSIBILITIES

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), our responsibility is to express an opinion on the financial statements and to report on findings relating to our audit of the report on predetermined objectives and compliance with material matters in laws and regulations applicable to the entity. Our engagement letter sets out our responsibilities in detail. These include the following:
- Performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements, the report on predetermined objectives and compliance with laws and regulations applicable to the entity. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, the report on predetermined objectives and material non-compliance with laws and regulations.
 - Considering internal controls relevant to the entity's preparation and fair presentation of the financial statements, the report on predetermined objectives and compliance with laws and regulations.
 - Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management.
 - Evaluating the appropriateness of systems and processes that ensure the accuracy and completeness of the financial statements, the report on predetermined objectives and compliance with laws and regulations.
4. Because of the test nature and other inherent limitations of an audit, we do not guarantee the completeness and accuracy of the financial statements or the report on predetermined objectives or compliance with all applicable laws and regulations.
5. Having formed an opinion on the financial statements, we may include additional communication in the auditor's report that does not have an effect on the auditor's opinion. These may include:
- a. an emphasis of matter paragraph to draw users' attention to a matter presented or disclosed in the financial statements which is of such importance that it is fundamental to their understanding of the financial statements.
 - b. an additional matter paragraph to draw users' attention to any matter, other than those presented or disclosed in the financial statements, that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.
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THE ACCOUNTING OFFICER'S RESPONSIBILITIES

6. The accounting officer's responsibilities are set out in detail in the engagement letter. These include the following:
- The preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP).
 - Planning, monitoring of and reporting on performance against predetermined objectives.
 - Review and monitoring of compliance with laws and regulations and disclosing known instances of non-compliance or suspected non-compliance with laws and regulations.
 - Designing, implementing and maintaining proper record keeping and internal controls necessary to enable the preparation of financial statements and the report on predetermined objectives that are free from material misstatement whether due to fraud or error, and compliance with laws and regulations.
 - Designing and implementing formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.
 - Implementing appropriate risk management activities to ensure that regular risk assessments are conducted.
 - Disclosing all matters concerning any risk, allegation or instance of fraud.
 - Accounting for and disclosing related-party relationships and transactions.
 - Providing access to all information that is relevant to the preparation of the financial statements and performance information, such as records and documents.
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EXECUTIVE SUMMARY

SECTION 1: Meetings with oversight bodies and those charged with governance

7. During the audit cycle we met with key stakeholders to communicate matters relating to the audit outcomes of the municipality and emerging risks. Insight was provided on the key controls that impact these audit outcomes to enable corrective action to be taken.
8. Meetings were conducted as follows:
 - Mayor – 27 October 2011
 - Accounting officer - 05 September 2011, 14 September 2011, 06 October 2011, 18 October 2011, 27 October 2011, 09 November 2011
9. At these meetings commitments were made to address improvements in the internal control environment with the objective of achieving clean administration. Progress made on these commitments is discussed later in this report.

SECTION 2: MATTERS RELATING TO THE AUDITOR'S REPORT**PART A – MISSTATEMENTS IN THE FINANCIAL STATEMENTS**

10. Material misstatements in the financial statements were identified during the audit. These misstatements were not prevented or detected by the municipality's system of internal control. These material misstatements also constitute non-compliance with the MFMA, MSA and DoRA. The misstatements not corrected form the basis for the qualified opinion on the financial statements.

Material misstatements		Impact	Internal control deficiency
Financial statement item	Finding (brief description of misstatements as per findings and audit report)		
Material misstatements corrected			
Property Plant and Equipment	Removal of water infrastructure from asset register	R 150 676 000	The municipality did not did not implement proper controls which would have ensured that the financial statements are complete, accurate and comply with the applicable reporting framework.
Prepayments	Insurance payment prepayment, capitalised	R 811 100	The municipality did not did not implement proper controls which would have ensured that the financial statements are complete, accurate and comply with the applicable reporting framework
Provision for Bad Debts	Correction of provision for bad debts	R 475 452	The municipality did not did not implement proper controls which would have ensured that the financial statements are complete, accurate and comply with the applicable reporting framework
Property Plant and Equipment	Current years depreciation	R 3 134 064	The municipality did not did not implement proper controls which would have ensured that the financial statements are complete, accurate and comply with the applicable reporting framework
Property Plant and Equipment	Accounting for prior years accumulated depreciation	R 7 902 297	The municipality did not did not implement proper controls which would have ensured that the financial statements are complete,

			accurate and comply with the applicable reporting framework
Property Plant and Equipment	Correction: implementation of GRAP	R 101 512 751	The municipality did not did not implement proper controls which would have ensured that the financial statements are complete, accurate and comply with the applicable reporting framework
Property Plant and Equipment	Correction: implementation of GRAP	R 4 200 933	The municipality did not did not implement proper controls which would have ensured that the financial statements are complete, accurate and comply with the applicable reporting framework
VAT Receivable	Correction: Vat disallowed in prior period.	R 821 872	The municipality did not did not implement proper controls which would have ensured that the financial statements are complete, accurate and comply with the applicable reporting framework
Fruitless and wasteful expenditure	Non compliance with SCM regulations.	R 9 361 572	The municipality did not did not implement proper controls which would have ensured that the financial statements are complete, accurate and comply with the applicable reporting framework

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

EMPHASIS OF MATTER PARAGRAPHS

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

Significant uncertainties

11. Enquiries of management and the attorneys revealed that the municipality is a defendant in the following lawsuits as disclosed in note 32 to the financial statements:

- A legal claim was instituted against the Municipality by a service provider for services rendered and not paid.
- The previous municipal manager was suspended in June 2011. He has instituted legal action against the municipality for unfair suspension.

The outcome of these lawsuits cannot be determined at present and no provision has been made for any liability that may result.

Restatement of corresponding figures

12. As disclosed in note 25 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of a change in accounting policy due to the expiration of "Directive 4 - Transitional Provisions for Medium and Low Capacity Municipalities".
13. As disclosed in note 26 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of an error discovered during June 2011 in the financial statements of the municipality at, and for the year ended, 30 June 2011.

Unauthorised, irregular and fruitless and wasteful expenditure

14. As disclosed in note 28.2 to the financial statements, irregular expenditure of R 20 572 777 was incurred due to non-compliance with the supply chain management regulations.
15. As disclosed in note 28.3 to the financial statements, unauthorised expenditure of R 170 954 was incurred.

Material losses and Impairments

16. The municipality had receivables for rates, rental and electricity totalling R 2 776 782 at 31 June 2011 of which a provision for doubtful debts amounts to R 2 559 200.
17. As disclosed in note 32 to the financial statements, material fire damage was incurred regarding property of the municipality with a carrying value of R 2 518 358.

Material underspending of the conditional grants and budget

18. As disclosed in note 16.4, the municipality has materially underspent the Municipal Infrastructure grant to the amount of R 3 321 168. As a consequence, the municipality has not achieved its objectives with regards to the purposes of the grant which is to be invested to uplift the community.
19. As disclosed in note 16.11, the municipality has materially underspent the Ngaka Modiri Molema District Municipality Grant to the amount of R 2 973 787. As a consequence, the municipality has not achieved its objectives with regards to the purposes of the grant which is to be invested to provide free basic water services.
20. As disclosed in appendix D, the municipality has materially underspent the budget on employee cost and general expenditure to the amounts of R 6 082 882 and R 31 126 540, respectively. As a consequence, this might have contributed to the municipality not achieving its predetermined objectives.

Other

21. As disclosed in 10, a provision to the amount of R 497 487 has been made to account for the obligation that exist to rehabilitate the landfill site.

ADDITIONAL MATTER PARAGRAPHS

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

Unaudited supplementary schedules

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

PART C – REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**FINDINGS ON THE REPORT ON PREDETERMINED OBJECTIVES**

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

Presentation of information

23. The reported performance against predetermined objectives was deficient in respect of the following criteria:

- Performance against predetermined objectives was not reported using the National Treasury guidelines.

The following audit findings relate to the above criteria:

24. Reasons for major variances between planned and actual reported targets were not supported by sufficient appropriate evidence (Validity)

Sufficient appropriate evidence to support the reasons for major variances between the planned and the actual reported targets could not be obtained. 76% of the reasons for major variances could not be verified.

Usefulness of information

25. The reported performance information was deficient in respect of the following criteria:

- Consistency: The reported objectives, indicators and targets are not consistent with the approved integrated development plan.
- Relevance: There is no clear and logical link between the objectives, outcomes, outputs, indicators and performance targets.
- Measurability: The indicators are not well defined and verifiable, and targets are not specific, and measurable, and time bound.

26. The following audit findings relate to the above criteria:

- a. Reported objectives, indicators and targets are not consistent and complete when compared with the planned objectives, indicators, targets (Consistency).

Reported performance against predetermined objectives, indicators, targets are not consistent with the approved integrated development plan.

- b. Changes (including reasons for and approval thereof) to planned objectives, indicators and targets are not disclosed in the report on predetermined objectives (Consistency)

Changes to the objectives, indicators and targets of the approved integrated development plan for the year under review, were not disclosed and explained as required in terms of the relevant National Treasury preparation guide.

- c. Planned and reported targets are not specific, measurable, time bound (Measurability).

For the selected programmes/objectives, 100% of the planned and reported targets were not:

- specific in clearly identifying the nature and the required level of performance;
- measurable in identifying the required performance;
- time-bound in specifying the time period or deadline for delivery.

- d. Planned and reported indicators/measures are not well defined (Measurability).

For the selected programmes/objectives, 31% of the planned and reported indicators/measures were not clear, as unambiguous data definitions were not available to allow for data to be collected consistently.

- e. Predetermined objectives not consistent between the integrated development plan and the SDBIP (Consistency)

In total 87% of all planned objectives specified in the service delivery budget implementation plan for the year under review were not included in the integrated development plan submitted for audit purposes.

Reliability of information

27. The reported performance information was deficient in respect of the following criteria:

- Validity: The reported performance did not occur and does not pertain to the entity.
- Accuracy: The amounts, numbers and other data relating to reported actual performance have not been recorded and reported appropriately.
- Completeness: All actual results and events that should have been recorded have not been included in the reported performance information.

28. The following audit findings relate to the above criteria:

- a. Reasons for major variances between planned and actual reported targets were not supported by sufficient appropriate evidence (Validity)

Sufficient appropriate evidence to support the reasons for major variances between the planned and the actual reported targets could not be obtained. 76% of the reasons for major variances could not be verified.

- b. The validity of reported performance against targets could not be confirmed as no supporting source information was provided (Validity)

For the selected programme/objective the validity of 60% of the reported targets could not be established as relevant source documentation could not be provided:

- To promote social and community facilities

- c. The validity of reported performance against targets could not be confirmed as inadequate supporting source information was provided (Validity)

For the following selected reported target that is material by nature, the validity of the reported target could not be established as sufficient appropriate audit evidence could not be provided:

- 21,000 Library Visits

- d. The validity/accuracy/completeness of reported performance against targets could not be confirmed as no supporting source information was provided (Reliability)

For the selected objectives the validity/accuracy/completeness of 59% of the reported targets could not be established as relevant source documentation could not be provided.

- e. The accuracy and completeness of reported performance against targets could not be confirmed as inadequate supporting source information was provided (Accuracy, Completeness)

For the selected reported target that is material by nature and amount, the accuracy and completeness of the reported target could not be established as sufficient appropriate audit evidence could not be provided.:

- Objective - To increase access to community and social facilities; Indicator - % increase In construction progress; Target - Matloding, Setlhwatlhwa; Ramabesa, Makgobistad

FINDINGS ON COMPLIANCE WITH LAWS AND REGULATIONS

Included below are findings on material non-compliance with laws and regulations applicable to the municipality.

Predetermined Objectives

29. The report on predetermined objectives was not received on or before 31 August 2011 for audit purposes.
30. The municipality did not set key performance indicators that included the input, output and outcome indicators as required by MP&PMR 9(1)(a) and MSA sec 41(1)(a).
31. The municipality did not set key performance indicators in the IDP that include the general KPIs as required by the MP&PMR 10 and MSA sec 43(1)(a).
32. The municipality did not comply with section 36 of MSA and ensure that it gives effect to its integrated development plan and conduct its affairs in a manner which is consistent with its integrated development plan.
33. The municipal council did not, within the prescribed period after the start of its elected term, adopt a single, inclusive and strategic plan for the development of the municipality as required by section 25 of the MSA.
34. The municipality did not implement a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players as required by section 38, 39, 40 and 41 of the MSA read with regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

Audit committees



35. The audit committee did not function as required by section 166 of the Municipal Finance Management Act, in that:
- The audit committee did not advise the council, the accounting officer and management staff of the municipality on matters relating to internal financial control, internal audits, risk management, accounting policies, performance management, effective governance, compliance with applicable legislation and performance evaluation;
 - The audit committee did not review the annual financial statements;
 - The audit committee did not respond to the council on any issues raised by the Auditor-General in the audit report;
 - The audit committee did not meet at least four times a year;
36. The audit committee did not advise the council of the municipality on the adequacy, reliability and accuracy of financial reporting and information as required by section 166(2)(a)(iv) of the Municipal Finance Management Act.
37. The audit committee did not advise the municipal council, the political office bearers, the accounting officer and the management staff of the municipality on matters relating to compliance with the Municipal Finance Management Act, the Division of Revenue Act and other applicable legislation as required by section 166(2)(a) of the Municipal Finance Management Act.
38. The performance audit committee or another committee functioning as the performance audit committee did not perform the following as required by Municipal Planning and Performance Management Regulation 14:
- meet at least twice during the financial year
 - review the quarterly reports of the internal auditors on their audits of the performance measurements of the municipality
 - review the municipality's performance management system and make recommendations in this regard to the council of the municipality
 - submit an auditor's report to the council regarding the performance management system at least twice during the financial year.

Internal Audit

39. The internal audit unit did not function as required by section 165(2) of the Municipal Finance Management Act, in that:
- Internal audit did not prepare a risk-based audit plan and an internal audit programme for the financial year under review;
 - Internal audit did not report to the audit committee on the implementation of the internal audit plan;
 - Internal audit did not advise the accounting officer and report to the audit committee on matters relating to internal audit, internal controls, accounting procedures and practices and risk management
40. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes as required by section 45(1)(a) of the Municipal Systems Act and Municipal Planning and Performance Management Regulation 14.
41. The internal audit processes and procedures did not include assessments of the functionality of the municipality's performance management system and whether the system complied with the requirements of the Municipal Systems Act as required by Municipal Planning and Performance Management Regulation 14.

42. The internal audit processes and procedures did not include assessments of the extent to which the municipality's performance measurements were reliable in measuring the performance of the municipality on key as well as general performance indicators as required by Municipal Planning and Performance Management Regulation 14.
43. The internal auditors of the municipality did not audit the performance measurements on a continuous basis and did not submit quarterly reports on their audits to the municipal manager and the performance audit committee as required by Municipal Planning and Performance Management Regulation 14.

Procurement and contract management

44. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulation 17(a) & (c).
45. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids as per the requirements of SCM regulation 19(a) and 36(1).
46. The performance of contractors or providers was not monitored on a monthly basis as required by section 116(2)(b) of the MFMA.
47. Awards were made to providers who are persons in service of other state institutions in contravention of the requirements of SCM regulations 44. Furthermore the provider failed to declare that he/she is in the service of the state as required by SCM regulation 13(c).
48. Goods and services of a transaction value above R 30 000 were procured without advertising for quotations for at least seven days on the website and an official notice board of the municipality as required by SCM regulation 18(a).
49. Sufficient appropriate audit evidence could not be obtained that contracts to the value of R 2 077 355 was procured in accordance with legislative requirements and the SCM policy.
50. The preference point system was not applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).

Expenditure management

51. The accounting officer did not take reasonable steps to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the Municipal Finance Management Act.
52. The municipality did not recover unauthorised, irregular or fruitless and wasteful expenditure from the liable person, as required by section 32(2) of the Municipal Finance Management Act.
53. The accounting officer failed to inform the mayor, the MEC for local government in the province and the Auditor-General, in writing, of any unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality.

Revenue management

54. Revenue received by the municipality was not always reconciled at least on a weekly basis, as required by section 64(2)(h) of the Municipal Finance Management Act.
55. A credit control and debt collection policy was not maintained as required by section 96(b) of the Municipal Systems Act.
56. The accounting officer did not immediately inform the National Treasury of any payments due by an organ of state to the municipality in respect of municipal tax or for municipal services, when such payments were regularly in arrears for periods of more than 30 days.

INTERNAL CONTROL

Achievement of internal control objectives

57. Significant deficiencies that resulted in the basis for the qualified opinion, findings on the report on predetermined objectives and findings on compliance with laws and regulations are summarised below. Detailed information on significant internal control deficiencies is provided in section 4 of this report.

- **Leadership**

- Inadequate oversight responsibility regarding financial and performance reporting, compliance and related internal controls since various material misstatements were identified and there were no review of actual results on predetermined objectives against supporting documentation and various non-compliance issues.
- The accounting officer did not implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored as there was no HR Plan in place.
- No provision of effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the interests of the entity due to various misstatements identified regarding financial statements, internal controls, predetermined objectives and compliance.
- No adequate establishment and communication of policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities.
- Inadequate development and monitoring of the implementation of action plans to address internal control deficiencies identified throughout the audit processes.
- Non-establishment of an IT governance framework that supports and enables the business, delivers value and improves performance since there were non-compliance issues identified relating to the functionality and updating of the municipal website.

- **Financial and performance management**

- Inadequate implementation of 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 resulting from several misstatements identified pertaining the financial statements and deficiencies regarding compliance with laws and regulations and predetermined objectives.
- Insufficient implementation of controls over daily and monthly processing and reconciling of transactions pertaining financial, performance reporting and compliance as result of several misstatements and deficiencies identified
- Insufficient preparation of regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information given the several deficiencies identified. This is the case as financial statements were subject to several adjustments due to audit findings.
- No sufficient review and monitoring compliance with applicable laws and regulations pertaining financial and performance reporting. This is as a result of various deficiencies identified in the controls surrounding the financial and performance reporting including the report on performance information not submitted timeously, non-compliance of procurement and contract management transactions and irregular and unauthorised expenditure to mention a few.

- Insufficient design and implementation of formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.
 - No review and monitoring compliance with applicable laws and regulations as there were material non-compliance with legislative requirements regarding the balances and transactions in the financial statement and reported performance against predetermined objectives.
 - **Governance**
 - The municipality did not ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively since the internal audit was not functional in the current financial year and thus no internal audit performed including audit of predetermined objectives.
 - The entity did not ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations as the shared audit committee was not functional during the financial year.
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PART D – OTHER REPORTS

INVESTIGATIONS

58. Investigations in progress

There is currently a forensic investigation into matters relating to procurement and contract management in progress.

SECTION 3: SPECIFIC FOCUS AREAS**PART A – SIGNIFICANT FINDINGS FROM THE AUDIT OF PROCUREMENT AND CONTRACT MANAGEMENT**

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

Irregular expenditure

60. R 11,862,367.00 (100%) of irregular expenditure was incurred in the period as a result of the contravention of SCM legislation. 0% of the irregular expenditure was identified during the audit process. The incomplete identification of SCM irregular expenditure was as a result of incorrect interpretation the SCM policy and legislation and inadequate processes to identify irregular expenditure with regards to SCM.

Limitations on audit

61. Sufficient appropriate audit evidence could not be provided that one of the selected contracts awarded to the value of R 2 077 355 were made in accordance with the requirements of the SCM legislation. No alternative audit procedures could be performed to obtain reasonable assurance that the expenditure incurred on these awards was not irregular.

62. The limitations experienced were as a result of a missing contract with SizweNstalubaGobodo for accounting services performed. As a result of the limitations experienced, the findings reported in the rest of this section might not reflect the true extent of irregularities and SCM weaknesses at the entity.

63. Awards to persons in the service of the state

Awards were made to supplier(s) in which the following persons in service of the state had a business or private interest:

- a. An award to Lekomanyane Construction & Design for an amount of R163 960.00 whose family is in the employ of the municipality. No declaration was made by the supplier that he has family that is in the employ of the municipality.
- b. Awards to the following persons who are in the service of other state institutions:

Name of person	State institution where employed	Supplier name	Expenditure (Payments) - current year	Description of award
MAMABOLO JN	Department International Relations	Recreation Africa Leisure	5,725.60	Accommodation & Meals for M.Lesolle & Dr
SMITH JE	National Department of Justice	Premier Hotels & Resorts	23,059.00	Accommodation and meals for officials
SEKOAILA PN	NW: EDUCATION	PNGP Trading & Projects	188,800.00	Fencing of Thutlwane Dumping Site
MASILO BG	NW: HEALTH	BM & GG T/A Greenturf NW	185,250.00	Provision of ride on LTD Yarn Lawnmower
MOROE	NW: Education	Ithute Educational Service CC	503,400.00	PMS Training & Training of ward committee
MOROE	NW: Education	West Afrika Consulting	93,520.00	Training of customer management
MOTSEOAKHUMO	NW: Local Gov & Traditional Affairs	Ya Tholo Building and civil construction	184,000.00	Construction of new Water pipeline
MOLEFE	NW: Agriculture	Broken string trading and Projects cc	86,020.00	Repair of air conditioners

Procurement processes and contract management

64. The following findings on procurement processes and contract management relate to 10 contracts with a total value of R10,507,681.81 and 49 price quotations with a total value of R348,631.00. These findings have been summarised into the following categories:

Procurement process – Quotations

- 65. Quotations were not obtained purchases for goods and services and the reasons for the deviations were not recorded and reported to the council.
- 66. Suppliers did not declare whether or not they were in the employ of the municipality as required by SCM regulations.
- 67. Requests for quotations for awards between R30,000 and R200,000 were not advertised in the website of the municipality or the notice board of the municipality for at least 7 days.

Procurement process - Competitive bidding

- 68. Goods and services with a transaction value of more than R200,000 were not procured through competitive bidding and the deviation thereof was not recorded and reported to the council nor were these disclosed in the Annual Financial Statements.
- 69. Bid specifications for contracts procured were compiled by a committee which did not include any officials of the municipality.
- 70. The municipality did not evaluate the bidder's ability to execute the contract
- 71. The municipality failed to publish a register of all bids received in time as well as bid results on the website of the municipality.
- 72. Bidders did not declare whether or not they are in the employ of the municipality in the last 12 months following their appointment.
- 73. The municipality failed to provide proof that contractors appointed were monitored on a monthly basis.

Construction contracts

- 74. The municipality failed to advertise tenders on the CIDB website.
- 75. Construction projects were not advertised on the CIDB website

Contracts, contract management and payments











































- 76. Total amounts paid to one supplier "Rebaone Electrical" for the contract "installation of high mast lights exceeded the budgeted amount and there was not any justification for this.

Internal control deficiencies

77. During the audit of internal controls in the SCM unit, it was noted that no reports are sent to the CFO by an official who had been delegated to approve less than 3 quotations for awards between R2 000 and R10 000.
78. A discussion with the SCM manager revealed that there are currently not any procedures in place to ensure that a register of all bids received on time for competitive bidding is published on the website of the municipality.
79. There currently no controls in place to ensure that only sealed bids are accepted for competitive bidding. The SCM policy of the municipality is itself in contravention with the regulations as it allows for the acceptance of bids that are not sealed. chapter 3, section 7.2.12 of that policy reads:"any bid received without being in an envelope, shall be sealed in an envelope and the bid number and title , the box number(where applicable) and closing date shall be written on the envelope, if ascertainable."
 - a. There are currently no controls in place to ensure that the accounting officer submits within 30 days of the end of the financial year, a report on the implementation of the SCM policy to the council of the municipality.
 - b. There are no controls in place to ensure that declarations of interests are kept in a register of interests.

SECTION 4: SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL**PART A – ASSESSMENT OF THE ACHIEVEMENT OF CONTROL OBJECTIVES**

80. The achievement of the objectives of internal control is demonstrated by the implementation of key controls. The assessment below is based on significant deficiencies relating to the fair presentation of the financial statements, material misstatements corrected as a result of the audit, findings on predetermined objectives and findings on non-compliance with laws and regulations. Significant deficiencies occur when internal controls either do not exist or are not appropriately designed to address the risk or are not implemented and which either had or could cause the financial statements or report on predetermined objectives to be materially misstated and material non-compliance with laws and regulations to occur. When a significant deficiency is not applicable, it is assessed with a 😊, 😐 to indicate that the deficiency still exists but significant progress had been made to address it, while 😞 indicates that urgent attention to the matter is required. Part B gives additional information on the deficiencies that should be addressed. Other deficiencies in internal control, which require the attention of management, are included in the detailed findings attached to this report.

3 Audit dimensions Fundamentals of internal control	Financial	Performance objectives	Compliance with laws and regulations
	Assessment		
Leadership			
• Provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the best interests of the entity			
• Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls			
• Implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored			
• Establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities			
• Develop and monitor the implementation of action plans to address internal control deficiencies			
• Establish an IT governance framework that supports and enables the business, delivers value and improves performance			
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			
• Implement controls over daily and monthly processing and reconciling of transactions			
• Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information			
• Review and monitor compliance with applicable laws and regulations			
• Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information			
Governance			
• Implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored			
• Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively			
• Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment including financial and performance reporting and compliance with laws and regulations			

PART B – DETAILS CONCERNING THE ACHIEVEMENT OF INTERNAL CONTROL OBJECTIVES

LEADERSHIP

Ethical business practices

81. Management established a formal code of conduct which addressed appropriate ethical and moral behaviour, but staff was not trained to properly understand the code and implement it.

Oversight responsibility regarding reporting and compliance

82. The municipality did not have sufficient monitoring controls to ensure adherence to the internal policies and procedures at a programme/objective level and for purposes of taking corrective action.

Effective human resource management

83. A human resource plan based on the strategic plan of the Ratlou Local Municipality was not in place.

84. The organisational structure was not aligned to the integrated development plan of the municipality.

Implementation of policies and procedures

85. Ratlou Local Municipality did not have key controls to address the systems of collection/collation/verification/storage of performance information. The municipality did not implement a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players as required by section 38, 39, 40 and 41 of the MSA read with regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001

FINANCIAL AND PERFORMANCE MANAGEMENT

Controls over daily and monthly processing and reconciling of transactions

86. Management did not implement the following daily, monthly and quarterly controls as designed for the entity's business processes:

- a. Monthly reconciliations between the deposit register and the general ledger were not prepared
- b. Quarterly reconciliations between general ledger and the inventory stock counts were not prepared.

Adequacy of IT systems for the preparation of the financial statements and the report on predetermined objectives

87. Sufficient appropriate audit evidence with regard to the reported performance information of the promotion of social and community facilities and increase access to community and social facilities could not be obtained, as the information system used for generating performance information was not appropriate to facilitate the preparation of accurate and complete actual performance information.

Adoption of accounting policies/ accounting estimates

88. The municipality did not develop an appropriate accounting policy for the provision for impairment of debtors. Consequently the provision for debt impairment at year end were recalculated based on the actual recovery rate history and it was found to be understated with R1 099 690.

Use of consultants for financial statement preparation

89. The municipality appointed consultants to assist in the preparation of the financial statements due to the lack of expertise in the finance section with appropriate knowledge of the financial reporting framework.
90. There has not been a significant reduction in misstatements in the financial statements. However, these misstatements are duly responded to, and adjusted as necessary.

Budget processes

91. The municipality did not spend 36% of its budget and therefore failed to achieve its objectives as indicated in the findings on predetermined objectives in this report.

Related-party transactions

92. The municipality has not implemented controls to identify, account for and disclose related-party relationships and transactions in accordance with the International Public Sector Accounting Standard (IPSAS 20) as the municipality did not identify, account for and disclosed related part transaction amounting to R360 460.

Monitoring of compliance with laws and regulations

93. As indicated in section 2, part C of this report, non-compliance with laws and regulations could have been prevented had compliance been properly reviewed and monitored.

Accuracy and completeness of financial statements and report on predetermined objectives

94. As indicated in section 1, part A of this report, the financial statements/report on predetermined objectives contained numerous misstatements that were corrected. This was mainly due to staff members not fully understanding the requirements of the financial reporting framework
-

GOVERNANCE

Risk management

95. The municipality did not implement the findings of the risk assessment as required by the MFMA. Consequently, a number of control deficiencies were identified. These include a failure to:
- Prepare measurable, relevant and consistent objectives, indicators and targets and an annual performance report that is supported by reliable supporting information.
 - Identify, manage and report material non-compliance with laws and regulations.

Fraud prevention, detection and response

96. The municipality has not undertaken a risk assessment to assess any risks of fraud and has consequently not developed a fraud prevention plan, as required by MFMA. There is currently forensic investigation regarding procurement and contract management in progress.

Internal audit

97. As indicated in section 2 part C of this report, the municipality used the shared internal audit division of the district; no internal audit was performed for the year under review

Audit committee

98. As indicated in section 2 part C of this report, the municipality used the shared audit committee of the district; the audit committee was not functional in the current financial include detailed information

PART C – ACTIONS TAKEN TO ADDRESS MATTERS PREVIOUSLY REPORTED

Actions taken to address matters previously reported

99. An action plan was developed and implemented by the municipality for the shortcomings identified in the prior year's audit and a key control document to address prior year audit matters was issued to the accounting officer by the AGSA, however this was not monitored appropriately as required which resulted in the recurrence of these findings in the current year's audit.
-

SECTION 5: RATINGS OF DETAILED AUDIT FINDINGS

100. For the purposes of this report, the detailed audit findings included in annexures A to C have been classified as follows:

- a. Matters to be included in the auditor's report - These matters should be addressed as a matter of urgency.
- b. Other important matters – These matters should be addressed to achieve clean administration.
- c. Administrative matters – These matters are unlikely to affect the decisions of the users of the financial statements or performance information and should be addressed at the discretion of the entity.

SECTION 6: CONCLUSION

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

Yours sincerely

Name and surname of [corporate executive/business executive/senior manager] responsible for signing the auditor's report

[Corporate Executive/Business Executive/Senior Manager]: [Business Unit]

[Date of signature]

Enquiries:	Name and surname
Telephone:	xxx xxx xxxx
Fax:	xxx xxx xxxx
Email:	xxxxx@agsa.co.za

Distribution:

CEO

CFO

Audit committee

Head of internal audit

SUMMARY OF DETAILED AUDIT FINDINGS

Page. no.	Finding	Classification					Rating			In which years was it reported		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2009/10	2008/09	2007/08
Cash and cash equivalents												
106	Bank and Cash: Segregation of duties - Petty Cash (Ex.27)				✓			✓		✓		
107	Bank and Cash: Difference in the balances as per cash book and as per reconciliation (ex.97)				✓			✓				
108	Bank and Cash: Accounts used for unspent grants (ex.98)				✓			✓				
109	Bank and cash: No control register for direct deposits into the current account (ex.110)				✓			✓				
Commitments												
168	Commitments: Project registers were not reviewed (ex. 18)				✓				✓	✓		
Employee costs												
36	Employee Cost: Non-existence of HR Plan (ex. 1)				✓		✓			✓		
110	Employee Cost: No policy addressing performance bonus and incentives for staff (ex. 6)				✓			✓		✓		
111	Employee Cost: Rent charged does not correspond to rent as per the rental/lease contracts. (ex. 51)	✓						✓				

Page. no.	Finding	Classification					Rating			In which years was it reported		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2009/10	2008/09	2007/08
112	Employee cost: No supporting documentation relating to the authorisation of allowance was provided (ex.70)	✓						✓				
114	Employee costs: No supporting documentation provided for leave utilised (ex.71)				✓			✓				
118	Employee cost: Leave utilised but not recorded by HR (ex.72)				✓			✓				
121	Employee cost: Employees took less than 16 days annual/vacation leave (ex.73)			✓				✓				
Planning												
37	Planning: Internal audit not functioning (ex. 7)				✓		✓					
39	Planning: Documents requested not submitted (ex. 39)				✓		✓					
Procurement and Contract Management												
123	Supply Chain Management: Vacant Positions (ex. 4)				✓			✓		✓		
124	SCM Policy: Non-Compliance noted (ex 30)			✓				✓		✓		
127	Procurement and Contract Management: Contracts not advertised on the CIDB website (ex.85)				✓			✓		✓		
40	Procurement and Contract services: Deviations from procurement process (ex.87)				✓		✓			✓		

Page. no.	Finding	Classification					Rating			In which years was it reported		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2009/10	2008/09	2007/08
128	Procurement and Contract Management: Internal Control deficiencies in the SCM unit (ex.89)				✓			✓		✓		
42	Procurement and contract management: Conflict of Interest identified (ex.133)			✓			✓					
45	Procurement and contract management: Quotations not obtained for awards between R10,000 and R200,000 (ex.134)			✓			✓					
47	Procurement and Contract Management: Fraud indicators (ex.135)				✓		✓					
49	Procurement and Contract Management: No declaration of interest by suppliers (ex.141)				✓		✓					
130	Procurement and contract management: Invitations for quotes not advertised for 7 days (ex.143)				✓			✓		✓		
50	Procurement and contract management: Preference system incorrectly utilised. (ex.145)			✓			✓			✓		
131	Procurement and contract management: Deviations not reported (ex.147)				✓			✓		✓		
132	Procurement and contract management: Evaluation Criteria (ex.148)				✓			✓		✓		
51	Procurement and Contract Management: Information not provided. (ex.149)				✓		✓			✓		
52	Procurement and Contract Management:				✓		✓			✓		

Page. no.	Finding	Classification					Rating			In which years was it reported		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2009/10	2008/09	2007/08
	Performance of contractor not monitored (ex.150)											
53	Procurement and contract management: Conflict of interest (ex.151)				✓		✓			✓		
55	Procurement and Contract Management: No recording of quotes received (ex.152)				✓		✓			✓		
Inventory												
133	Inventory: No reconciliation performed (ex.126)	✓						✓		✓	✓	
Operating expenditure												
134	Procurement Process: No tender register found (ex 31)				✓			✓		✓		
56	Procurement process not followed for purchase of Assets (ex 32)				✓		✓					
57	Requested Information not provided within agreed time. (ex.64)				✓			✓				
58	Procurement and Contract Management: Invitation to Bid (ex.84)				✓		✓					
135	Expenditure: Accounts were not settled within 30 days (ex.96)			✓				✓				
136	Expenditure: Income tax numbers do not match (ex.100)			✓				✓				
137	Expenditure: Supply Chain Management policies not followed (ex.108)			✓				✓				

Page. no.	Finding	Classification					Rating			In which years was it reported		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2009/10	2008/09	2007/08
138	Expenditure: There is no proof of receipt of goods(ex.132)	✓						✓				
139	Expenditure: No quotations sourced for expenditure.(UPDATED ex.109) (ex.158)			✓				✓				
140	Procurement and Contract management: Fraud indicators (ex.159)				✓			✓				
141	Expenditure: Irregular or fruitless and wasteful expenditure reports not sent to the Mayor, MEC and Auditor General - Sec 32(4)	✓						✓				
Payable												
143	Creditors: Break down of creditors balance not provided.(ex.161)	✓						✓				
Predetermined objectives												
144	Planning: Vacant post - Director: Community Service and Public Safety (ex. 2)		✓					✓		✓		
146	Planning: No skills retention policy (ex. 3)				✓			✓		✓		
60	Planning: Audit of Performance information (Internal Audit) (ex. 5)				✓		✓			✓		
61	AOPO: Annual Performance Report not submitted for audit (ex. 17)		✓				✓			✓		
147	AOPO: Organogram not included in the IDP (ex. 19)		✓					✓		✓		

Page. no.	Finding	Classification					Rating			In which years was it reported		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2009/10	2008/09	2007/08
148	AOPO: Budget/financial strategy not included in the IDP (ex. 22)		✓					✓		✓		
62	AOPO: Targets per IDP not appropriate (ex. 29)		✓				✓			✓		
149	AOPO: Notice of the adopted IDP (ex.41)		✓					✓				
77	AOPO: Incompleteness of KPIs (ex.58)		✓				✓				✓	
79	AOPO: The municipality's KPIs does not include the general KPIs (ex.59)		✓				✓				✓	
63	AOPO: Indicators per the IDP not included in the SDBIP (ex.67)		✓				✓				✓	
68	AOPO: Development Priorities/Objectives per SDBIP not consistent with the IDP (ex.68)		✓				✓				✓	
70	AOPO: No logical between objective, indicator and target (ex.69)		✓				✓				✓	
150	AOPO: No budget for programmes on predetermined objectives (ex.128)		✓					✓			✓	
81	AOPO: Planned indicators not measurable (ex.136)		✓				✓				✓	
83	AOPO: Reported Objectives, Indicators and targets not consistent with the IDP (ex.138)		✓				✓				✓	
88	AOPO: PMS not appropriate (ex.164)		✓				✓				✓	
72	AOPO: Reported performance understated		✓				✓					

Page. no.	Finding	Classification					Rating			In which years was it reported		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2009/10	2008/09	2007/08
	(ex.166)											
90	AOPO: Supporting documentation not submitted (ex.167)		✓				✓					
91	AOPO: Overstatement of reported actual performance (ex.168)		✓				✓					
94	AOPO: Affairs not conducted in a manner consistent with the IDP (ex.169)		✓				✓				✓	
95	AOPO: Measures taken to improve performance (ex.170)		✓				✓				✓	
98	AOPO: No proof of approval of the business plan (ex.171)		✓				✓					
74	AOPO: Non-reliance on the Daily Statistic Books (ex.172)		✓				✓					
99	AOPO: Differences noted between the Magazine Register and the Monthly report (ex.173)		✓				✓					
75	AOPO: Reported Performance not accurate (ex.174)		✓				✓					
100	AOPO: Supporting documentation not submitted (ex.175)		✓				✓					
Provisions												
151	Bad debts-correspondence with attorney for accounts (ex.119)				✓			✓				

Page. no.	Finding	Classification					Rating			In which years was it reported		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2009/10	2008/09	2007/08
Receivables												
153	Receivables: Note for arrangement to pay outstanding balance (ex. 14)				✓			✓		✓		
154	Receivables: Non-compliance with S64 of the MFMA (EX. 26)			✓				✓		✓		
155	Receivables: Debtor's confirmation (ex.137)	✓						✓				
Revenue												
103	Revenue: Interest on overdue accounts-Revenue (ex. 9)	✓					✓			✓		
157	Revenue: Short term liability (ex. 11)	✓						✓		✓		
158	Revenue: Proof of Reconciliations (ex.66)				✓			✓				
159	Revenue: supporting documents (rental contracts) (ex.103)	✓						✓				
160	Revenue: Direct income reconciliation (ex.104)				✓			✓				
161	Revenue: Recalculation of rent (ex.113)	✓						✓				
163	Revenue: Recovery of rates and taxes (ex.156)				✓			✓				
104	Revenue: Testing of deeds transfers (ex.165)				✓		✓					
Taxes												
165	VAT Receivable: VAT 201 not reviewed by a senior personnel (ex. 12)				✓			✓		✓		

Page. no.	Finding	Classification					Rating			In which years was it reported		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2009/10	2008/09	2007/08
164	VAT Receivable: VAT reconciliations not reviewed or performed monthly (ex. 13)				✓			✓		✓		
169	VAT Receivable: No evidence that VAT 201 form submitted on time (EX.33)				✓				✓	✓		
166	VAT: Non-Compliance with S11 of the VAT Act (VAT Return incomplete) (ex.60)			✓				✓		✓		
167	VAT: Non-compliance with S11 2(w) of the VAT Act (Property Rates) (EX. 106)			✓				✓				

DETAILED AUDIT FINDINGS

ANNEXURE A: MATTERS AFFECTING THE AUDITOR'S REPORT

Employee costs

1. EX.1 - Employee Cost: Non-existence of HR Plan (ex. 1)

Audit finding

It is common practice that an organisation should have a plan detailing the human resource requirements (as determined by the organisational structure, pre-determined objectives and the mandate) and means/plans to ensure that the required human resource will be recruited, developed and remunerated accordingly. Such human resource requirements should be aligned with the performance information and pre-determined objectives of the entity.

It was confirmed through enquiry with the auditee's staff that the auditee has not established and implemented such a Plan (Human Resource Plan).

Human resources have not developed an HR plan with the guidance of the Municipal Manager.

The recruitment, development, evaluation and compensation of human resource might not be aligned with the entity's predetermined objectives, budgets and plans for service delivery and performance management of the entity.

Internal control deficiency

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

Recommendation

The municipality must establish and implement an HR Plan that is aligned with the objectives and the mandate of the municipality.

Management response

The HR Plan is not in place. However, the municipality is in the process of developing a new IDP for the next 5 years, and as part of the project, all plans will be developed including the HR Plan that will be aligned with the new 5 year IDP.

Auditor's conclusion

Management acknowledges the weakness. The weakness will be reported in the management report.

Planning

2. EX.7 - Planning: Internal audit not functioning (ex. 7)

Audit finding

Municipal Finance Management Act section 165 states:

165. (1) Each municipality and each municipal entity must have an internal audit unit, subject to subsection (3).

(2) The internal audit unit of a municipality or municipal entity must—

(a) prepare a risk-based audit plan and an internal audit program for each financial year;

(b) advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to—

(i) internal audit;

(ii) internal controls;

(iii) accounting procedures and practices;

(iv) risk and risk management;

(v) performance management;

(vi) loss control; and

(vii) compliance with this Act, the annual Division of Revenue Act and any other applicable legislation; and

(c) perform such other duties as may be assigned to it by the accounting officer.

(3) The internal audit function referred to in subsection (2) may be outsourced if the municipality or municipal entity requires assistance to develop its internal capacity and the council of the municipality or the board of directors of the entity has determined that this is feasible or cost-effective.

MFMA section 166(1)(2):

166. (1) Each municipality and each municipal entity must have an audit committee, subject to subsection (6).

(2) An audit committee is an independent advisory body which must—

(a) advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality, or the board of directors, the accounting officer and the management staff of the municipal entity, on matters relating to—

(i) internal financial control and internal audits;

(ii) risk management;

(iii) accounting policies;

(iv) the adequacy, reliability and accuracy of financial reporting and information;

(v) performance management;

(vi) effective governance;

(vii) compliance with this Act, the annual Division of Revenue Act and any other applicable legislation;

(viii) performance evaluation; and

(ix) any other issues referred to it by the municipality or municipal entity;

(b) review the annual financial statements to provide the council of the municipality or, in the case of a municipal entity, the council of the parent municipality and the board of directors of the entity, with an authoritative and credible view of the financial position of the municipality or municipal entity, its efficiency and effectiveness and its overall level of compliance with this Act, the annual Division of Revenue Act and any other applicable legislation;

(c) respond to the council on any issues raised by the Auditor-General in the audit report;

(d) carry out such investigations into the financial affairs of the municipality or municipal entity as the council of the municipality, or in the case of a municipal entity, the council of the parent municipality or the board of directors of the entity, may request; and

(e) perform such other functions as may be prescribed.

Municipal Systems Act section 45(a):

The results of performance management in terms of section 41(1)(c) must be audited -
(a) as part of the municipality's internal audit process

Discussion Note

Through a discussion with the Chief Financial Officer it was found that internal auditor function was not performed during the year in review as the shared service agreement was not adhered to by the district municipality. As per the reasons mentioned above, it was established that the audit of performance information was not performed as required by section 45(a) of MSA.

Non-compliance with MFMA section 165.

Note

Coordination of internal audit shared service between the district municipality and Ratlou local municipality was not functioning

Internal control deficiency

Governance - Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively.

Recommendation

Management must ensure that an Internal Audit function exists and functions in accordance with MFMA s165 and that all the information/reports necessary to facilitate the audit is properly managed and provided for audit purposes.

Management response

"Internal audit plan for year ending 30 June 2010, Service Level Agreement entered into by and between Ngaka Modiri Molema District Municipality and Ratlou Local Municipality signed on the 23 February 2011 and Edward Le Roux (DBSA) e-mail conversations are attached. This is what we have done for last financial year. We can't force Internal Audit Shared Service and Audit Committee to perform their work as much as we cannot pay for the services that were not rendered."

Auditor's conclusion

Internal audit and audit committee was not functioning during the financial year under review therefore reported in the audit report.

3. EX.39 - Planning: Documents requested not submitted (ex. 39)

Audit finding

In terms of section 15 of the Public Audit Act no. 25 of 2004:

"When performing the audit, the Auditor-General or an authorized auditor has at all reasonable times full and unrestricted access to—

- any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee;

The following documents were requested and not submitted by management for audit purposes:

2. Strategic Plan
4. Minutes of the HR/Remuneration committee
5. Approved Internal Audit plan for 2010/11
7. Minutes of the Budget Steering committee

Management not ensuring that information requested by auditors is provided for audit purposes.

Information not provided might hinder the audit objective.

Internal control deficiency

Financial and performance management:

Requested information was not available and supplied without any significant delay.

Recommendation

Management must ensure that information requested by auditors is provided to properly achieve the audit objective.

Management response

The requested report on LED and capital projects are beyond your audit scope (2010/2011).

Though, the investigations were resolved upon on 07 June 2011 by new council, the actual investigations started in July and August 2011. This is still ongoing and cannot be disclosed to you before it is discussed by council; sent to the MEC of Local Government and the Premier.

See **ANNEXURE C** for documents that were requested;

1. Original budget
2. Oversight report

Auditor's conclusion

Material non-compliance with enabling legislation and therefore reported in the audit report.

Procurement and Contract Management

4. EX.87 - Procurement and Contract services: Deviations from procurement process (ex.87)

Audit finding

Where goods or services above R200,000 were procured without following a competitive bidding process, it should have only been done under the following circumstance:

- i) in an emergency - where immediate action is necessary
- ii) if goods or services are produced or available from a sole supplier;
- iii) for acquisition of special works of art or historical objects
- iv) acquisition of animals for zoos; or
- v) in any other exceptional case where it is impractical or impossible to follow the official procurement process.

Where the procurement of these goods or services is considered to be an emergency, the reasons should be recorded and approved by the accounting officer and should be reported to the next council meeting and should be disclosed in the Annual Financial Statements of the municipality.

Ref: SCM Ref 9(a) 36(1)(a), (2)

Where goods and services were not procured through written quotations for goods and services of between R10,000 and R200,000, the reasons should:

- (a) be recorded and approved by the CFO
 - (b) be reasonable and justifiable in that it was impossible to obtain 3 quotations.
 - (c) reported on the next council meeting
 - (d) the deviation should be reported in the notes to the Annual Financial Statements
- SCM Reg 12(1)(c) & 17(a,c), 36(2)

During the audit of the procurement and contract management, the following was identified:

When the contract that was awarded to "Fatlhogang Transport CC" for rendering of cleaning services ended on 30 September 2010, the municipality appointed the contractor on a monthly basis without having to follow the correct tender process. The total amount that has been awarded to the contractor as a result of this is R182,355.43. 3 quotations should have been obtained for the procurement of this service. There is also an indication that the service was split into parts (i.e monthly appointments) in order to avoid following the correct tender process. The reason for this was not disclosed on the notes to the Annual Financial Statements.

A total amount of R811,884.94 has been awarded to Motlhanka Security Services ever since their contract ended on 20 February 2011. Although there has been advertisement placed for the procurement of security services and no responses have been received in this regard, these facts have not been reported in a note to the Annual Financial Statements.

This may result in irregular expenditure of R182,355.43 in respect of the cleaning services and R811,884.94 in respect of the award for security services.

Internal control deficiency

Leadership

Oversight responsibility



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

Recommendation

All deviations to the normal procurement process should be reported to the next council meeting following the deviation and should be reported in a note to the Annual Financial Statements. Goods and services should not be split to avoid following a tender process. Where a contract which was previously awarded in a bidding process is about to end, plans should be made well in time to ensure that whatever means are taken for the service are in compliance with legislation.

Management response

All the necessary processes and procedures were followed during the procurement process to appoint Fatlhogang Cleaning services. A month to month contract was a result of negotiations that were going on during that time with the intention to appoint permanent personnel. Currently that process has been completed and permanent personnel appointed.

Auditor's conclusion

Amounts adjusted by management - reflected in note 28.2 in the financial Statements.

Material non-compliance with enabling legislation and therefore reported in the audit report.

5. EX.133 - Procurement and contract management: Conflict of Interest identified (ex.133)**Audit finding**

In terms of Practice Note 7 of 2009/10 (SBD 4), the bidder **must** declare whether:-

- a) the bidder is employed by the state and/or
- b) the bidder has any relationship (family, friend, other) with a person employed by the state and who may be involved with the evaluation and or adjudication of the bid.

In terms of Treasury Regulation 16A8.4, if a supply chain management official or other role player, or any close family member, partner or associate of such official or other role player, has any private or business interest in any contract to be awarded, that official or other role player **must** –

- (a) disclose that interest; and
- (b) withdraw from participating in any manner whatsoever in the process relating to that contract.

During the audit of procurement and contract management, the following was noted:

An award was given to an entity "Lekomanyane Construction & Design" for an amount of R162,960.00 for repairing of waterline -Thutlwane. Corroborative procedures revealed that the entity has a similar postal address with the current Acting Municipal Manager, Mr G Lekomanyane who was then the Manager in the office of the speaker.

Other awards are that awarded to an entity named "Goineo Trading Enterprise", an entity in the name of one of the new councillors Mr GJ Mongale. Details of the awards are as follows:

Catering - R6,000 - 25/08/10

Catering - R4,800 - 12/11/10

Catering - R2,700 - 20/12/10

Details of these awards have not been disclosed in the Annual Financial Statements.

Furthermore, Mr Lekomanyane did not disclose his interest or that of a close relative in the award to "Lekomanyane Construction & Design", nor did he withdraw from participation in the invitation of quotes as required by the legislation.

The following awards were awarded to persons in the service of the other institutions of the state:

Name of person	State institution where employed	Position/ job title	Section/ component	Supplier name	Description of award	Expenditure (Payments) - current year
SMITH JE	National Department of Justice	Judge of the high Court	JUDGES:EC GRAHAMSTOWN PERMANENT	Premier Hotels & Resorts	Accommodation and meals for officials	23,059.00
SEKOAILA PN	NW: EDUCATION	Teacher	MOSITA PRIMARY SCHOOL	PNGP Trading & Projects	Fencing of Thutlwane Dumping Site	188,800.00
MASILO BG	NW: HEALTH	Emergency Care Officer: Grade 4	HEALTH: MAFIKENG EMS:PRODUCTION	BM & GG T/A Greenturf NW	Provision of ride on LTD Yarn Lawnmower	185,250.00
MOROE	NW: Education	PRINCIPAL	SEFATLHANE PRIMARY SCHOOL	Ithute Educational Service	PMS Training & Training of ward	503,400.00

				CC	committee	
MOROE	NW: Education	PRINCIPAL	SEFATLHANE PRIMARY SCHOOL	West Afrika Consulting	Training of customer management	93,520.00
MOTSEOAKH UMO	NW: Local Gov & Traditional Affairs	Abnormal appointment	DLG&TA:DIRECTORATE HOUSE OF TRADITIONAL LEADERS	Ya Tholo Building and civil construction	Construction of new Water pipeline	184,000.00
MOLEFE	NW: Agriculture	AGRICULTURAL ADVISOR	ARD:MOROKWENG LOCAL DEVELOPMENT CENTRE	Broken string trading and Projects cc	Repair of air conditioners	86,020.00

Result in irregular expenditure of R1 440 509.

Internal control deficiency

Leadership

Tone at the top

Management's philosophy and operating style does not promote effective control over reporting. They do not lead by example. Accountability to the public is not emphasised.

Recommendation

We recommend the following actions:

Invitation for bids must stipulate as a condition to tender that bidders must sign and submit a declaration of interest.

Prospective suppliers must be required to submit a declaration of interest when they apply for registration on the list.

These conditions must clearly be stated in the SCM policy

A **register of interest** must be established and all employees and role players must be required to declare their personal financial interest and those of their close family members, partners and associates.

Disciplinary action must be instituted against officials and role players who have failed to comply with the policy of the Ratlou Municipality.

These cases must be investigated for possible undue influence in the process and appropriate action taken against the affected official or role player in accordance with the policies and procedures of the Ratlou Municipality

We further recommend that these awards be disclosed in the Annual Financial Statement together with any other such awards which might be to the knowledge of the municipality which may not have been identified during the audit, if any.

Management response

1. 1. Lekomanyane Construction and Designs: Mr Glen Lekomanyane was not part of any municipal bid committee by the time of award of that particular tender hence the Management does not agree with the finding.
2. 2. Goineo Trading Enterprise: at the time of award, Mr G.J. Mongale was neither a Councillor nor a municipal employee by then. Management does not agree with the finding.
3. 3. Management does not agree with the audit finding on the matters detailed on the table above. The municipality has a limitation in accessing all the suppliers' shareholders' profiles in the sense we telephonically confirm employment status and through providing a form in the tender document for competitive bids. We tried to utilize SARS in this regard, but they also can't assist.

Auditor's conclusion

Amounts adjusted by management - reflected in note 28.2 in the financial Statements.
Non-compliance with enabling legislation and therefore reported in the management report.

6. EX.134 - Procurement and contract management: Quotations not obtained for awards between R10,000 and R200,000 (ex.134)

Audit finding

In terms of paragraph 3.3 of Practice Note 8 of 2007/08, written price quotations should be invited for requirement above R10 000 but not exceeding R500 000.

If it is not possible to obtain at least three (3) written price quotations, the reasons should be recorded and approved by the accounting officer/ authority or his / her delegate.

SCM Reg 12(1)(b): a supply chain management policy must subject to regulation 11 (2), provide for the procurement of goods and services by way of written or verbal quotations for procurements of a transaction value over R2 000 up to R10 000 (VAT included).

The following goods and services with a transaction value between R10 000 and R200 000 were procured without inviting at least three written price quotations from prospective suppliers and the deviation was not approved by a properly delegated official:

Listed below are:

1. Goods and services with a transaction value between R10 000 and R200 000 were procured without inviting at least three written price quotations from prospective suppliers and the deviation was not approved by a properly delegated official.
2. Goods and services valued over R2 000 up to R10 000 (VAT included) were procured without a written or verbal quotations.

No	Details	Supplier	Cheque no	Amount
1	Accommodation and meals	Constantia Hotel	12488	2,892.00
2	Review projects plan and scope of work	Kitso ya Setso Heritage Tourism CC	13458	7,484.00
3	Second Phase of Assessment	Kitso ya Setso Heritage Tourism CC	12397	7,484.00
4	Accommodation and Meals	Premier Hotels and Resorts	12123	12,312.00
5	Accommodation and Meals	Premier Hotels and Resorts	13148	10,747.00
6	Training of ward councillors	lthute Educational Services	13061	170,000.00
7	Accommodation and meals	Keduetse Trading Enterprise	11956	18,140.00

Furthermore the reasons for this where not recorded and reported to the CFO quarterly or any council meeting. These were also not disclosed in the Annual Financial Statements.

Irregular expenditure of R 226 359.

Internal control deficiency

Leadership

Tone at the top

Management's philosophy and operating style does not promote effective control over reporting. They do not lead by example.

Quality is not understood by all to be a prerequisite and is not embedded in the entity's values



Recommendation

There must be a process in place for approving deviations from official procurement processes

Management response

Management agrees with the audit finding and auditors' recommendation has been noted.

Auditor's conclusion

Amounts adjusted by management - reflected in note 28.2 in the financial Statements.

An amount of R 17 860 was not corrected.

Total extrapolated finding = R 132 004.36

The final error (extrapolated) is R 132 004.36 and below materiality therefore the misstatement will be included in the management report but will not effect the audit report.

Material non-compliance with enabling legislation and therefore reported in the audit report.

7. EX.135 - Procurement and Contract Management: Fraud indicators (ex.135)

Audit finding

In terms of Treasury Regulation 16A9.1(b), the accounting officer/ authority must investigate any allegations against an official or other role player of corruption, improper conduct or failure to comply with the supply chain management system, and when justified –

- (i) take steps against such official or other role player and inform the relevant treasury of such steps; and
- (ii) report any conduct that may constitute an offence to the South African Police Service.

Indicators of possible fraudulent and corrupt activities were identified in addition to those related to awards to persons in the service of the state or their close family member. The cases relate to the following and should be investigated and dealt with as required by TR16A9.1(b).

An amount of R198,552.50 was paid over to contractor "Rebaone Electrical". This amount was additional amount paid in excess of the budgeted and contracted amount of R2,399,067.73. There was not any motivation given as to why this amount was paid over or reports made to any official in this regard.

The following suppliers were indicative that they might be fictitious or that there might have been fraud perpetrated by not inviting the actual suppliers for quotes.

- Quotations were obtained from Keduetsse Trading Enterprise as well as Kgethegile Trading cc. Identified in the quotes submitted that these two entities share the same P.O.box number as well as fax number. This was on quotations to supplier kitchen material, (Cheque no. 13421)

- While hiring of Transport during NWPL Youth Parliament, quotations were obtained from suppliers who are not registered on the supplier's database, quotes obtained were just blank, did not contain any information other than the name, date and detail of the quotation. No other information was submitted. These suppliers had quoted high prices and were not selected to provide this service. (Cheque 11991)

This may result in non-compliance with treasury regulations.

Internal control deficiency

Leadership

Tone at the top

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

Recommendation

These cases must be investigated for possible undue influence in the process and appropriate action taken against the affected official or role player in accordance with the policies and procedures of the Ratlou Municipality.

Management response

1. • *Irregular expenditure – Agreed with the finding.*
2. • *Keduetsse Trading Enterprise and Kgethegile Trading cc – Keduetsse Trading Enterprise is owned by Keaobaka Lentswe who is a nephew to Namane Magogodi, the owner of*

Kgethegile Trading Enterprise, currently there are sharing the same building at Mafikeng but different offices.

3. · *Transport to Youth Parliament – Agreed with the finding.*

Auditor's conclusion

Control weakness identified and therefore reported in the management report.

8. EX.141 - Procurement and Contract Management: No declaration of interest by suppliers (ex.141)

Audit finding

According to SCM reg 13(c), the municipality must ensure that quotations may not be considered unless a written quotation or a bid unless the provider who submitted the quotation or bid has indicated :-

- (i) whether he or she is in the service of the state, or has been in the service of the state in the previous twelve months
- (ii) if the provider is not a natural person, whether any of its directors, managers, principal shareholders or stakeholder is in the service of the state, or has been in the service of the state in the previous twelve months ; or
- (iii) whether a spouse, child or parent of the provider or of a director, manager, shareholder or stakeholder referred to in subparagraph (ii) is in the service of the state, or has been in the service of the state in the previous twelve months.

There are no controls in place to ensure that when making an application to be added on to the supplier's database of the municipality, suppliers declare any interest they may have with the municipality or any other institution under the controls of, and owned by the state.

This may result in awarding of tenders and contracts to suppliers who are in the service of the state, resulting in non-compliance for the municipality.

Internal control deficiency

Leadership

Oversight responsibility

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

Recommendation

When an invitation is made for the prospective providers to add their names on the supplier's database of the municipality, there in should be included that all suppliers should make a declaration of whether or not the supplier is in the service of the state.

Management response

1. 1. Management does not agree with the audit finding on the matters detailed on the table above. The municipality has a limitation in accessing all the suppliers' shareholders' profiles in the sense we telephonically confirm employment status and through providing a form in the tender document for competitive bids. We tried to utilize SARS in this regard, but they also can't assist.

Auditor's conclusion

Weakness identified in the controls pertaining the enabling legislation and therefore reported in the management report.

9. EX.145 - Procurement and contract management: Preference system incorrectly utilised. (ex.145)

Audit finding

In terms of the Preferential Procurement Policy Framework Act and its regulations, the following requirements should be adhered to in the calculation and awarding of preference points:

PPR7 stipulates that a 80/20 preference point system must be used to calculate points for price in respect of tenders/procurement with a Rand value equal to, or above R30,000.00 and up to a Rand Value of R500,000.00

Furthermore, PPR 10 stipulates that In the event that in the application of the 90/10 preference point system as stipulated in the tender documents, all tenders received are equal to, or below R500 000, the tender must be cancelled. An organ of state which has cancelled a tender invitation must re-invite tenders and must, in the tender documents, stipulate the preference point system to be applied.

During the audit of procurement and contract management, we noted that a tender for the "Development of a Waste Management Plan" had been evaluated using the 90/10 preference point system even though the tender was for less than R500,000.00.

The invitation for this bid was stipulated that a 90/10 preference point system will be used. However bids all bids received were equal below R 500 000 and the tender was not cancelled and there was not a re-advertisement that the tender will not be as an 80/20 preference points.

The invitation for bids for contract "Spatial Development Framework" did not specify which preference system was to be used and there was not a new invitation made to correct this.

This results in non-compliance with the PPP Act and Regulations

Internal control deficiency

Leadership

Oversight Responsibility

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

Recommendation

When advertising tenders, the accounting officer should ensure that the correct preference point system is used. If bids are received and the amounts there in differ from the original preference system, the bid should be cancelled and the re-advertised using the correct preference point system.

Management response

Management agrees with the audit finding and auditors' recommendation has been note.

Auditor's conclusion

Management agrees with the finding. This will be reported as non-compliance resulting in irregular expenditure of R261,402

10. EX.149 - Procurement and Contract Management: Information not provided. (ex.149)

Audit finding

According to PAA 15, When performing an audit referred to in section 11, the Auditor-General or an authorised auditor has at all reasonable times full and unrestricted access to any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee

During the audit of procurement and contract management as well as expenditure, we requested the contract entered into between the municipality and Gobodo Chartered Accountants but the contract has to date not been provided

Irregular expenditure and a limitation of scope of R2,077,355.00.

Internal control deficiency

Financial and performance management

Proper record keeping and record management

Requested information was not available and supplied without any significant delay.

Recommendation

Information requested should be provided without any delay.

Management response

No management comment received.

Auditor's conclusion

Amounts adjusted by management - reflected in note 28.2 in the financial Statements.

Material non-compliance with enabling legislation and therefore reported in the audit report.

11. EX.150 - Procurement and Contract Management: Performance of contractor not monitored (ex.150)

Audit finding

According to MFMA sec 116(2)(b), the performance of the contractor must be monitored on a monthly basis

During the audit of procurement and contract management, we noted that there were no controls in place to ensure that performance of contractors is monitored on a monthly basis for the following contracts:

Construction of Makgobistadt Library
Installation of High Mast Lights at Madibogo Phase 2.

This result in non-compliance

Internal control deficiency

Leadership

Oversight responsibility

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

Recommendation

The accounting officer should take all reasonable steps to ensure that performance of contractors is monitored on a monthly basis.

Management response

We disagree with the finding, the contractor was monitored on a monthly basis, and the only thing is that the project managers failed to submit monthly progress reports. We are busy putting measures in place to ensure that every project manager submit monthly progress report before any payments can be processed.

Auditor's conclusion

Material non-compliance with enabling legislation and therefore reported in the audit report.

12. EX.151 - Procurement and contract management: Conflict of interest (ex.151)**Audit finding**

In terms of Practice Note 7 of 2009/10 (SBD 4), the bidder **must** declare whether:-

- a) the bidder is employed by the state and/or
- b) the bidder has any relationship (family, friend, other) with a person employed by the state and who may be involved with the evaluation and or adjudication of the bid.

In terms of Treasury Regulation 16A8.4, if a supply chain management official or other role player, or any close family member, partner or associate of such official or other role player, has any private or business interest in any contract to be awarded, that official or other role player **must** –

- (a) disclose that interest; and
- (b) withdraw from participating in any manner whatsoever in the process relating to that contract.

During the audit of procurement and contract management, the following was noted:

An award was given to a service provider "Recreation Africa Leisure" for Accommodation and meals of R5,725.60. This entity is owned by Mmamabolo JN who is under the employ of the state at Department of International Relations. as Deputy Director General.

A declaration was not identified whereby the service provider declares that he is in the employ of the state.

This may further increase irregular expenditure amount by R5,725.60.

Internal control deficiency

Leadership

Tone at the top

Management's philosophy and operating style does not promote effective control over reporting. They do not lead by example.

Accountability to the public is not emphasised.

Recommendation

We recommend the following actions:

Invitation for bids must stipulate as a condition to tender that bidders must sign and submit a declaration of interest.

Prospective suppliers must be required to submit a declaration of interest when they apply for registration on the list.

These conditions must clearly be stated in the SCM policy

A **register of interest** must be established and all employees and role players must be required to declare their personal financial interest and those of their close family members, partners and associates.

Management response

Management agrees with the audit finding and auditors' recommendation has been noted.

Auditor's conclusion

Material non-compliance with enabling legislation and therefore reported in the audit report.

13. EX.152 - Procurement and Contract Management: No recording of quotes received (ex.152)

Audit finding

According to the SCM Reg 16(d), a SCM policy of the municipality must include conditions stating that the accounting officer must record the names of the potential providers requested to provide such quotations with their quoted prices. The SCM policy of the municipality includes this fact.

During the audit of procurement and contract management, it was noted that there are not any controls in place to ensure that the names of potential providers who submitted the quotations together with their quotes prices.

This results in a non-compliance with SCM regulations and understatement of irregular expenditure of R66,722.00

Internal control deficiency

Leadership

Tone at the top

Quality is not understood by all to be a prerequisite and is not embedded in the entity's values

Recommendation

The accounting officer must take all reasonable steps to ensure that names of potential suppliers who submitted quotations are recorded together with the name of each

Management response

Management agrees with the audit finding and auditors 'recommendation has been noted.

Auditor's conclusion

Material non-compliance with enabling legislation and therefore reported in the audit report.

Operating expenditure

14. EX.32 - Procurement process not followed for purchase of Assets (ex 32)

Audit finding

The Supply Chain Management Regulations 18(a) stipulates that all requirements in excess of R30,000.00 but not above R200,000.00 that are to be procured by means of formal written price quotations must in addition be advertised for at least 7 days on the website of the municipality and an official notice board if the municipality.

During the audit of expenditure, we noted a non compliance with the SCM regulations was noted whereby the municipality failed to advertise the call for quotes from suppliers when purchasing "Ride on lawn mowers". There were only 3 suppliers who were called to submit quotes via a bid documentation of the municipality.

This results in non-compliance with the SCM regulations. This may further also result in irregular expenditure of R162,500

Internal control deficiency

Leadership

Oversight Responsibility

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

Recommendation

The accounting officer should take all measures in ensuring that all purchases of goods and services are in compliance with the the SCM regulations.

Management response

Management agrees with the finding and auditors' recommendation has been noted.

Auditor's conclusion

Material non-compliance with enabling legislation resulting in irregular expenditure and therefore reported in the audit report.

15. Requested Information not provided within agreed time. (ex.64)

Audit Finding

Information requested by the auditors should be provided within 3 days of the date of the request.

Information had been requested in a request no.23 dated 13 Oct 2011 has not be provided:

- Register of declarations of interest.
- Delegations
- Report on implementation of SCM policy.

This results in substantial delays in work to be completed as well as unnecessary administration of having to create exceptions and then clearing.

Internal control deficiency

Financial and performance management

Proper record keeping and record management

Requested information was not available and supplied without any significant delays

Recommendation

Information requested should be made available as agreed.

Management response

Management does not agree with the audit finding. The above documents were submitted for audit purpose on the following dates;

- Delegations – 9th September 2011
- Register of declarations of interest has been attached, see **ANNEXURE G**.

Auditor's conclusion

Documents mentioned by management were not included. Exception still stands and will be reported to management.

16. EX.84 - Procurement and Contract Management: Invitation to Bid (ex.84)**Audit finding**

The PPPFA sec 2(1)(e) stipulates that "where a preference system is to be used in a competitive bidding process that any specific goal for which a point may be awarded, must be clearly specified in the invitation to submit a tender". Furthermore, the invitation should specify whether the tender will be advertised using the 90/10 or 80/20 preference points.

During the audit of the competitive bidding process, the following was identified:

The invitation for a tender of the contracts "Construction of Setlhwatlhwane Community Hall" and "Construction of new Makgobistad Community Library", "Spatial Development Framework", "Provision of short term insurance for municipal assets" and "Supply and Installation of High Mast Lights at Madibogo Village - Phase2" did not contain the specific goals for which a point may be awarded as one of the evaluation criterion.

Furthermore, the invitation for the "Construction of Makgobistad Library" and "Spatial Development Framework" did not specify the preference system to be used.

Irregular expenditure due to contravention of PPPFA sec 2(1)(e) and PPPFA sec 2(1)(d) (i) as preference point system was not applied in the procurement of goods and services listed below:

Tender of the contracts	Actual expenditure 2011	Less recognised in irregular lead	Not recognised
Madibogo High Mast Phase 2 (X 14 units)	2,447,580.53	746,081.00	1,701,499.53
Setlhwatlhwe Community Hall	361,820.49		361,820.49
Makgobi-stad Community Library	2,148,116.99		2,148,116.99
Spatial Development Framework	272,250.00		272,250.00
Nu-West Insurance brokers	1,216,649.23		1,216,649.23
	6,446,417.24	746,081.00	5,700,336.24

Internal control deficiency

Leadership

Tone at the top

Quality is not understood by all to be a prerequisite and is not embedded in the entity's values

Recommendation

The personnel who have been assigned to make public advertisements for competitive bidding should ensure that they include all information which enables the user to be aware of the evaluation criterion to be used. The accounting officer should ensure that he checks that the advertisement is in full compliance with all applicable acts and regulations prior going to print.

Management response

Management agrees with the audit finding and auditors' recommendation has been noted.

Auditor's conclusion

Amounts adjusted by management - reflected in note 28.2 in the financial Statements.

Non-compliance with enabling legislation and therefore reported in the management report

Predetermined objectives**17. EX.5 - Planning: Audit of Performance information (Internal Audit) (ex. 5)****Audit finding**

Municipal Systems Act section 45(a):

The results of performance management in terms of section 41(1)(c) must be audited - (a) as part of the municipality's internal audit process

Through a discussion with the Chief Financial Officer it was found that there was no audit of performance information performed by the Internal Auditors.

As per the reasons mentioned above, it was established that the audit of performance information was not performed as required by section 45(a) of MSA

Non-compliance with Municipal Systems Act section 45(a).

Participation by the accounting officer/authority – The accounting officer / authority does not understand and exercise oversight responsibility related to financial reporting and related internal control.

Non-compliance with Municipal Systems Act section 45(a).

Internal control deficiency

Governance - Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively.

Recommendation

Management must ensure that an Internal Audit of performance information is performed and all the information/reports necessary to facilitate the audit is properly managed and provided for audit purposes.

Management must ensure compliance with section 38 and 45(a) of the Municipal Systems Act.

Management response

Internal audit plan for year ending 30 June 2010, Service Level Agreement entered into by and between Ngaka Modiri Molema District Municipality and Ratlou Local Municipality signed on the 23 February 2011 and Edward Le Roux (DBSA) e-mail conversations are attached. This is what we have done for last financial year. We can't force Internal Audit Shared Service and Audit Committee to perform their work as much as we cannot pay for the services that were not rendered.

Auditor's conclusion

Non-compliance with the enabling legislation therefore reported in the audit report.

18. EX.17 - AOPO: Annual Performance Report not submitted for audit (ex. 17)

Audit finding

MSA section 46(1):

A municipality must prepare for each financial year a performance report reflecting:

- (a) the performance of the municipality and of each service provider
- (b) a comparison of the performance with targets set for and performances in the previous financial year; and
- (c) measures taken to improve performance.

The Annual Performance Report of the municipality was requested (refer to request number 1 of 2011 dated 7 September 2011) and was not submitted within the required time by the municipality for audit purposes.

Poor performance management system resulting in non-compliance with municipal systems act.

Non-compliance with Municipal Systems Act section 46(1).

The performance report for the financial year under review was not prepared as required by section 46 of the MSA read with section 121(3)(c) of the MFMA.

Internal control deficiency

Financial and performance management:

None preparation of regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Recommendation

Management must ensure that an annual performance report is prepared and submitted for audit purposes on or before 31 August.

Management response

Management accepts the finding and auditor recommendation has been noted.

Name: Glen Lekomanyane

Position: Municipal Manager

Date: 04/10/2011

Auditor's conclusion

Material non-compliance with enabling legislation and therefore reported in the audit report.

19. EX.29 - AOPO: Targets per IDP not appropriate (ex. 29)**Audit finding**

Municipal Planning and Performance Management Regulations section 12:

12. Setting of performance targets.—(1) A municipality must, for each financial year, set performance targets for each of the key performance indicators set by it.

(2) A performance target set in terms of sub regulation (1) must—

- (a) be practical and realistic;
- (b) measure the efficiency, effectiveness, quality and impact of the performance of the municipality, administrative component, structure, body or person for whom a target has been set;

Framework for Managing Programme Performance Information (National Treasury 22 June 2007) paragraph 3.3:

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
- Relevant: the required performance is linked to the achievement of a goal

It was established that the targets per chapter 4 of the IDP are not specific, measurable, achievable and relevant; and they are not in accordance with MP&PMR section 12(1) and (2)(a) & (b) as the IDP reflects 2010/2011 as the targets for all the objectives.

The council not being aware of the specification, requirements and other guidances relating information to be included in the IDP.

Planned and reported targets are not specific, measurable, time bound.

For the selected programmes/objectives, 100% of the planned and reported targets were not:

- specific in clearly identifying the nature and the required level of performance;
- measurable in identifying the required performance;
- time-bound in specifying the time period or deadline for delivery.

The following impact can be established:

- Specific: the nature and the required level of performance cannot be clearly identified
- Measurable: the required performance cannot be measured
- Relevant: the required performance is not linked to the achievement of a goal

Internal control deficiency

Financial and performance management

No review and monitoring of compliance with applicable laws and regulations.

Recommendation

Management should ensure that the targets reflected in the IDP are specific, measurable and relevant and are in accordance with the requirements of MP&PMR section 12.

Management response

Your recommendation has been accepted. The current programme of the development of the 2010-2011 IDP will take this into consideration and ensure compliance with regulations.

Auditor's conclusion

Material non-compliance with enabling legislation and therefore reported in the audit report.

20. EX.67 - AOPO: Indicators per the IDP not included in the SDBIP (ex.67)**Audit finding**

Municipal Finance Management Act section 1:

“service delivery and budget implementation plan” means a detailed plan approved by the mayor of a municipality in terms of section 53(1)(c)(ii) for implementing the municipality's delivery of municipal services and its annual budget, and which must indicate—

(a) projections for each month of—

(i) revenue to be collected, by source; and

(ii) operational and capital expenditure, by vote;

(b) service delivery targets and performance indicators for each quarter; and

(c) any other matters that may be prescribed, and includes any revisions of such plan by the mayor in terms of section 54(1)(c);

It was established that the following Indicators per the IDP were not included in the SDBIP:

No	Indicator	Priority/Objective
1	Amount of funds available for street lights	To provide street lighting within the municipal wards
2	Community feedback/consultation	
3	Decrease of crime	
4	Mapping	To develop spatial development plan
5	Number of existing community halls	To provide and increase access to basic community facilities
6	Number of upgraded library facilities	
7	Quality satisfaction survey/quality assurance	
8	Number of people from various backgrounds employed at different occupational category	Development of employment equity plan
9	Number of grievances handled	To ensure that there is conducive working environment for all employees
10	Number of disciplinary hearings held	
11	Number of dismissal and warning held	
12	Number of employees assisted through employee assistance programme (EAP)	
13	Number of wellness programmes held	
14	Number of occupational injuries sustained and remedial	To ensure that municipal fleet is well managed, maintained and
15	Number of accidents involving municipal fleet	

16	Number of users disciplined for transgressing municipal fleet management policy	monitored
17	Amount spent on maintenance, leasing and fuel	
18	Number of referenced letters issued	
19	Number of users trained on records management system	Implement records management system (Financial System management).
20	Amount spent on registry equipment	
21	time spent on retrieving records per requests (efficiency)	
22	Number of fines/penalties issued on transgression of laws	Development of municipal by-laws
23	Number of portfolio committee meetings held	
24	Number of council resolutions implemented and reviewed	Render support to council and its committees
25	Number of employees who went on leave	
26	Number of employees who are due for retirement	Leave administration
27	Number of employees who are retrenched	
28	Number of mortalities	
29	Number of consultative meeting held with stakeholders	
30	Number of objections received	To increase revenue base of the municipality
31	Number of employees trained	To empower and familiarise staff with finance policies
32	Interest received	To increase revenue base
33	Submission of Annual Financial statement to auditor general timeously	
34	Number of bank reconciliations	Compliance with DORA, MFMA and related legislative requirement
35	Budget approved by council	
36	EIA survey for possible areas identified	Ensure that the municipality manages cemeteries effectively
37	Number of pounds established	Ensure accident free environment for communities in relation to stray animals in municipal roads
38	Decreased number of accidents in municipal roads	
39	Number of meetings held with relevant stakeholders	Enforce all by-laws applicable in the whole jurisdiction
40	Number of meetings held with the stakeholders (Department of Sports, Arts and Culture)	Ensure that Libraries within RLM are fully utilised by communities
41	Increased membership of Libraries	
42	EIA/Survey	
43	Number of resolutions by Tribal Authorities	Establish and manage municipal parks for communities
44	Number of registered dumping sites	To ensure that there are legally registered dumping sites
45	Number of people employed through opportunities created in Agriculture	
46	Increased in number of mining SMME's in RLM	To design a profile that identifies economic strengths of the Municipality in all sectors
47	Increased number of foreign investors in RLM	

48	Top Layer SDBIP	To promote sound and accountable cooperative governance
49	Ward based plans	
50	Internet connection	
51	Server maintenance	
52	Risk Management	
53	Number of developed council policies	Develop and implement council policies
54	Number of adopted council policies	
55	Number of reviewed council policies	
56	Corrective measures taken for non-compliance	

It was further established that the following Indicators included in the SDBIP were not consistent with the indicators in the IDP:

No	Indicator	Priority/Objective
1	A list of areas in need of street lights	To provide street lighting within the municipal wards
2	Number of internal roads maintained and gravelled	Maintenance of municipal assets and buildings
3	Number of municipal assets and buildings maintained	
4	Number of people with access to community facilities	
5	Number of existing roads and bridges	To provide and increase access to roads and bridges
6	Number of people with access to roads	
7	Number of upgraded bridges and roads infrastructure	
8	community satisfaction survey/quality assurance	
9	Number of both councillors and employees trained	To capacitate and empower staff and councillors to improve on performance and service delivery
10	Amount spent on training and development	
11	Number of policies adopted and popularised	
12	Number of developed and implemented by-laws municipal by-laws	Development of municipal by-laws
13	Community based planning launched	
14	Total amount collected on property rates	To increase revenue base
15	Total amount collected from rate payers	
16	Reduce audit queries/changing from disclaimer audit opinion to unqualified audit opinion	Compliance with DORA, MFMA and related legislative requirement
17	Mid-year budget assessment report submitted timeously	
18	Financial statements	
19	Budget process plan	
20	Section 71 report and quarterly report submitted to council and relevant dept timeously	

21	Reduce number of audit queries	Fixed Asset Register
22	100% completed and updated fixed asset register	100% completed and updated fixed asset register
23	Number of consultation meetings held on draft plan	Facilitation and coordination of disaster management plan
24	Number of consultation meetings held on draft plan	Ensure that the municipality develop a comprehensive and integrated refuse removal and solid waste management
25	Number of inputs/comments received on the draft plan	Ensure that the municipality manages cemeteries effectively
26	Number consultation meeting held Tribal Authorities	Enforce all by-laws applicable in the whole jurisdiction
27	Number consultation meeting held Tribal Authorities	Ensure that libraries within Ratlou Local Municipality are fully utilised by communities
28	Number of people visiting the libraries	Ensure sustainable rendering of municipal health services within the jurisdiction
29	Number of libraries built	
30	Number of inspections conducted in businesses	
31	Number of water testing samples taken	Establish and manage municipal parks for communities
32	Number of water issued for contravention of the law	
33	Number of sites identified	To promote SMME in the municipality - Supporting existing LED projects
34	Operational and productive co-ops	
35	Number of SMME's funded	To promote SMME in the municipality - To promote local markets and products
36	Increased production on SMME's	
37	More job opportunities	To promote SMME's in the municipality - Support existing LED projects
38	Increased revenue	
39	Operational and productive co-ops	
40	Number of SMME's funded	
41	Operational and productive co-ops	
42	Number of SMME's funded	
43	Operational and productive co-ops	
44	Number of SMME's funded	

Management not improving integrated structures, systems and processes required to manage performance information.

Reported indicators are not consistent when compared with the planned objectives/indicators:

Reported performance against predetermined indicators is not consistent with the approved integrated development plan.

Consistency:



Inconsistencies between the IDP and SDBIP will result in the municipality's performance (reporting as well) not being consistent with the planned indicators and the communities needs.

Internal control deficiency

FINANCIAL AND PERFORMANCE MANAGEMENT

Review and monitor compliance with applicable laws and regulations

- Compliance is not addressed in a timely manner.

Recommendation

Management must ensure that the indicators per the IDP are included in the SDBIP and are consistent with the IDP.

Management response

The recommendation is taken and would be considered in the development of the new IDP 2011/12 – 2016 as already mentioned in previous communications.

Name: Glen Lekomanyane

Position: Acting MM

Date: 01 November 211

Auditor's conclusion

Material non-compliance with enabling legislation and therefore reported in the audit report

21. EX.68 - APO: Development Priorities/Objectives per SDBIP not consistent with the IDP (ex.68)

Audit finding

Municipal Finance Management Act section 1:

“service delivery and budget implementation plan” means a detailed plan approved by the mayor of a municipality in terms of section 53(1)(c)(ii) for implementing the municipality’s delivery of municipal services and its annual budget, and which must indicate—

- (a) projections for each month of—
 - (i) revenue to be collected, by source; and
 - (ii) operational and capital expenditure, by vote;
- (b) service delivery targets and performance indicators for each quarter; and
- (c) any other matters that may be prescribed, and includes any revisions of such plan by the mayor in terms of section 54(1)(c);

It was established that the following development priorities/objectives per the IDP were not consistent with the objectives included in the SDBIP:

No	Priority/Objective
1	To develop spatial development plan
2	To provide and increase access to roads and bridges
3	Implement records management system (Financial System management).
4	Development of municipal by-laws
5	Render support to council and its committees
6	To increase revenue base
7	Facilitation and coordination of disaster management plan
8	Ensure that the municipality develop a comprehensive and integrated refuse removal and solid waste management
9	Ensure that the municipality manages cemeteries effectively
10	Enforce all by-laws applicable in the whole jurisdiction
11	Ensure that libraries within Ratlou Local Municipality are fully utilised by communities
12	Ensure sustainable rendering of municipal health services within the jurisdiction
13	Establish and manage municipal parks for communities
14	To promote SMME in the municipality - Supporting existing LED projects
15	To promote SMME in the municipality - To promote local markets and products
16	To promote SMME's in the municipality - Support existing LED projects
17	To promote SMME's in the municipality - Support existing LED projects
18	To promote SMME's in the municipality - Support existing LED projects
19	To design a profile that identifies economic strengths of the municipality in all sectors
20	To promote SMME's in the municipality - Support existing LED projects

It was further established that the following development priorities/objectives per the IDP were not included in the SDBIP:

No	Priority/Objective
1	To capacitate and empower staff and councillors to improve on performance and service delivery
2	Development of employment equity plan
3	To ensure that there is conducive working environment for all employees
4	Leave administration
5	To increase revenue base of the municipality

6	To empower and familiarise staff with finance policies
7	Compliance with DORA, MFMA and related legislative requirement
8	Ensure accident free environment for communities in relation to stray animals in municipal roads
9	To ensure that there are legally registered dumping sites
10	To promote sound and accountable cooperative governance
11	Develop and implement council policies

Management not improving integrated structures, systems and processes required to manage performance information.

Reported indicators are not consistent when compared with the planned objectives/indicators: Reported performance against predetermined indicators is not consistent with the approved integrated development plan.

Consistency:

Inconsistencies between the IDP and SDBIP will result in the municipality's performance (reporting as well) not being consistent with the planned indicators and the communities needs.

Internal control deficiency

FINANCIAL AND PERFORMANCE MANAGEMENT

Review and monitor compliance with applicable laws and regulations

- Compliance is not addressed in a timely manner.

Recommendation

Management must ensure that development priorities/objectives per the IDP are included in the SDBIP and are consistent.

Management response

Management agrees some of your findings and has undertaken interventions for 2011/12 IDP, PMS, SDBIP to ensure consistency.

Name: Glen Lekomanyane

Position: Acting MM

Date: 01 November 211

Auditor's conclusion

Material non-compliance with enabling legislation and therefore reported in the audit report.

22. EX.69 - AOPO: No logical between objective, indicator and target (ex.69)**Audit finding**

Framework for Managing Programme Performance Information

Relevant: the indicator must relate logically and directly to an aspect of the institution's mandate, and the realisation of strategic goals and objectives.

It was established that there was no logical link between the following reported objectives, indicators and targets as per the performance report (all where as a result of either the indicator or the target not being measurable, relevant, well-defined and specific in relation to the objective):

No	Objective/Priority	No	Indicator	No	Target
1	To identify and garner resources for potential projects for Local Economic Development	1	Developed business plans for LED Plans	1	Job creation
2	To increase human resource capacity in LED unit	2	Number of officials employed	2	100% filling Of vacant posts
3	Support and nurture SMMEs to be sustainable and create 30% permanent jobs through functional co-operatives by 2014	3	Updated database	3	SMME Empowerment
		4	Number of jobs created Number of people exempted from indigent register	4	Job creation & poverty alleviation
		5	2 Wards Identified for CWP Implementation and Identified Co-ops For CWP	5	2 Wards Implementing Community Works Programme
4	To increase the Number of Investors in the municipality	6	Number of investors in the municipality	6	Job creation
		7	Number of B&Bs developed Number of Tourism meetings held	7	Tourism development
		8	Developed business plans	8	Job creation & poverty alleviation Women empowerment
5	Increase access to Recreational facilities	9	Community having adequate Access to Parks, Sports and Recreational facilities.	9	Delivery plan in place and EIA Conducted
6	Coordination of Waste Management	10	Improved provision of disaster management to communities	10	Developed Local disaster plan
7	To upgrade access to basic sanitation to communities	11	The number of HH with access to basic sanitation	11	(5000 h/h) Thutlwane Setlhwa-tlhwe Mareetsane



8	To increase provision of livestock water to communities	12	Number of surveyed facilities for Livestock water	12	Number of surveyed facilities for Livestock water
9	To improve Safety and Security in communities	13	The number of High mast Lights installed	13	Number of High mast Lights installed in Madibogo
10	To decrease the number of homeless people for improved human settlement	14	% increase In construction progress	14	650
11	To increase access to low cost housing	15	% increase In construction progress	15	200
12	To increase access to community and social facilities	16	% increase In construction progress	16	One
				17	Matloding, Setlhwatlhwa; Ramabesa, Makgobistad

Management not ensuring that there is a logical link between the objectives, indicators and targets.

The reported objectives, indicators and targets not reflecting a logical understanding of the municipality's mandate and priorities thus making it irrelevant.

Internal control deficiency

FINANCIAL AND PERFORMANCE MANAGEMENT

Review and monitor compliance with applicable laws and regulations

- There are no appropriate means (e.g. checklists) for monitoring compliance on a regular basis.

Recommendation

Management must ensure that indicators and targets give effect to the pre-determined objectives and there is a logical link which in turn renders the reported performance logic.

Management response

The recommendation has been taken and would be accommodated in the currently developed IDP for 2011/12-2016

Auditor's conclusion

Material non-compliance with enabling legislation and therefore reported in the audit report

23. EX.166 - AOPO: Reported performance understated (ex.166)**Audit finding**

Objective: To promote social and community facilities

Target: 21,000 lib visits.

It was established that the actual performance for the above mentioned target did not agree with the Statistics Book which records the number of people visiting the library:

Report		Monthly Report					Difference
		Setlagole	Disaneng	Tshidilamolomo	Madibogopan	Total	
Jul-10		9,900	-	195	-	10,095	(8,854)
Aug-10		1,421	366	249	-	2,036	
Sep-10		1,417	457	99	-	1,973	
Quarter 1	5,250					14,104	
Oct-10		1,715	412	235	-	2,362	496
Nov-10		1,430	436	169	-	2,035	
Dec-10		157	111	89	-	357	
Quarter 2	5,250					4,754	
Jan-11		721	505	295	-	1,521	416
Feb-11		1,035	440	171	-	1,646	
Mar-11		1,202	328	137	-	1,667	
Quarter 3	5,250					4,834	
Apr-11		1,098	433	227	638	1,758	(4,980)
May-11		2,586	1,288	313	1,486	5,673	
Jun-11		1,543	853	140	263	2,799	
Quarter 4	5,250					10,230	
Total	21,000					33,922	(12,922)

Inappropriate management of the reporting process of performance.

Reported performance against targets is not accurate and complete when compared to source information (Reliability)

For the selected programme/objective, 20% of the reported targets were not accurate and complete based on the source information or evidence provided.

Reported performance not reliable.

Internal control deficiency**FINANCIAL AND PERFORMANCE MANAGEMENT**

Non-preparation of regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

Recommendation

Management must ensure that the reported actual performance is as per the actual performance that transpired according to the supporting documentation.

Management response

Management comment not yet received on 21 November 2011.

Auditor's conclusion

Material misstatement and therefore reported in the audit report.

24. EX.172 - AOPO: Non-reliance on the Daily Statistic Books (ex.172)

Audit finding

The libraries utilises the "Daily Statistics Books" to record all the daily visits to the library.

It was established that the validity of the Daily Statistics Book cannot be relied upon as there is no means of visitors confirmations (i.e signing of the book as proof of visit) therefore the information contained in the book might be invalid.

No controls to ensure that the visits to the libraries are valid.

The validity of reported performance against targets could not be confirmed as inadequate supporting source information was provided (Reliability)

For the selected reported target that is material by nature, the validity of the reported target could not be established as sufficient appropriate audit evidence could not be provided.

Invalidity of the reported 21,000 visits to the library.

Internal control deficiency

FINANCIAL AND PERFORMANCE MANAGEMENT

No controls in place to ensure the validity of library visits.

Recommendation

Management must develop and implement controls to ensure that the number of visits recorded in the Daily Statistics Book and reported are valid.

Management response

Management response not yet received on 21 November 2011.

Auditor's conclusion

Material misstatement and therefore reported in the audit report.

25. EX.174 - AOPO: Reported Performance not accurate (ex.174)**Audit finding**

Indicator: % increase In construction progress

Target: Matloding, Setlhwatlhwa; Ramabesa, Makgobistad

Actual Performance: 99% progress in the construction of Matloding community hall; 99% progress in the construction of Ramabesa community hall; 99% progress in the construction of Makgobistad library; and 70% progress in the construction of Setlhwatlhwa community hall.

The following reports were obtained from management regarding the above mentioned indicator and it was established that the performance reported was not accurate as it was performance as at the dates of the reports and not as at the financial year end (30 June 2011):

1. Construction of a new community hall for Ramabesa Village (report date: 8 September 2011; reported performance: 99% progress to date)
2. Construction of Setlhwatlhwa Community Hall (report date: 9 September 2011; reported performance: 70% progress to date)
3. Construction of New Community Hall in Matloding village (report date: 26 August 2011; reported performance: 73% progress to date)

Management not ensuring that the reported actual performance is accurate.

The accuracy and completeness of reported performance against targets could not be confirmed as inadequate supporting source information was provided (Reliability)

For the selected target:

- Matloding, Setlhwatlhwa; Ramabesa, Makgobistad

reported target that is material by nature and amount, the accuracy and completeness of the reported target could not be established as sufficient appropriate audit evidence could not be provided.

Inaccuracy of the reported actual performance resulting in overstatement thereof.

Internal control deficiency

FINANCIAL AND PERFORMANCE MANAGEMENT

Non-preparation of regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

Recommendation

Management must ensure that the reported performance is accurate when compared to the actual reports from the contractors/engineers.

Management response

Management comment not yet received on 21 November 2011.

Auditor's conclusion

Material misstatement and therefore reported in the audit report.

26. EX.58 - AOPO: Incompleteness of KPIs (ex.58)**Audit finding**

Municipal Planning and Performance Management Regulations 9(1)(a)

(1) (a) A municipality must set key performance indicators, including input indicators, output indicators and outcome indicators, in respect of each of the development priorities and objectives referred to in section 26 (c) of the Act.

Municipal Systems Act 41(1)(a)

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

(a) set appropriate key performance indicators as a yardstick for measuring performance, including outcomes and impact, with regard to the municipality's development priorities and objectives set out in its integrated development plan;

It was established that the municipality did not set Key performance indicators that included the input, output and outcome indicators as required by MP&PMR 9(1)(a) and MSA sec 41(1)(a).

Performance information not structured to demonstrate clearly how government is to utilise available resources to deliver on its mandate.

The content of the integrated development plan is inaccurate and incomplete:

The integrated development plan did not include the key performance indicators and performance targets determined in according to its performance management system, as required by sections 26(i) and 41(1) (b) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.

Non-compliance with MP&PMR 9(1)(a).

Internal control deficiency**FINANCIAL AND PERFORMANCE MANAGEMENT**

Review and monitor compliance with applicable laws and regulations

- There are no appropriate means (e.g checklists) for monitoring compliance on a regular basis.

Recommendation

Management must ensure that Key Performance Indicators includes:

1. Input indicator- measures the costs, resources and time used to produce an output;
2. Output indicator- measures the results of activities, processes and strategies of a program
3. Outcome indicator- measures the quality and or impact of an output on achieving a particular objective

to ensure that it demonstrates clearly how government is to utilise available resources to deliver on its mandate.

Management response

Your points on issues related to the compliance with Municipal Planning and Performance Management Regulations and the IDP has been taken and would be part of the action plans to

implement related recommendations within the reviewed 2011/12-2016 IDP and the review/development of the PMS Policy.

Name : Glen Lekomanyane
Position: Acting Municipal Manager
Date : 26 October 2011

Auditor's conclusion

Material non-compliance with enabling legislation and therefore reported in the audit report.

27. EX.59 - AOPO: The municipality's KPIs does not include the general KPIs (ex.59)**Audit finding**

Municipal Systems Act section 43(1)(a):

- (1) The Minister, after consultation with the MECs for local government and organised local government representing local government nationally, may—
 (a) by regulation prescribe general key performance indicators that are appropriate and that can be applied to local government generally;

Municipal Planning and Performance Management Regulation 10 (a) to (g):

The following general key performance indicators are prescribed in terms of section 43 of the Act:

- (a) The percentage of households with access to basic level of water, sanitation, electricity and solid waste removal;
 (b) the percentage of households earning less than R1100 per month with access to free basic services;
 (c) the percentage of a municipality's capital budget actually spent on capital projects identified for a particular financial year in terms of the municipality's integrated development plan;
 (d) the number of jobs created through municipality's local economic development initiatives including capital projects;
 (e) the number of people from employment equity target groups employed in the three highest levels of management in compliance with a municipality's approved employment equity plan;
 (f) the percentage of a municipality's budget actually spent on implementing its workplace skills plan; and
 (g) financial viability as expressed by the following ratios:

$$(i) A = \frac{B - C}{D}$$

Where—

"A" represents debt coverage

"B" represents total operating revenue received

"C" represents operating grants

"D" represents debt service payments (i.e. interest + redemption) due within the financial year;

$$(ii) A = \frac{B}{C}$$

Where -

"A" represents outstanding service debtors to revenue

"B" represents total outstanding service debtors

"C" represents annual revenue actually received for services;

$$(iii) A = \frac{B + C}{D}$$

Where—

"A" represents cost coverage

"B" represents all available cash at a particular time

"C" represents investments

"D" represents monthly fixed operating expenditure.

It was established that the Key performance indicators in the IDP does not include the general KPIs as required by the MP&PMR 10.

Performance information not structured to demonstrate clearly how government is to utilise available resources to deliver on its mandate.

The content of the integrated development plan is inaccurate and incomplete:

It was established that the Key performance indicators in the IDP does not include the general KPIs as required by the MP&PMR 10 and MSA sec 43(1)(a).

Non-compliance with Municipal Planning and Performance Management Regulation 10 (a) to (g).

Internal control deficiency

FINANCIAL AND PERFORMANCE MANAGEMENT

Review and monitor compliance with applicable laws and regulations

- There are no appropriate means (e.g checklists) for monitoring compliance on a regular basis.

Recommendation

Management must ensure that, as legislated, all the general key performance indicators prescribed by MP&PMR 10 are included in the IDP and thus reported against in the APR.

Management response

Recommendation taken and would be implemented through action plans.

Name : Glen Lekomanyane
Position : Acting Municipal Manager
Date : 26 October 2011

Auditor's conclusion

Material non-compliance with enabling legislation and therefore reported in the audit report.

28. EX.136 - AOPO: Planned indicators not measurable (ex.136)**Audit finding**

Municipal Planning and Performance Management Regulations 9(1)(b):

(b) A key performance indicator must be measurable, relevant, objective and precise.

The Framework for Managing Programme Performance Information requires that an indicator should have the following in order to be measurable:

(b) *Well-defined*: the indicator needs to have a clear, unambiguous definition so that data will be collected consistently, and be easy to understand and use.

(c) *Verifiable*: it must be possible to validate the processes and systems that produce the indicator.

It was established that the following planned indicators per the IDP were not well-defined and verifiable:

Objective	No	Indicator
Maintenance of municipal assets and buildings	1	Number of internal roads maintained and gravelled
To provide and increase access to roads and bridges	2	Number of existing roads and bridges
	3	Number of people with access to roads
	4	Number of upgraded bridges and roads infrastructure
To provide and increase access to roads and bridges	5	Number of existing roads and bridges
	6	Number of people with access to roads
	7	Number of upgraded bridges and roads infrastructure
Facilitation and coordination of disaster management plan	8	Number of inputs/comments received on the draft plan
Ensure that the municipality develop a comprehensive and integrated refuse removal and solid waste management	9	Number of consultation meetings held on draft plan
	10	Number of inputs/comments received on the draft plan
Ensure that libraries within Ratlou Local Municipality are fully utilised by communities	11	Number of meetings held with the stakeholders (Department of Sports, Arts and Culture)
Ensure sustainable rendering of municipal health services within the jurisdiction	12	Number of water issued for contravention of the law
To promote SMME in the municipality - To promote local markets and products	13	Increased production on SMME's
	14	More job opportunities
	15	Increased revenue

Performance information not structured to demonstrate clearly how government is to utilise available resources to deliver on its mandate.

Planned and reported indicators/measures are not well defined

For the selected programmes/objectives, 31% of the planned and reported indicators/measures were not clear, as unambiguous data definitions were not available to allow for data to be collected consistently.

Planned and reported indicators/measures are not verifiable

For the selected programmes/objectives valid performance management processes and systems

that produce actual performance against the planned indicators/measures do not exist for 26% of the indicators/measures.

Indicators not being measurable and not facilitating proper reporting of performance.

Internal control deficiency

FINANCIAL AND PERFORMANCE MANAGEMENT

Review and monitor compliance with applicable laws and regulations

- There are no appropriate means (e.g. checklists) for monitoring compliance on a regular basis.

Recommendation

Management must ensure that the planned indicators are measurable through them being well-defined and verifiable.

Management response

The recommendation has been taken and management will ensure that the review and development of IDP takes this into account.

Auditor's conclusion

Material non-compliance with enabling legislation and therefore reported in the audit report.

29. EX.138 - AOPO: Reported Objectives, Indicators and targets not consistent with the IDP (ex.138)**Audit finding**

It was established that the following reported objectives and indicators per the performance report were not consistent with the IDP (or not included):

No	Objectives
1	To increase harmonisation of HR configuration & Municipal business intelligence
2	To improve municipal human resource capacity to better respond to IDP implementation demands
3	To improve municipal human resource capacity to better respond to IDP implementation demands
4	To improve the Skills of municipal Workforce
5	To promote sound labour relations
6	To increase the level of service satisfaction for internal and external customers
7	To increase the reliability, functionality and Compliance of the municipal IT and related systems
8	Support and nurture SMMEs to be sustainable and create 30% permanent jobs through functional co-operatives by 2014
9	To increase the Number of Investors in the municipality
10	To improve the relations between Council and the stakeholders
11	To improve internal and external communication within the Municipality and other spheres of Government
12	To improve Public Participation
13	To maximise Council and Administration Effectiveness through proper delegation of duties
14	Youth, Women, Children, Elderly, Disabled, Dikgosi
15	HIV/Aids Programme
16	To enhance review of municipal strategy for the implementation of the IDP
17	To enhance the municipal Performance Management Framework
18	To refine development and signing of performance contracts for sect 57 employees
19	To track and trace the achievement of IDP strategic objectives
20	To timely identify gaps in performance and apply corrective measures accordingly
21	To assist with the prioritization of IDP programmes and review of Corporate strategy
22	To provide for Integrated Municipal Planning
23	To improve the health standards of the community
24	To promote Law Enforcement within communities
25	Coordination of Waste Management
26	To upgrade water supply schemes to various communities

27	To increase access to Basic Electricity for communities
28	To upgrade access to basic sanitation to communities
29	To increase provision of livestock water to communities
30	To improve Safety and Security in communities
31	To improve accessibility inside and movement between villages
32	To decrease the number of homeless people for improved human settlement
33	To increase access to low cost housing
34	To increase the lifespan and condition of council assets

Note: The objective included below is only for the purpose of the indicators to identify which objectives are relevant to the particular indicator.

No	Objective	No	Indicator
1	To increase harmonisation of HR configuration & Municipal business intelligence	1	HR and Admin Policies implemented
2	To increase harmonisation of HR configuration & Municipal business intelligence	2	Developed Employment Equity Plan. Recruitment done in line with EEP
3	To improve municipal human resource capacity to better respond to IDP implementation demands	3	Adopted Organogram.
4	To improve municipal human resource capacity to better respond to IDP implementation demands	4	All Top 4 positions filled
5	To improve the Skills of municipal Workforce	5	WSP submitted to LGSETA. Trained staff, Cllrs and Ward Committees. Improved performance in the workplace
6	To promote sound labour relations	6	Number of LLF and other staff committees meetings held
		7	Fleet Management Strategy developed and implemented
		8	Fully implemented Records Management System
7	To increase the level of service satisfaction for internal and external customers	9	Conducted ESS. Implemented Recommendations of ESS.
		10	Updated website
		11	Master Systems Plan Developed and Implemented. Operational IT Systems
		12	Policy & plan developed and adopted in council (IT Use) (Business Continuity and Disaster Recovery Plan) in place and adopted
8	To increase the reliability, functionality and Compliance of the municipal IT and related systems	13	36 computers networking (10) 2 points: cat 6 Municipal Manager's laptop done
		14	Reviewed LED Strategy
		15	Developed business plans for LED Plans

		16	Established LED Forum
		17	Number of officials employed
		18	Updated database
			Number of jobs created Number of people exempted from indigent
		19	register
9	Support and nurture SMMEs to be sustainable and create 30% permanent jobs through functional co-operatives by 2014	20	2 Wards Identified for CWP Implementation and Identified Co-ops For CWP
		21	Developed business plans
10	To increase the Number of Investors in the municipality	22	Number of investors in the municipality
		23	Number of meetings with Traditional Authorities
		24	Number of Council meetings
		25	Number of meetings.
11	To improve the relations between Council and the stakeholders	26	Number of meetings.
	To improve internal and external communication within the		
12	Municipality and other spheres of Government	27	Number of meetings. Submission of yearly programmes
			Reviewed policy By 30 August
		28	2010
13	To improve Public Participation	29	Mayoral Imbizo held
	To maximise Council and Administration Effectiveness through		
14	proper delegation of duties	30	Written delegation of duties for unit managers
		31	% increase in number of youth activities and Initiatives Supported
		32	Number of women activities and Initiatives Supported
		33	Number of children activities and Initiatives Supported
		34	Number of elderly activities and Initiatives Supported
		35	Number of disabled activities and Initiatives Supported
15	Youth, Women, Children, Elderly, Disabled, Dikgosi	36	Number of Dikgosi activities and Initiatives Supported
16	HIV/Aids Programme	37	Number of HIV/ Aids initiatives Supported
	To enhance review of municipal strategy for the implementation		
17	of the IDP	38	Developed strategic plans
		39	Increase in the Number of Municipal Structures participating in PMS
			% increase in the number of plans and reports developed by municipal
18	To enhance the municipal Performance Management Framework	40	Structures for consolidation
	To refine development and signing of performance contracts for		
19	sect 57 employees	41	Signed performance agreements for sect 57 Managers
20	To track and trace the achievement of IDP strategic objectives	42	Number of reports submitted to Council as per policy requirement

21	To timely identify gaps in performance and apply corrective measures accordingly	43	Number of performance reviews conducted
22	To assist with the prioritization of IDP programmes and review of Corporate strategy	44	Year end performance evaluation for the municipality and sect 57 employees conducted
		45	IDP Process Plan and CBP Implementation
		46	2 RF meetings held
		47	4 steering committee Meetings held
23	To provide for Integrated Municipal Planning	48	% increase in progress made in establishing CBPs & LAPs
24	To improve the health standards of the community	49	Improved healthy living standards
		50	Compile and implement Waste Management and Solid Disposal Plan
		51	Community having adequate Access to Parks, Sports and Recreational facilities.
		52	Established Municipal Cemeteries are functional and administered by Municipality
25	To promote Law Enforcement within communities	53	By- laws are developed and Gazetted
26	Coordination of Waste Management	54	Improved provision of disaster management to communities
27	To promote social and community facilities	55	Increased access to Community libraries
28	To upgrade water supply schemes to various communities	56	The number of HH provided with 200m access to water
29	To increase access to Basic Electricity for communities	57	The number of HH with access to basic electricity
30	To upgrade access to basic sanitation to communities	58	The number of HH with access to basic sanitation
31	To increase provision of livestock water to communities	59	Number of surveyed facilities for Livestock water
32	To improve accessibility inside and movement between villages	60	The length of Kilometres upgraded
33	To decrease the number of homeless people for improved human settlement	61	% increase In construction progress
34	To increase access to low cost housing	62	% increase In construction progress
35	To increase the lifespan and condition of council assets	63	Maintenance Performed as per Maintenance plan
36	To increase access to community and social facilities	64	% increase In construction progress

All the targets included in the report are not consistent with the IDP (i.e the IDP reflects 2010/11 as targets whereas the report reflects different targets).

It was also established that these changes were not approved and explained in the annual performance report.

Planned performance not reported on by the municipality.

Reported objectives, indicators and targets are not consistent and complete when compared with the planned objectives, indicators, targets.
Reported performance against predetermined objectives, indicators, targets are not consistent with the approved integrated development plan.

Inconsistency of the reported objectives, indicators and target with the planned objectives, indicators and target.

Internal control deficiency

FINANCIAL AND PERFORMANCE MANAGEMENT

Review and monitor compliance with applicable laws and regulations

- There are no appropriate means (e.g. checklists) for monitoring compliance on a regular basis.

Recommendation

Management must ensure that the objectives, indicators and targets reported per the performance report are consistent with the planned objectives, indicators and targets per the IDP.

Management response

Management agrees to some extent with your findings and will ensure compliance with applicable legislation. Other means that include quarterly management meetings will be considered.

Auditor's conclusion

Material non-compliance with the enabling legislation therefore reported in the audit report.

30. EX.164 - AOP: PMS not appropriate (ex.164)**Audit finding**

Municipal Systems Act section 38(a) and (b):

38. Establishment of performance management system.—A municipality must—

(a) establish a performance management system that is-
commensurate with its resources;

best suited to its circumstances; and

in line with the priorities, objectives, indicators and targets contained in its integrated development plan;

(b) promote a culture of performance management among its political structures, political office bearers and councillors and in its administration;

Municipal Systems Act section 41(d):

41. Core components.—(1) A municipality must in terms of its performance management system and in accordance with any regulations and guidelines that may be prescribed—

(d) take steps to improve performance with regard to those development priorities and objectives where performance targets are not met;

Municipal Systems Act section 40:

40. Monitoring and review of performance management system.—A municipality must establish mechanisms to monitor and review its performance management system.

Municipal Planning and Performance Management Regulations 13(2)(b - c):

13. Monitoring, measurement and review of performance.—

(2) The mechanisms, systems and processes for monitoring in terms of sub-regulation (1) must—

(b) be designed in a manner that enables the municipality to detect early indications of underperformance; and

(c) provide for corrective measures where under-performance has been identified.

The following were established during the audit of predetermined objectives:

- Quarter 1, 2 and 3 were not submitted for audit purpose therefore no early indication of underperformance and appropriate review and monitoring of performance.
- The SDBIP have the following objectives which are not the mandate (suited) for the municipality: 1. To upgrade water supply schemes to various communities; 2. To decrease the number of homeless people for improved human settlement;
- There were objectives that are not consistent between the IDP and the SDBIP/Performance Report thus the PMS not in line with the IDP.
- There is no assessment of performance of the municipal employees, including section 57 employees whose assessment for the past 2 years are not final yet. which in turn does not promote a culture of performance management amongst its employees and political structures.

It was also established that the PMS Policy did not include steps to improve performance with regard to those development priorities and objectives where performance targets are not met.

Non-compliance.

Non-compliance with MSA section 38, 40, 41 and MP&PMR 13.
Inconsistent and irrelevant performance management system.

Internal control deficiency

FINANCIAL AND PERFORMANCE MANAGEMENT

Review and monitor compliance with applicable laws and regulations

- There are no appropriate means (e.g. checklists) for monitoring compliance on a regular basis.

Recommendation

Management should ensure that the requirements of MSA section 38, 40, 41 and MP&PMR 13 are adhered to for an appropriate performance management system to be in place.

Management response

PMS Policy is currently under review and recommendations will be given attention in the 2011/12 financial year processes.

Auditor's conclusion

Management agrees with the finding. The finding will be reported as non-compliance in the management/audit report.

31. EX.167 - AOPO: Supporting documentation not submitted (ex.167)**Audit finding**

Objective: To promote social and community facilities

Target: 12 Mobile lib. Visits

No supporting documents were submitted for the reported actual performance. Confirmed with the Library assistant that this is done by the Department of Sports, Arts and Culture and all the documents are kept by them.

Target: 6 outreach prog.

No supporting documents were submitted for the remaining 3 outreach programs that was reported in the annual performance report. Only the following could be tested:

World Play Day - Mosheba Early Learning Centre
World Book Day - Malebogo Primary School
How to use reference material - Kgosi-shope Middle School

Inappropriate management of the reporting process of performance.

The validity of reported performance against targets could not be confirmed as no supporting source information was provided (Reliability)

For the selected programme/objective the validity of 20% of the reported targets could not be established as relevant source documentation could not be provided.

Overstatement of reported performance due to the invalidity thereof.

Internal control deficiency

FINANCIAL AND PERFORMANCE MANAGEMENT

Non-preparation of regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

Recommendation

Management should ensure that reported performance is supported by sufficient and appropriate evidence and it is kept and submitted for audit purposes.

Management response

Management comment not yet received on 21 November 2011.

Auditor's conclusion

Material misstatement and therefore reported in the audit report.

32. EX.168 - AOPO: Overstatement of reported actual performance (ex.168)**Audit finding**

Objective: To promote social and community facilities

Target: 3000 new members

The following were established:

- Applications for membership for the following applicants were not signed as proof of approval by the Library Supervisor:

No	Month	Name
1	Jul-10	Peo MG
2	Jul-10	Kopela M
3	Jul-10	Sebenzile V
4	Aug-10	Tsolo MH
5	Aug-10	Kwenamore GA
6	Aug-10	Molefe RB
7	Sep-10	Chase LC
8	Sep-10	VC Letlhonye
9	Sep-10	Ntshebisang Ol
10	Sep-10	Mokgothu RI
11	Sep-10	Mogotsi RF
12	Oct-10	Meleko LG
13	Oct-10	Thupe VK
14	Oct-10	Makgalemele UR
15	Oct-10	Molejwa GK
16	Oct-10	Mojathako PO
17	Oct-10	Molale K

- There were no IDs attached to the following applicants' application forms:

No	Month	Name
1	Oct-10	Mojathako PO

- There were no proof of residence attached to the following applicants' application forms:

No	Month	Name
1	Jul-10	Peo MG
2	Jul-10	Kopela M
3	Jul-10	Sebenzile V
4	Aug-10	Tsolo MH
5	Aug-10	Molefe RB
6	Nov-11	Olifant MC
7	Nov-11	Moeng K
8	Nov-11	Kgwadi A
9	Sep-10	Modise BA

10	Sep-10	Mokgothu RI
11	Oct-10	Thupe VK
12	Oct-10	Makgalemele UR
13	Oct-10	Mojatlhako PO
14	Oct-10	Molale K

- Application forms for the following applicants/members were not found and submitted for audit purpose:

No	Month	Name
1	Apr-11	Mosikare SM
2	Jun-11	Mangale M
3	Sep-10	Moncho M
4	Sep-10	Motsie IY
5	Sep-10	Boitumelo RM
6	Oct-10	Wepeng CR
7	Oct-10	Kgang DR
8	Oct-10	Moshounyane PP
9	Oct-10	Baobeditse A

- The Membership Book did not have records for the following months thus the reported membership could not be sampled and the applications thereof audited:

No	Month
1	Dec-10
2	May-11

- Recalculated the total reported performance based on the Membership Book and verified that it was overstated:

Report		Monthly Report					Difference
		Setlagole	Disaneng	Tshidilamolomo	Madibogopan	Total	
Jul-10		9	0	13	0	22	
Aug-10		7	4	2	0	13	
Sep-10		23	9	4	0	36	
Quarter 1	750.00					71	679
Oct-10		27	2	7	0	36	
Nov-10		8	0	5	0	13	
Dec-10		10	0	0	0	10	
Quarter 2	750.00					59	691
Jan-11		3	6	4	0	13	
Feb-11		18	7	8	0	33	
Mar-11		21	4	6	0	31	
Quarter 3	750.00					77	673
Apr-11		17	4	7	1	29	
May-11		22	10	4	3	39	
Jun-11		11	3	6	1	21	
Quarter 4	750.00			176		89	661
Total	3,000					296	2,704

The validity and accuracy of reported performance against targets could not be confirmed as no supporting source information was provided (Reliability)

For the selected programme/objective the validity and accuracy of 20% of the reported targets could not be established as relevant source documentation could not be provided.

Overstatement of reported actual performance due to the invalidity and inaccuracy thereof.

Internal control deficiency

FINANCIAL AND PERFORMANCE MANAGEMENT

Non-preparation of regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

Recommendation

Management must ensure that the reported actual performance is valid and accurate and supported by valid and accurate documentation/evidence.

Management response

Management comment not yet received on 21 November 2011.

Auditor's conclusion

Material misstatement and therefore reported in the audit report.

Also refer to exception 166 and 167 where both had a validity issue, the exceptions were combined for audit report purposes.

33. EX.169 - AOPO: Affairs not conducted in a manner consistent with the IDP (ex.169)

Audit finding

Municipal Systems Act section 36:

36. Municipality to give effect to integrated development plan.—A municipality must give effect to its integrated development plan and conduct its affairs in a manner which is consistent with its integrated development plan.

It was established, due to a number of issues identified throughout the process, that the municipality did not comply with section 36 of MSA and ensure that it gives effect to its integrated development plan and conduct its affairs in a manner which is consistent with its integrated development plan.

Non-compliance with MSA resulting from management of performance management system.

Non-compliance with section 36 of MSA.

Internal control deficiency

LEADERSHIP

Non-provision of effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the best interests of the entity.

Recommendation

Management must ensure that compliance with MSA section 36 is effected.

Management response

Management comment not yet received on 21 November 2011.

Auditor's conclusion

Material non-compliance with enabling legislation and therefore reported in the audit report.

34. EX.170 - AOPO: Measures taken to improve performance (ex.170)**Audit finding**

Municipal System Act section 46(1)(c):

46. Annual performance reports.—(1) A municipality must prepare for each financial year a performance report reflecting—
(c) measures taken to improve performance.

It was established that the following measures to be taken to improve on performance reported could not be substantiated with appropriate supporting documentation (most of them are follow ups which cannot be corroborated with supporting documentation):

Indicator	Measure to improve performance
Number of LLF and other staff committees meetings held	To ensure that the staff committee meetings are held as per set targets
Developed business plans for LED Plans	Making follow ups
Established LED Forum	Re arranging meetings and reconfigure the structure
Updated database	Devise invitation strategy for submissions of profiles
Number of jobs created Number of people exempted from indigent register	Adopt new strategy and approach to ensure economic & job growth within SMME's
2 Wards Identified for CWP Implementation and Identified Co-ops For CWP	Put more efforts to meet targets
Number of investors in the municipality	Make continuous engagement
Number of B&Bs developed	Plan to be submitted at next council meeting
Number of Tourism meetings held	Plan to be submitted at next council meeting
Developed business plans	Encouraging stakeholders participation
Number of meetings with Traditional Authorities	Follow ups will be made to convene the meeting in the first quarter of the following financial year
Number of meetings.	Follow ups will be made with sector department to convene the meeting in the following financial year
Number of meetings.	Follow ups will be made with stakeholders to convene the meeting in the following financial year
Submission of yearly programmes	Follow ups will be made with other spheres of Government to convene the meeting in the following financial year
Reviewed policy By 30 August 2010	To follow up with council to speed up the process of reviewing the policy; so that they can eventually approve it.

Written delegation of duties for unit managers	To follow up with council to speed up the process of reviewing the delegation of duties; so that they can eventually approve it.
% increase in number of youth activities and Initiatives Supported	To follow up with the new top management on the review of youth programmes in the following financial year.
Number of women activities and Initiatives Supported	To follow up with the new top management on the review of youth programmes in the following financial year.
Number of children activities and Initiatives Supported	To follow up with the new top management on the review of youth programmes in the following financial year.
Number of elderly activities and Initiatives Supported	To follow up with the new top management on the review of youth programmes in the following financial year.
Number of disabled activities and Initiative Supported	To follow up with the new top management on the review of youth programmes in the following financial year.
Number of Dikgosi activities and Initiatives Supported	To follow up with the new top management on the review of youth programmes in the following financial year.
Increase in the Number of Municipal Structures participating in PMS	To follow up with council to speed up the process of reviewing the policy; so that it can be published for public input
% increase in the number of plans and reports developed by municipal Structures for consolidation	To try again in the following year to apply for funds.
Signed performance agreements for sect 57 Managers	To follow up on the matter during the following financial year
Number of reports submitted to Council as per policy requirement	To ensure that all the section 57 managers submit their reports on time so that the annual report can be submitted on time to the AG.
Number of performance reviews conducted	To follow up on the matter during the following financial year
Year end performance evaluation for the municipality and sect 57 employees conducted	To follow up on the matter during the following financial year
4 steering committee Meetings held	To ensure that the managers prioritise the importance of having RF steering committee meetings in the following financial year
% increase in progress made in establishing CBPs & LAPs	To follow up with senior management to include the budget to develop community based plans in the following financial year.
Community having adequate Access to Parks, Sports and Recreational facilities.	The budget for the development of parks has been included in the following financial year.
Established Municipal Cemeteries are functional and administered by Municipality	To follow up with the service provider in the first quarter of the following financial year to speed up on gazetting the By-law for approval.
By- laws are developed and Gazetted	To follow up with the service provider in the first quarter of the following financial year to speed up on gazetting the By-law for approval; so that other targets can be achieved.

Improved provision of disaster management to communities	To follow up with senior management to ensure that the budget is allocated to develop and implement the Disaster management plan in the following financial year.
The number of HH provided with 200m access to water	The Municipality will coordinate the projects to ensure that the community needs are met
Number of surveyed facilities for Livestock water	To follow up with the Department of agriculture to speed up the process in order to achieve the objective.
The length of Kilometres upgraded	Management to ensure that there is sufficient budget in the following financial year to start the projects and complete the incomplete ones.
% increase In construction progress	We will follow up with the Department of human settlement to ensure that the RDP houses projects have been achieved
% increase In construction progress	We will follow up with the Department of human settlement to coordinate housing needs of the community.
Maintenance Performed as per Maintenance plan	To follow up with management to appoint extra personnel to assist at the Technical Department.

Reasons for major variances between planned and actual reported targets were not supported by sufficient appropriate evidence (Validity)
Sufficient appropriate evidence to support the reasons for major variances between the planned and the actual reported targets could not be obtained.
76% of the reasons for major variances could not be verified.

Measures to be taken to improve on performance reported not valid.

Internal control deficiency

FINANCIAL AND PERFORMANCE MANAGEMENT

Review and monitor compliance with applicable laws and regulations

- There are no appropriate means (e.g. checklists) for monitoring compliance on a regular basis.

Recommendation

Management must ensure that the reported measures to be taken to improve on performance are supported by appropriate documentation/evidence.

Management response

Management comment not yet received on 21 November 2011.

Auditor's conclusion

Material misstatement and therefore reported in the audit report.



35. EX.171 - AOP: No proof of approval of the business plan (ex.171)

Audit finding

The business plans for the outreach programs to be implemented by the libraries have to be checked and approved by the Manager (Community Services).

It was established that the business plan for World Play Day outreach program that was held on 26 May 2011 at Mosheba Early Learning Centre in Tshidilamolomo was not approved by the Manager: Community Services.

Controls not implemented.

Invalid business plans for programs due to plans not being approved before implementation.

Internal control deficiency

FINANCIAL AND PERFORMANCE MANAGEMENT

Non-preparation of regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

Recommendation

Business plans for outreach programs should be checked and approved by management before implementation.

Management response

Management comment not yet received on 21 November 2011.

Auditor's conclusion

Material misstatement and therefore reported in the audit report.

36. EX.173 - AOPPO: Differences noted between the Magazine Register and the Monthly report (ex.173)

Audit finding

The registers kept at the libraries (i.e magazine) are updated on a daily basis depending on the number of visits by the community. These visits are then updated in the Monthly report sent to Manager: Community Services.

There was a difference of 1 between the Magazine Register for April 2011 and the Monthly Report for the same period:

- > Register -> 1099 visits
- > Monthly report -> 1098 visits

Updating of the Monthly report with the register not properly scrutinized to ensure that the report is accurate.

The accuracy and completeness of reported performance against targets could not be confirmed as inadequate supporting source information was provided (Reliability)

For the selected reported target that is material by nature, the accuracy and completeness of the reported target could not be established as sufficient appropriate audit evidence could not be provided.

Understatement of reported performance.

Internal control deficiency

Financial and performance management:

Management not implementing proper controls to ensure that reported information is accurate.

Recommendation

Management must ensure that the reported performance is accurate when compared with the daily registers.

Management response

Management comment not yet received on 21 November 2011.

Auditor's conclusion

Material misstatement and therefore reported in the audit report.

37. EX.175 - AOPO: Supporting documentation not submitted (ex.175)**Audit finding**

Supporting documentation was not submitted for the following actual performance reported in the performance report of the municipality:

No	Objective	Indicator	Target	Actual Performance	Comments
1	To improve accessibility inside and movement between villages	The length of Kilometres upgraded	30km	60% progress achieved for Madibogopan and Madibogo villages internal roads upgrade. The project has not started for other villages within the Municipality area.	N/A
2	To increase access to Basic Electricity for communities	The number of HH with access to basic electricity	1000 h/h with access to Basic Electricity	900 RDP households were provided with access to basic electricity	
3	To improve the System of burial, Registration of the dead and upkeep of cemeteries	Established Municipal Cemeteries are functional and administered by Municipality	Improved burial system and burial records kept accordingly	Municipal cemetery partnered with the Tribal authority has been implemented. However the death register for new and existing cemeteries has not yet been developed.	
4	Increase access to Recreational facilities	Community having adequate Access to Parks, Sports and Recreational facilities.	Delivery plan in place and EIA Conducted	Funds not yet provided for the development of parks	
5	To improve the health standards of the community	Improved healthy living standards	Inspections conducted	Monitoring and evaluation of the plans and activities / programs were undertaken by the respective community services manager	
6	To refine development and signing of performance contracts for sect 57 employees	Signed performance agreements for sect 57 Managers	Signed performance contracts for sect 57 Managers by 30 July 2010	Performance contracts for sect 57 managers signed; however not by 01 July 2010. The Heads of the Department did not at all sign performance contracts. Rewarding and recognition of good performance did not take place.	Received only the agreements for the CFO and Manager: Corporate Services
7	To increase the Number of Investors in the municipality	Number of investors in the municipality	Job creation	Developed the Municipal marketing profile and presented to Council investment opportunities that	N/A

				are available in Ratlou Marketing the Municipal profile. Anchor projects not identified	
8	Support and nurture SMMEs to be sustainable and create 30% permanent jobs through functional co-operatives by 2014	Updated database	SMME Empowerment	Database not yet linked to other sector departments Workshop held with SMMEs on 27 Oct 2010 where profiles were submitted to assist the municipality in linking its database with other sector depts. Monitoring process took place and the database was updated	The database referred to is the Supplier Database.
9	To identify and garner resources for potential projects for Local Economic Development	Reviewed LED Strategy	Developed & implementable strategy	Consultative stakeholder meetings were held and inputs were made on the strategy. Consolidation of the inputs was done. However implementation and monitoring has not yet taken place. Review and recommendation were not yet done as the LED strategy was only developed and adopted in this quarter.	N/A
10	To ensure that Municipal Fleet is used sparingly and effectively	Fleet Management Strategy developed and implemented	Annually	Draft fleet management strategy developed. And the implementation, monitoring and evaluation also took place	N/A

The validity, accuracy and completeness of reported performance against indicators/targets could not be confirmed as no/inadequate supporting source information was provided (Reliability)

For the following reported target:

1. 30km
2. 1000 h/h with access to Basic Electricity
3. Improved burial system and burial records kept accordingly
4. Delivery plan in place and EIA Conducted
5. Inspections conducted
6. Signed performance contracts for sect 57 Managers by 30 July 2010
7. Job creation
8. SMME Empowerment
9. Developed & implementable strategy
10. Annually

that is material by nature and amount, the validity, accuracy and completeness of the reported target could not be established as sufficient appropriate audit evidence and relevant source documentation could not be provided.

Non-reliability of reported performance due to the validity thereof not being able to be verified.

Internal control deficiency

Financial and performance management:



Non-preparation of regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

Reliable, complete and accurate monthly and quarterly financial statements, management information and reports on predetermined objectives are not prepared and reviewed.

Recommendation

Management must ensure that appropriate supporting documentation is submitted for audit purposes.

Management response

Management comment not yet received on 21 November 2011.

Auditor's conclusion

Material non-compliance with enabling legislation and therefore reported in the audit report.

Revenue

38. EX.9 - Revenue: Interest on overdue accounts-Revenue (ex. 9)

Audit finding

According Section 64 (2) (g) of MFMA the municipality must charge interest on arrears, except where the council has granted exemptions in accordance with its budget-related policies and within a prescribed framework. Our audit results have revealed that the municipality did not charge any interest on arrears. On approval of the budget, the council did not indicate that the municipality was exempted from charging interest on arrears. This constitutes non-compliance with S 64 of MFMA.

During the test of details it was established that the Municipality did not charge interest on the long outstanding debtors. An average amount (R 1,505,199 x 9%/12= **R 11,288.99**) was calculated on the overdue accounts using the prime interest rate to determine penalty interest.

Procedures are not in place to identify customers that did not pay and ensuring that interest is charged on late payments.

Understatement of revenue in the Annual Financial Statements.
Non-compliance with S 64 of the MFMA

Internal control deficiency

Leadership - Provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the best interests of the entity

Financial and Performance Management - Sufficient and appropriate controls are in place to ensure the completeness of revenue.

Recommendation

Management should ensure that interest is levied on all debtors in arrears. Alternatively, a council approval for exemption should be obtained.

Management response

The credit control and debt collection policy is still under review as it does not stipulate the rate of interest to be charged.

Auditor's conclusion

Material non-compliance with enabling legislation and therefore reported in the audit report.

39. Revenue: Testing of deeds transfers (ex.165)

Audit Finding

During the test of details regarding property transfer, the following issues were experienced after a deed search was performed on a sample of properties.

1. Properties did not have registration dates as reflected on the property certificate from the deeds office, as a result could not verify the date of the transfer.

F/NO	PTN	R/DIV	SIZE	FARM NAME	FISICAL ADDRESS
189	0R/E	JO	428.2660	DEFENCE	189 0R/E DEFENCE
189	2	JO		DEFENCE	189 2 DEFENCE
189	3	JO		DEFENCE	189 3 DEFENCE
190	1	JO	856.5320	SWEET VALLEYS	190 1 SWEET VALLEYS

2. The Deeds office do not have adequate information with regard to the following properties as they reflected unknown during the search. Confirmed with Frans Korasi (Property Valuer: Bokone Bophirima) that they liaised with the deeds office and currently in counting problems to locate owners of the properties.

F/NO	PTN	R/DIV	SIZE	FARM NAME	FISICAL ADDRESS
192	0	JN	3146.2918	CUXHAVEN	192 0 CUXHAVEN
193	0	JN	2481.0049	LIEGE	193 0 LIEGE
194	0	JN	2439.5516	LOUVAIN	194 0 LOUVAIN
195	0	JN	2152.7847	CLONTARF	195 0 CLONTARF
196	0	JN	2134.5048	BOYNE	196 0 BOYNE
197	0	JN	1903.2855	RHODES REST	197 0 RHODES REST

The extrapolated misstatement for the part relating to information with regard to properties reflected unknown during the search is:

Total Extrapolated misstatement = R584,079.85

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

The accounting officer/authority does not evaluate whether management has implemented effective internal controls by gaining an understanding of how senior management has met its responsibilities.

We are not able to establish whether the correct owners are being charged for the rates. This might lead to issues with the recoverability of debtors.

Internal control deficiency

Financial and performance management

Adequate financial management systems

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

Recommendation



Management should ensure that all property information is updated at the deeds office for control purposes.

Management response

1. As per our last meeting we highlighted that the municipality has nothing to do with the transfer of properties.
2. The municipality only bill the farmers as per the valuation roll.

Auditor's conclusion

Management response noted. The first part regarding the date of transfer has been cleared as the title deed documents were received and inspected and indicated no date of transfer for the period under review. However the municipality is still billing property rates on the other property for which no title could be confirmed and this results in overstatement of debtors balances of R584,079.85 which will be reported in the audit report.

ANNEXURE B: OTHER IMPORTANT MATTERS

Cash and cash equivalents

40. EX.27 - Bank and Cash: Segregation of duties - Petty Cash (Ex.27)

Audit finding

Segregation of duties is accomplished by the proper assignment of roles and responsibilities, enabled by appropriate access rights and restrictions built into the system, and supported by Information technology general controls (ITGCs) over system access rights and restrictions.

Segregation of duties:

- > Reduces the risk of undetected error and limits opportunities to misappropriate assets or conceal intentional misstatements in the financial statements.
- > Serves as a deterrent to fraud or concealment of error because of the need to recruit another individual's co-operation (collusion) to conceal it.

The cashier of Ratlou is also the main official responsible for petty cash, which gives rise to a segregation issue

Lack of segregation of duties.

Increased risk of fraud or error

Internal control deficiency

Financial and performance management:

Adequate segregation of duties do not exist for authorisation, recording and custodian functions. In circumstances where this is not feasible, other compensating procedures are established.

Recommendation

Management should charge another official (except the cashier or anyone else whose other responsibilities will not cause a conflict with standards, policies or processes reducing fraud and error risks) with the responsibility over petty cash

Management response

Management agrees with the finding and auditors' recommendation will be implemented with immediate effect.

Auditor's conclusion

Control weakness identified and therefore reported in the management report.

41. Bank and Cash: Difference in the balances as per cash book and as per reconciliation (ex.97)**Audit Finding**

Cashbook reconciliations are performed to do detect whether the cashbook is updated and accurate, it is compared with the bank statements, and the difference (if any) should be the direct result of reconciling items on the cashbook of the entity. The reconciliations should thus show the balance according to the cashbook; the bank statement balance, and the sum of the reconciling items making up the difference between the cashbook and the bank statement

The balance on the general ledger and the financial statements for the credit card is R R 44,680.39, however, the general ledger balance on the credit card reconciliation is R 322.30, the reconciliation was performed outside the pastel accounting package, the ledger balance on a reconciliation should always agree with the balance of the cashbook in the financial statements, reconciling items should be the difference between the balance as per cashbook and as per bank statement

Amounts used as ledger balances on the reconciliation are not the actual cashbook balances

Risk of incorrect reporting of cash balances

Internal control deficiency

Bank:

Bank reconciliations are prepared on a monthly basis and reviewed by the appropriate level of management.

Internal audit that inspects the adequacy and implementation of internal control

Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.

Recommendation

Management should thoroughly review the reconciliations performed by comparing the bank statements and the cashbook to ensure that the information in the reconciliations corresponds

Management response

Management response not yet received on 21 November 2011.

Auditor's conclusion

The finding is individually immaterial and therefore will be assessed with other individually immaterial findings for materiality on the summary of unadjusted misstatements.

42. Bank and Cash: Accounts used for unspent grants (ex.98)**Audit Finding**

As a requirement of generally recognised accounting practices, municipalities as a minimum should maintain a bank account to be used for unutilised capital receipts so as to assist with the management of such unutilised capital receipts

During the financial year, the municipality operated four money market accounts as the accounts used for unutilised capital receipts. The policy of the municipality is that once conditional grant amounts are received into the current account, the funds are then transferred to one of the money market accounts. When the funds have to be used, they are then transferred from the money market accounts to the primary account. Calculation of net transfers as per the general ledger is R 5,000,000.00, however total unspent conditional grants as per financial statements is R 6,377,317.00. This therefore means that the difference of R 1,377,317.00 the portion of unspent conditional grants that is still in the current account.

Unspent grants not fully transferred to money market accounts

Risk of misappropriation of conditional grants

Internal control deficiency

Internal audit that inspects the adequacy and implementation of internal control

Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.

Recommendation

Management must ensure that they transfer all unspent grants to the separate accounts set up for unutilised capital receipts

Management response

Management response not yet received on 21 November 2011.

Auditor's conclusion

Immaterial non-compliance with enabling legislation and therefore reported in the management report.

43. Bank and cash: No control register for direct deposits into the current account (ex.110)**Audit Finding**

The Credit control and debt collection policy of the municipality states that the Municipality must maintain a deposit register, refer to section 3.2 of the policy

3.2 Controls over Deposits of Security

3.2.4 Deposits received must be reviewed annually and a register must be maintained for this purpose. The total sum of deposits received shall constitute a short-term liability in the books of the Municipality. No interest shall accrue in favour of the depositors thereof. Upon termination of the debtor's agreement with the Municipality, the deposit will first be offset against any outstanding balance (if any) owed to the Municipality, and the remainder thereof will be refunded to the customer.

The municipality does not keep a separate register for direct deposits into the municipality's current account, the municipality records all unknown deposits into unknown deposits suspense accounts which are classified as current liabilities at year-end, management has said that they communicate with the bank monthly to identify deposit sources

Management does not keep deposit registers

Risk of Understatement of revenue

Risk of Overstatement of liabilities

Internal control deficiency

Revenue: Sufficient and appropriate controls are in place to ensure the completeness of revenue (e.g. all stationery is pre-numbered and is issued sequentially, and is accounted for).

Recommendation

Management should ensure that the establish a register that tracks deposits and processes of identifying depositors

Management response

Management response not yet received on 21 November 2011.

Name:

Position:

Date:

Auditor's conclusion

Control weakness identified and therefore reported in the management report.

44. EX.6 - Employee Cost: No policy addressing performance bonus and incentives for staff (ex. 6)

Audit finding

MSA section 67(1)(d) & (e):

(1) A municipality, in accordance with the laws and subject to any applicable collective agreement, must develop and adopt appropriate systems and procedures to ensure fair, efficient, effective and transparent personnel administration, including:

- (d) the monitoring, measuring and evaluation of performance of staff,
- (e) the promotion and demotion of staff

It was found that the municipality does have a Performance Management and Incentive Scheme/Strategy in place to ensure that employees' performance is monitored, measured, evaluated and provided with incentives (i.e performance bonus) for best performances and conducts.

Officials did not create a policy addressing performance bonus and incentives for staff.

Employees' performance not monitored, measured, evaluated and rewarded accordingly thus not facilitating employee development and moral.

Internal control deficiency

Leadership – Implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.

Recommendation

The municipality must develop and adopt appropriate systems and procedures to ensure that employees' performance is monitored, measured and evaluated and provided with appropriate incentives (i.e promotion, performance bonus).

Management response

Council has taken a decision to take current Performance Management Policy for community participation process in order to comply with Chapter 6 of Municipal Systems Act and the MFMA. The policy as currently implemented, has strategic alignment gaps in relation to IDP; PMS; SDBIP and Budgeting processes and objectives. Council has also undertaken to ensure that administration delivers the compliant PMS output that covers performance evaluation and rewards to all employees, not only Section 57 employees as well as ensuring that it measures and rewards performance on institutional activities derived from municipal IDP priorities.

As part of addressing human resources and performance-related issues, draft policies namely: Employee Retention Policy; Remuneration Policy; Human Resource Plan; Succession Planning Policy; Review of the existing Training and Development Policy and, Review of the current PMS Policy are at the local consultative stage (Drafts and Council Resolutions available).

Auditor's conclusion

Policies not implemented during the year under review therefore reported in the management report.

45. EX.51 - Employee Cost: Rent charged does not correspond to rent as per the rental/lease contracts. (ex. 51)

Audit finding

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

During the testing of rental agreements between the municipality and employees, the following discrepancies were identified:

Rental charged to employees by the municipality does not correspond to the rental as per the lease contracts:

	<i>J. Tsimane (per month)</i>	<i>O. Letebele (per month)</i>
Rent per contract	R 154.11	R 326.37
Rent as per invoice	R 308.22	R 325.60
Variance	R 154.11	R 0.77

Debtors will be overstated as follows:

J. Tsimane:	$R\ 154.11 \times 12\ \text{months} = R\ 1,849.32$
O. Letebele:	$R\ 0.77 \times 12\ \text{months} = R\ 9.24$
Total overstatement	$= R\ 1,858.56$

The appropriate level of management does not compare actual rental charged/invoiced (employees) against the rental as per the lease/rental agreement and follow up any differences.

The incorrect billing of rental (monthly) to employees will result in overstatement of municipal debtors

Internal control deficiency

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

Recommendation

Management must ensure that rental charged corresponds to the rental as per the employee lease agreements.

Management response

Management accepts the audit finding and the auditors' recommendation has been noted.

Auditor's conclusion

Immaterial misstatements below R 8 600, therefore trivial, and thus will not be reported in either the management or audit report.

46. EX.70 - Employee cost: No supporting documentation relating to the authorisation of allowance was provided (ex.70)

Audit finding

In terms of section 62(1)(b) of the Municipal Finance Management Act of South Africa, 2003 (Act No.56 of 2003) (MFMA),

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

During the testing of employee allowances, the following discrepancies were identified:

1. No supporting documentation relating to the authorisation of the following allowances could be provided:

Tel/Cell allowances															
EMP NO	Employee Names	REF	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MRT	APR	MAY	JUN	Total
100053	MR BJ MATLHOKO	TEL/CELL	300	300	300	300	300	300	300	300	300	300	300	300	3,600

Proper record keeping has not been implemented in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial reporting

Possible overstatement of expenditure of R 7,483.62
Limitation of scope.

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

- A proper filing system is not in place.

Recommendation

Management should ensure that a proper record keeping system is implemented in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial reporting.

Management response

Supporting documents as above are available as per the table below, see **ANNEXURE A** for proof.

No	Employee No	Surname and Initials	Details
1.	100051	Nqume P X	Approval of cell phone allowance form attached, see ANNEXURE A .
2.	100053	Leoko L	Notice of appointment and cell phone allowance form attached, see ANNEXURE A . Note that Leoko was acting in a post of which the package was inclusive of

			the cell phone allowance, which is why he also received the allowance.
3.	100085	Letsapa S	Notice of appointment and cell phone allowance form attached, see ANNEXURE A . Note that Letsapa was acting in a post of which the package was inclusive of the cell phone allowance, which is why he also received the allowance.
4.	100083	Kwenamore O H	Approval of acting allowance and council resolution attached, see ANNEXURE A . Note that Kwenamore was acting in a post of which the package was inclusive of the cell phone allowance, which is why he also received the allowance.
5.	100053	Matlhoko B J	Management agrees with audit finding and we'll ensure that there is approval supporting the cell phone allowance received by the employee.

Auditor's conclusion

Immaterial limitation below R 8 600, therefore trivial, and thus will not be reported in either the management or audit report.

47. EX.71 - Employee costs: No supporting documentation provided for leave utilised (ex.71)**Audit finding**

In terms of section 62(1)(b) of the Municipal_Finance Management Act of South Africa, 2003 (Act No.56 of 2003) (MFMA),

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

During the testing for leave, supporting documentation for the following leave (taken) could not be provided by the auditee:

#	NAME & INITIALS	EMPL CODE	DEPARTMENT	Sick			Family responsibility			Maternity Leave		
				Start Date	End Date	Days taken	Start date	End Date	Days taken	Start date	End Date	months taken
4	MADOLA M J	100031	Community Services							27/06/2010	21/10/2010	4
13	KEDISITSE OD	100038	Finance	02/02/2011	04/02/2011	3						
14	GAOLAOLWE OD	100050	Finance				27/09/2010	08/10/2010	5			
31	LETSAPA MS	100085	Technical Services	05/08/2010	06/08/2010	2						
				18/10/2010	19/20/2010	2						
				01/11/2010	08/11/2010	6						
				18/02/2011	18/02/2011	1						
				24/03/2011	24/03/2011	1						

Annual/Vacation leave

#	NAME & INITIALS	EMPL CODE	DEPARTMENT	July 2010: Leave taken	Sep 2010: Leave Taken	Feb 2011: Leave Taken	June: 2011 Leave Taken
11	LEOKO G.J	100025	Corporate Services			38	
21	KWENAMORE OH	100083	Municipal Manager	10		36	
22	RADEBE W.N	100028	Office of the Mayor				27
23	MMELESI C.S	100029	Office of the Mayor		6		
27	KUNENE BL	100088	Office of the Mayor				31



Proper record keeping has not been implemented in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial reporting

Unable to conclude whether the leave days taken by employees are properly authorised by the relevant heads of department.
Possible understatement of Leave provision.

Factual finding: R 38 928

Factual extrapolated: R 30 788

Total finding: R 69 716

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

- A proper filing system is not in place.

Recommendation

Management should ensure that a proper record keeping system is implemented in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial reporting.

Management response

Supporting documents are available with exception of employee no who did not take leave, and have been attached as follows;

No	Name and initials	Employee code	Description
1.	Madola M J	100031	Maternity leave- Leave form and medical certificate attached, see ANNEXURE B
2.	Kedisitse O D	100038	Sick leave- Leave form and medical certificate attached see ANNEXURE B
3.	Gaolalwe O D	100050	Family responsibility leave- Leave form attached see ANNEXURE B
4.	Mmelesi C S	100029	Vacation leave- Leave forms have been attached see ANNEXURE B
5.	Radebe W N	100028	These are leave days sold and not leave taken. There is no leave encashment form to prove this, and management will ensure that it is in place in future.
6.	Kunene B L	100088	These are leave days sold and not leave taken. Leave encashment form attached, see ANNEXURE B
7.	Letsapa M S	100085	According to the leave register the employee did not take sick leave. In addition to this, there are no leave forms to indicate that the employee did indeed take sick leave; we do not know where the auditors made a selection of these days from.
8.	Leoko G J	100025	The 38 days are leave days forfeited as per the leave register and not vacation taken.

9.	Kwenamore O H	100083	<p>Management agrees with the audit finding, there is no leave form for the 10 days vacation leave taken by the official.</p> <p>The 36 days are leave days forfeited as per the leave register and not vacation taken.</p>
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Auditor's conclusion

The finding is individually immaterial and therefore will be assessed with other individually immaterial findings for materiality on the summary of unadjusted misstatements.

48. EX.72 - Employee cost: Leave utilised but not recorded by HR (ex.72)**Audit finding**

The Human Resources Management (HR) department must monitor and record all changes (timeously) made to the employee leave days on the employee leave register.

During leave testing it was noted that the following approved leave forms (leave utilised) were not recorded on the leave register:

Annual/Vacation leave

#	NAME & INITIALS	EMPL CODE	DEPARTMENT	Annual/Vacation		Days taken
				Start Date	End Date	
16	MABE BP	100063	Finance	02/07/2010	02/07/2010	1

Note: The extrapolation includes extrapolation per exception 71.

Lack of proper monitoring of the employee leave registers by the HR department

Unable to conclude on the completeness of the leave register.
Possible over/understatement of provision for leave.

Factual finding: R 39,479.89

Factual extrapolated: R 31,224.09

Total finding: R 70,704

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

- A proper filing system is not in place.

Recommendation

Management must ensure that all leave utilised is timeously recorded on the employee leave register.

Management response

Management does not agree with the audit finding, with exception of a few employees, see the table below;

No	Name and initials	Employee code	Details
1.	Madola M J	100031	Family responsibility leave- the 1 day leave taken has been recorded on the leave register. Vacation leave- the 3 days leave taken has been recorded on the leave register.
2.	Letsapa B P	100101	Sick leave- the 6, 2, and

			<p>1 day respective leave days taken have been recorded on the leave register.</p> <p>The 2 days taken were sick leave and not vacation as per the leave register.</p>
3.	Moribe MM	100062	Maternity leave- the 4 months taken have been recorded on the leave register.
4.	Gaepe K A	100065	<p>Maternity leave- the 4 months taken have been recorded on the leave register.</p> <p>In respect of the 1 day of vacation leave taken, management agrees with the audit finding as it has not been recorded on the leave register.</p>
5.	Seale K M	100002	Vacation leave- the 1 day leave taken has been recorded on the leave register.
6.	Dira S L	100026	Vacation leave- the 1 and 1 day leave taken respectively has been recorded on the leave register.
7.	Gaepe N R	100017	Vacation leave- The employee applied for 1 day leave but did not utilize it. Refer to the leave form under "for office use only" which is completed by the HR Department. This part has not been completed because the leave day taken was not utilized. See ANNEXURE B for proof.
8.	Kedisitse O D	100038	The 2 days taken were sick leave and not vacation as per the leave register.
9.	Mabe B P	100063	Management agrees with

			the audit finding. The 1 day of vacation leave taken was not recorded on the leave register, and we'll ensure that it's recorded.
10.	Sefunelo P H	100068	Vacation leave- Leave days were not utilized by the official. Days were already sold by the time leave was applied for. See ANNEXURE B for proof.
11.	Letsapa M S	100085	Management does not agree with the audit finding. We do not know where this was selected from as there is no leave form to support this, which is why there is no entry on the leave register.

Auditor's conclusion

The finding is individually immaterial and therefore will be assessed with other individually immaterial findings for materiality on the summary of unadjusted misstatements.

49. EX.73 - Employee cost: Employees took less than 16 days annual/vacation leave (ex.73)**Audit finding**

Section 3.1.2 of SALBC Main Collective Agreement states that an employee is required to take leave within each (12 month period from date of employment) leave cycle as follows:

3.1.2.1 A five- (5) day worker shall take a minimum of sixteen (16) days leave; and

3.1.2.2 A six- (6) day worker shall take a minimum of nineteen (19) days leave.

During the testing of annual/vacation leave, the following employees were identified to have taken less than 16 days

annual/vacation leave as per the Section 3.1.2 of SALBC Main Collective Agreement:

Annual/Vacation leave

#	NAME & INITIALS	EMPL CODE	DEPARTMENT	Opening balance (Days)	Total Accrual	Total available leave days	Total Taken	Leave Days Balance
7	LETSAPA BP	100101	Community Services	4	24	28	14	14
8	MORWE O.P	100105	Community Services	0	24	24	0	24
19	MOTHIBI MS	100079	Municipal Manager	24	24	48	5	43
25	GAEPE KA	100065	Office of the Mayor	0	24	24	11	13
26	SEFUNEL PH	100068	Office of the Mayor	0	24	24	4	20
29	SEGERI T.M	100052	Technical Services	25	24	49	7	42
30	MERAPE K.J	100064	Technical Services	29	24	53	15	38
31	LETSAPA MS	100085	Technical Services	26	24	50	15	35

There is a lack of oversight responsibility regarding compliance and related internal controls.

This could result in responses to risks and the provision of oversight over the effectiveness of the internal control environment including financial and performance reporting and compliance with laws and regulations may not be adequately evaluated and monitored which increases the risk of fraud and error.

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

- A proper filing system is not in place.

Recommendation

Management must develop a monitoring strategy that will ensure that all guidance and legislation governing the utilisation of annual/vacation leave days by employees is adhered to.

Management response

Management agrees with the audit finding. Please note that this is as a result of the operational requirements of the municipality, that is why at times it's not possible for an official to go on leave.

Auditor's conclusion

Immaterial non-compliance with enabling legislation and therefore reported in the management report.

Procurement and Contract Management

50. EX.4 - Supply Chain Management: Vacant Positions (ex. 4)

Audit finding

According to the organogram of the municipality, in order for the Supply Chain Management section of the municipality to function effectively and efficiently, there need to be 5 personnel employed in that section.

Included therein are the following:

The Procurement Officer
Purchasing & Acquisitions
Asset Store Clerk

The following internal control deficiency was found after enquiry with the entity's management and inspection of the organogram:

> The following positions in the Supply Chain Management Unit have been vacant throughout the financial year end under review: Procurement Officer, Purchasing & Acquisition, Asset Store Clerk and through the confirmed system description, there is only one individual i.e Manager: Procurement, who is responsible for the duties of the above mentioned positions.

The lack of segregation of duties might render the systems and internal controls of the entity vulnerable to fraudulent activities.

Internal control deficiency

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

Recommendation

All vacant positions should be filled with competent individuals who have the ability to perform duties to enable the municipality to execute its mandate.

Management response

The vacant positions in the SCM unit have been advertised and will be closed on the 30th September 2011. See ANNEXURE C.

Mrs Doreen Kedisitse performs the processing of invoice and payment preparation only and has nothing to do with the orders and requisition.

Auditor's conclusion

Posts vacant throughout out the financial statements under review therefore reported in the management report.

51. EX.30 - SCM Policy: Non-Compliance noted (ex 30)**Audit finding**

1. A SCM policy of the municipality must state that the Municipality may not consider a written quotation or a bid unless the provider who submitted the quotation or bid
 - (a) has furnished the municipality or municipal entity with that provider's-
 - (i) full name;
 - (ii) identification number or company or other registration number; and
 - (iii) tax reference number and VAT registration number, if any;
 - (b) has authorised the municipality or municipal entity to obtain a tax clearance from the South African Revenue Services that the provider's tax matters are in order; and
 - (c) has indicated-
 - (i) whether he or she is in the service of the state, or has been in the service of the state in the previous twelve months;
 - (ii) if the provider is not a natural person, whether any of its directors, managers, principal shareholders or stakeholder is in the service of the state, or has been in the service of the state in the previous twelve months ; or
 - (iii) whether a spouse, child or parent of the provider or of a director, manager, shareholder or stakeholder referred to in subparagraph (ii) is in the service of the state, or has been in the service of the state in the previous twelve months. (SCM Reg 13)
2. A SCM policy must stipulate the conditions for the procurement of goods by means of petty cash purchases which must include:
 - (a) determining the terms on which a manager may delegate responsibility for petty cash to an official reporting to the manager;
 - (b) excluding any types of expenditure from petty cash purchases (SCM Reg 15)
3. A SCM policy must stipulate the conditions for the procurement of goods through written or verbal quotations, which must include conditions stating:
 - (a) that quotations must be obtained from at least three different providers preferably from, but not limited to, providers whose names appear on the list of accredited prospective providers of the municipality or municipal entity, provided that if quotations are obtained from providers who are not listed, such providers must meet the listing criteria in the supply chain management policy required by regulation 14 (1) (b) and (c)management policy required by regulation 14 (1) (b) and (c)
 - (b) that if it is not possible to obtain at least three quotations, the reasons must be recorded and reported quarterly to the accounting officer or another official designated by the accounting officer;
 - (c) that if a quotation was submitted verbally, the order may be placed only against written confirmation by the selected provider.
 - (d) that the accounting officer must record the names of the potential providers requested to provide such quotations with their quoted prices; and provide such quotations with their quoted prices; and confirmation by the selected provider.(SCM Reg 16,17(1))
4. A SCM policy must determine the procedures for the invitation of competitive bids and must stipulate:
 - (a) that any invitation to prospective providers to submit bids must be by means of a public advertisement in newspapers commonly circulating locally, the website of the municipality or municipal entity or any other appropriate ways (which may include an advertisement in the Government Tender Bulletin) (SCM Reg 22)
5. A SCM policy must determine the procedure for handling, opening and recording bids, and must require the accounting officer-

- (i) to record in a register all bids received in time;
- (ii) to make the register available for public inspection; and
- (iii) to publish the entries in the register and the bid results on the website of the municipality (SCM Reg 23)

6. A SCM policy must restrict the acquisition and storage of goods in bulk (other than water) which necessitates special safety arrangements, including gasses and fuel (SCM Reg 33(1))

7. A SCM policy must stipulate to what extent the municipality or municipal entity supports the Proudly SA Campaign. (SCM Reg 34)

8. A SCM policy must provide measures for the combating of abuse of the supply chain management system and must enable the accounting officer to reject any bid from a bidder if any municipal charges owed by that bidder or any of its directors to the municipality are in arrears for more than 3 months.(SCM Reg 38)

9. A supply chain management policy must provide for an effective internal monitoring system in order to determine, on the basis of a retrospective analysis, whether the authorised supply chain management processes are being followed and whether the desired objectives are being achieved. (SCM Reg 42)

During the audit of the SCM policy, the following deficiencies were identified in the SCM policy of Ratlou Municipality:

1. There is not any mention in the policy that the municipality may not consider a written quotation or bid unless the provider has submitted the quotation or bid

(a) has furnished the municipality or municipal entity with that provider's-

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

(b) has authorised the municipality or municipal entity to obtain a tax clearance from the South African Revenue Services that the provider's tax matters are in order; and

(c) has indicated-

- (i) whether he or she is in the service of the state, or has been in the service of the state in the previous twelve months;
- (ii) if the provider is not a natural person, whether any of its directors, managers, principal shareholders or stakeholder is in the service of the state, or has been in the service of the state in the previous twelve months ; or
- (iii) whether a spouse, child or parent of the provider or of a director, manager, shareholder or stakeholder referred to in subparagraph (ii) is in the service of the state, or has been in the service of the state in the previous twelve months.

2. The SCM policy does not include as conditions for the procurement of goods by means of petty cash purchases the terms on which each manager may delegate responsibility for petty cash to an official reporting to the manager and does not exclude any types of expenditure from petty cash purchases.

3. The SCM policy does not contain as part of the conditions for the procurement of goods or services through written or verbal quotations that:

- (a) quotations must be obtained from at least 3 different providers
- (b) that if it is not possible to get 3 quotations, the reasons must be recorded and approved by the CFO or an official designated by the CFO.
- (c) that the accounting officer must record the names of the potential providers requested to provide such quotations with their quoted prices; and
- (d) that if a quotation was submitted verbally, the order may be placed only against written confirmation by the selected provider.

4. When it comes to invitation of competitive bids, the SCM policy does not specify that the invitation should be by means of a public advertisement in newspaper commonly circulating locally, the website of the municipality or any other appropriate ways (Which may include an advertisement in Government Tender Bulletin)
5. The SCM policy does not include that the accounting officer is
 - (i) required to record in a register all bids received in time
 - (ii) Make the register available for public inspection; and
 - (iii) publish the entries in the register and the bid results on the website.
6. Section 7.6.1, of the SCM policy of the municipality permits the acquisition and storage of goods in bulk necessitating special safety arrangements.
7. The SCM policy does not state to what extends the municipality supports the proudly South African campaign
8. The SCM policy does not enable the accounting officer to reject any bid from a bidder if any municipal rates and taxes or municipal service charges owed by that bidder or any of its directors to the municipality are in arrears for more than three months.
9. The SCM policy does not provide for an effective internal monitoring system in order to determine, on the basis of retrospective analysis, whether the authorised supply chain management processes are being followed and whether the designed objectives are being achieved.

This results in contraventions with the SCM Regulations

Internal control deficiency

Leadership

Oversight Responsibility

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

The systems are not documented in the policy and procedures manual and the results of the monitoring process are not routinely communicated to all managers and staff.

Recommendation

The following annual SCM policy review should include a closer reference to National Treasury's Supply Chain Management Regulations on how the municipality's Supply Chain Management Policy should be structured. Compliance with these regulations is emphasized.

Management response

Management agrees with the finding and auditors' recommendation has been noted.

Auditor's conclusion

Control weakness identified and therefore reported in the management report.

52. EX.85 - Procurement and Contract Management: Contracts not advertised on the CIDB website (ex.85)

Audit finding

The CIDB Regulation 24 requires that all construction contracts procured through a competitive bidding process be published on the CIDB website.

During the audit of competitive bidding process, the following was identified:

None of the construction contracts that was procured through a competitive bidding process was published on the CIDB website as required.

This results in non-compliance with the CIDB regulations

Internal control deficiency

Leadership

Tone at the top

Accountability to the public is not emphasised.

Oversight responsibility

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

Recommendation

Construction contracts to be procured by means of a competitive bidding should be published on the CIDB website

Management response

Management agrees with the audit finding and will exercise oversight responsibility over compliance with laws and regulations.

Auditor's conclusion

Immaterial non-compliance with enabling legislation and therefore reported in the management report.

53. EX.89 - Procurement and Contract Management: Internal Control deficiencies in the SCM unit (ex.89)

Audit finding

1. The SCM Reg 17(2) requires that there be controls in place to ensure that an official delegated by the CFO to approve less than 3 quotations for awards between R2,000.00 and R10,000.00, reports such approvals to the CFO within 3 days of the end of each month.
 2. The SCM Reg 23(c)(iii) requires that a register of all bids received in time for competitive bidding be published on the website of the municipality.
 3. The SCM Reg 22(3)(a) stipulates that only bids submitted to the municipality must be sealed.
 4. According to the SCM Reg 49, bidders should be made aware of the fact that they are allowed to lodge within 14 days a written complaint or objection in case they are aggrieved by decisions or actions taken by the municipality.
 5. The SCM Reg 6(2) determines that the accounting officer must within 30 days after the end of the financial year submit a report on the implementation of the SCM policy of the municipality to the council of the municipality.
 6. SCM Reg 45(3) requires that all declarations of interest (and of no interest) made by the staff, SCM officials, accounting officer, and any other role player in the employ of the municipality the be kept in a register of interests.
-
1. During the audit of internal controls in the SCM unit, it was noted that no reports are sent to the CFO by the an official who had been delegated to approve less than 3 quotations for awards between R2,000.00 and R10,000.00
 2. A discussion with the SCM manager revealed that there is currently not any procedures in place to ensure that a register of all bids received on time for competitive bidding is published on the website of the municipality.
 3. There currently no controls in place to ensure that only sealed bids are accepted for competitive bidding. The SCM policy of the municipality is itself in contravention with the regulations as it allows for the acceptance of bids that are not sealed. chapter 3, section 7.2.12 of that policy reads:"any bid received without being in an envelope, shall be sealed in an envelope and the bid number and title , the box number(where applicable) and closing date shall be written on the envelope, if ascertainable."
 4. There are not any controls in place to ensure that bidders are made aware of the fact that they are allowed to lodge a written complaint or objection within 14 days in case they are aggrieved by a decision or action taken by the municipality.
 5. There are currently no controls in place to ensure that the accounting officer submits within 30 days of the end of the financial year, a report on the implementation of the SCM policy to the council of the municipality.
 6. There are no controls in place to ensure that declarations of interests are kept in a register of interests.

This results in Non-compliance with SCM regulations 17(2), 23(c)(iii), 22(3)(a) 49, 6(2), and 45(3)

Internal control deficiency



1. Financial Performance Management

Quality, reliable monthly financial statements and management information

Management and staff do not fulfil their duties and responsibilities.

2. Leadership

Oversight Quality

- The accounting officer / accounting authority does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.
- Quality is not understood by all to be a prerequisite and is not embedded in the municipality's values.

Recommendation

1. As part of the monthly reports submitted by the SCM manager, a report should also be submitted of all the approvals of less than 3 quotations for awards between R2,000.00 and R10,000.00.
2. Procedures should be put in place to ensure that a register of all bids received in time is published on the municipality's website.
3. During the next review of the SCM policy, care should be taken that SCM regulations are referred to so as to avoid direct compliance with the regulation in the municipality's policy. The policy should prohibit the acceptance of unsealed bids.
4. The municipality should device a way in which it will alert bidders of all remedies available to them upon any dissatisfaction with the bidding process followed by the municipality. A standard clause may be inserted into every bidding document which specifies requirement of SCM Reg 49
5. Reporting is of utmost importance and any regulation with regards to reporting should be adhered to.

Management response

1. According to our current system ONLY the CFO and Accounting Officer have the powers to approve.
2. Management agrees with the audit finding and will ensure that laws and regulations are adhered to.
3. Agreed but in practice, only sealed bids are entertained as they are dropped in the bid box before the closing date by the bidders and opened in public afterwards.
4. In terms Reg. 49, the municipality must ALLOW persons aggrieved NOT to MAKE THEM aware of such actions.
5. Management agrees with the audit finding and will ensure that laws and regulations are adhered to.
6. Management agrees with the audit finding and will ensure that laws and regulations are adhered to.

Auditor's conclusion

Non-compliance with enabling legislation and therefore reported in the management report.

54. EX.143 - Procurement and contract management: Invitations for quotes not advertised for 7 days (ex.143)

Audit finding

According to the SCM Reg 18(a) the SCM policy must stipulate that all requirements in excess of R30 000 (VAT included) that are to be procured by means of formal written price quotations must, in addition to the requirements of regulation 17, be advertised for at least seven days on the website and an official notice board of the municipality or municipal entity municipality or municipal entity.

The SCM policy of the municipality requires that this regulation be abided with.

During the audit of procurement and contract management, we noted that goods and services in excess of R30,000.00 which had been procured by means of formal invitation of quotations were not advertised on the municipality's website nor on the official notice board of the municipality for 7 days as required by its own SCM policy.

Non-compliance with the SCM regulation resulting in irregular expenditure of R2,306,916.23.

Internal control deficiency

Leadership

Oversight responsibility

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

Recommendation

The accounting officer must take all reasonable measures to ensure that the municipality complies with its own policies.

Management response

Please provide us with the list of vouchers of goods and services procured without being advertised.

Auditor's conclusion

Amounts adjusted by management - reflected in note 28.2 in the financial Statements.

Immaterial non-compliance with enabling legislation and therefore reported in the management report.

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55. EX.147 - Procurement and contract management: Deviations not reported (ex.147)**Audit finding**

According to the SCM regulation 17(c) & 36(2), if three quotations were not obtained for procurement of R30,000 to R200,000, the reasons should be recorded and approved by the CFO or a delegated official. The reasons should be reported to the council meeting, should be disclosed in the notes to the annual financial statements. (reg36(2))

Further, SCM Reg 36(2) requires that the accounting officer must record the reasons for any deviations and report them to the next meeting of the council, and include as a note to the annual financial statements.

The following deviations from the normal procurement process were identified and included the appropriate justifications for the deviations. However the reasons for these deviations were not reported to council, nor were they disclosed in a note in the Annual Financial Statements as required by the SCM regulations:

1. Repairs of Makgobistadt IEC - Manyeng Trading Enterprise :R320,450.00
2. Accommodation and meals for strategic planning - Quotation Warehouse: R205.560.00
3. Training of ward councillors - Ithute Educational Services : 170,000
4. Repairs of air conditioners - Broken String trading and projects :R86,020.00

Irregular expenditure of R782,030

Internal control deficiency

Leadership

Oversight responsibility

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

Recommendation

The accounting officer should take all reasonable measures to ensure that deviations are recorded and reported to the council and should be disclosed in the Financial Statements

Management response

Management agrees with the audit finding and auditors' recommendation has been noted.

Auditor's conclusion

Amounts adjusted by management - reflected in note 28.2 in the financial Statements.

Non-compliance with enabling legislation and therefore reported in the management report.

56. EX.148 - Procurement and contract management: Evaluation Criteria (ex.148)

Audit finding

According to the Supply Chain Management policy of the municipality, the evaluation criteria must disallow the listing of any prospective provider whose name appear on the National Treasury's database as a person prohibited from doing business with the public sector.

During the audit of procurement and contract management, it was noted that the criteria used to evaluate tenders and other contracts does not reference to the disallowance of providers whose name appears on the National Treasury's database as a person prohibited from doing business with the public sector.

This result in non-compliance with the SCM regulations and the municipality's very own SCM policy.

Internal control deficiency

Leadership

Oversight responsibility

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

Recommendation

The accounting officer should take all reasonable measures that the municipality's own policies are followed and implemented.

Management response

Please provide us with the names of such service providers.

Auditor's conclusion

Weakness in controls against enabling legislation and therefore reported in the management report.

Inventory

57. EX.126 - Inventory: No reconciliation performed (ex.126)

Audit finding

Reconciliation between the inventory sub-ledger, the general ledger and the year end stock count was not performed.

This is due to GRAP statements not being complied to as a result controls relating to accounting for inventory was not implemented.

This is due to the incorrect interpretation of GRAP 12, inventory definition.

Non disclosure of inventory.

Internal control deficiency

Financial and performance management - reconciliation between the inventory in the financial statements, general ledger and the stock take is to be performed and any differences are followed up.

Recommendation

Management should put controls in controls in order to ensure that the inventory disclosed is accurate and complete.

Management response

Reconciliation is not performed, but the yearend stock count was performed and the auditors are in possession of the yearend stock count sheets.

Auditor's conclusion

Control weakness identified and therefore reported in the management report

Operating expenditure

58. EX.31 - Procurement Process: No tender register found (ex 31)

Audit finding

The Supply Chain Management Regulation 23(c) requires the accounting officer to:

- (i) Record in a register all bids which have been received in time;
- (ii) To make the register available for public inspection; and
- (iii) To publish the entries in the register and the bid results on the website of the municipality.

During the testing of internal controls, we noted that there is not a tender register in place to ensure that all contracts which are entered into via the procurement process of competitive bidding are recorded.

This may give rise to contracted services being understated. Furthermore it results in non-compliance with the SCM Reg 23(c)(i)-(iii)

Internal control deficiency

Leadership

Oversight responsibility

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

Recommendation

The accounting officer should ensure that a tender register is in place, in which all tenders to be procured by means of a competitive bidding process is recorded.

Recorded in there should be names of bidders and the amount of each bid for all bids received on time. This register should be used for all tenders.

Recording should include full name of tender and the date of the bid opening.

Management response

For i) and ii), a register of all bids which have been received are recorded and the register is made available for public inspection, however the bid results are not published in the municipality's website.

Auditor's conclusion

Immaterial non-compliance and therefore reported in the management report.

59. EX.96 - Expenditure: Accounts were not settled within 30 days (ex.96)

Audit finding

MFMA NO 56, OF 2003

SEC 65

2(e) that all money owing by the entity is paid within 30 days of receiving the relevant invoice or statement unless prescribed otherwise for certain categories of expenditure;

The following expenses were not paid within the 30 days stipulated in the act.

1. Transport hire from D.M.I Molijwa, the invoice was received on the 29/03/2011 and paid on the 20/05/2011
2. A printer cartridge bought from Consensus Computing invoiced on the 26/07/2011 and paid on the 28/01/2011

The municipality could be liable to pay fines and interest on payments overdue because they were not settled within the 30 days

Internal control deficiency

FINANCIAL AND PERFORMANCE MANAGEMENT

Accounts payable:

- Creditors are paid within the required 30 days.

Recommendation

All expenditure should be settled within 30 days

Management response

Management response not yet received on 21 November 2011.

Auditor's conclusion

Non-compliance with enabling legislation and therefore reported in the management report.

60. EX.100 - Expenditure: Income tax numbers do not match (ex.100)

Audit finding

The details relating to the information given by the supplier should be consistent in all regards.

The Tax Clearance certificate attached is one of the owner's personal income tax clearance and not the businesses, as a result the income tax numbers do not match and the business also has a Vat registration number.

Tibane Consulting =>Income tax no: 9763018646
=> VAT no: 4440178897

Both as per Tax Invoice

J M TIBANE => 1996047641

The tax clearance certificate received was for the owner of the business but not the business itself.

Internal control deficiency

FINANCIAL AND PERFORMANCE MANAGEMENT

Review and monitor compliance with applicable laws and regulations

- There are appropriate means (e.gg checklists) for monitoring compliance on a regular basis.

Recommendation

Inspection of supplier documentation and comparison upon receipt to ensure accuracy.

Management response

Management agrees with the audit finding and auditors' recommendation has been noted.

Auditor's conclusion

Control weakness identified and therefore reported in the management report.

61. EX.108 - Expenditure: Supply Chain Management policies not followed (ex.108)

Audit finding

According to the Ratlou Local Municipality Draft Supply Chain Management Policy
Chapter 3: Part 2 Procurement Management
4.2.2 Formal written quotation be obtained for any specific procurement of a transaction
value above R300.00 but lower than R200,000.00 (vat inclusive)

Proper procurement policies were not followed when expenditure relating to Training of ward committees did not go to a bidding process or three quotations sought from possible suppliers, instead the municipality choose to use a supplier that they had used for the very same training before.

Ithute Educational Service => Training of 60 Ward Committees on Project Management
= R 170,000.00

Supply Chain Management policies are not followed that compromises internal control structures of the municipality.

Internal control deficiency

FINANCIAL AND PERFORMANCE MANAGEMENT

Review and monitor compliance with applicable laws and regulations

- The entity understands which laws and regulations it is required to comply with.

Recommendation

Management should follow proper procedures in accordance to MFMA and SCM policies..

Management response

Management response not yet receive on 21 November 2011

Auditor's conclusion

Material non-compliance with enabling legislation resulting in irregular expenditure and therefore reported in the audit report.

62. EX.132 - Expenditure: There is no proof of receipt of goods(ex.132)**Audit finding**

There was no proof of delivery or receipt goods

There was no proof of delivery or receipt goods from the supplier, as most invoices were stamped with a proof of delivery but these particular invoices were not.

1. Kago Cleaning, Maintenance & Enterprises relating to stationery bought on 11/09/2010 for R148,049.00
2. Consensus Computing CC relating to cartridges bought on the 26/07/2010 for R 15,120.

This is due to an internal control lapse.

Overstatement of expenditure (Occurrence)

The only invoice without proof of receipt identified of R 15,120 and therefore is an anomalous exception no extrapolation required.

Internal control deficiency

FINANCIAL AND PERFORMANCE MANAGEMENT

Expenditure for goods and services:

A proper authorisation procedure is in place for expenses whereby only the appropriate level of management is responsible to approve expenditure before any disbursements are made.

Recommendation

Proof of delivery of goods purchased should be attached or shown in some way.

Management response

For Consensus Computing, management agrees with the audit finding and auditors' recommendation has been noted.

For Kago Enterprise, management does not agree with the audit finding. See attached signed delivery notes.

Auditor's conclusion

The finding is individually immaterial and therefore will be assessed with other individually immaterial findings for materiality on the summary of unadjusted misstatements.

63. EX.158 - Expenditure: No quotations sourced for expenditure.(UPDATED ex.109) (ex.158)**Audit finding**

According to the Ratlou Local Municipality Draft Supply Chain Management Policy
 Chapter 3: Part 2 Procurement Management
 4.2.2 Formal written quotation be obtained for any specific procurement of a transaction
 value above R300.00 but lower than R200,000.00 (vat inclusive)

No quotations were sourced for the following expenditure items.

Accommodation:

1. Protea Hotel Klersdorp => R46,203.75
2. Recreation Africa, Cheque no: 12308 => R5,725.60
3. Keduetse Trading Enterprise, Cheque no: 11956 => R18,140.00
4. Kedueste Trading Enterprise, Cheque no: 12534 => R51,549.90
5. Kedueste Trading Enterprise, Cheque no: 11973 => R28,480.00
6. Ntlakohlaza Business Investment, Cheque no: 13320 => R14,633.00

Number 4, Keduetse Trading Enterprise is actually a travel agency according to the Invoice who sourced the accommodation on behalf of the municipality.

Training:

1. Ekurhuleni Artisans and skills training centre R19,500

Proper supply chain management policies are not being followed and thus weakening the internal controls.

Internal control deficiency**FINANCIAL AND PERFORMANCE MANAGEMENT**

Review and monitor compliance with applicable laws and regulations

- The entity understands which laws and regulations it is required to comply with.

Recommendation

Proper SCM policies should be followed.

Management response

Management comment not yet received on 21 November 2011.

Auditor's conclusion

Amounts adjusted by management - reflected in note 28.2 in the financial Statements. The amounts not adjusted have been taken to the SUM to be evaluated with other misstatements. Non-compliance with enabling legislation and therefore reported in the management report.

64. EX.159 - Procurement and Contract management: Fraud indicators (ex.159)**Audit finding**

GNR.225 of 15 March 2005: Amendment of Treasury Regulations in terms of Section 76

16A9. Avoiding abuse of supply chain management system

16A9.1 The accounting officer or accounting authority must—

- (a) take all reasonable steps to prevent abuse of the supply chain management system;
- (b) investigate any allegations against an official or other role player of corruption, improper conduct or failure to comply with the supply chain management system, and when justified—
 - (i) take steps against such official or other role player and inform the relevant treasury of such steps; and
 - (ii) report any conduct that may constitute an offence to the South African Police Service.

While auditing Procurement and Contract management the following fraud indicators were picked up:

1. Quotations were sourced from BRI-DE LOGISTICS, OTTTLIOGI TRADING ENTERPRISE & ORATILE TRADING ENTERPRISE for Designing and Printing of newsletter, the first two suppliers share the same P O Box 44 Kraaipan 2747 and the last two suppliers are not listed in the municipal supplier database. Cheque no:13123 - R24,570
2. Furthermore quotations were sourced for transport services from 2Road Transport Services, Tshidux Transport Services and Mimza Logistics, Tshidux transport services shares the same PO BOX 44 Kraaipan 2747 with ones above and Tshidux appears on the municipal databases with a different address 3711 Amalia Cres Unit 12. Cheque no: 12859 - 10,000.00
3. Bride logistics invoice layout for two different occasions were different Cheque 13123 and Cheque 12674 - R56,350

It could be indicative of fraudulent/ falsified documentation relating to procurement of goods and services.

Furthermore, irregular expenditure of R90,920.00 was incurred.

Internal control deficiency

FINANCIAL AND PERFORMANCE MANAGEMENT

iii) Expenditure for goods and services:

- All supporting documents (quotation, supplier order, invoice, goods received note) are thoroughly checked and reconciled, prior to effecting payment.

Recommendation

These cases must be investigated for possible undue influence in the process and appropriate action taken against the affected official or role player in accordance with policies and procedures.

Management response

Management comment not yet received on 21 November 2011.

Auditor's conclusion

Control weakness identified and therefore reported in the management report.

65. EX.162 - Expenditure: Irregular or fruitless and wasteful expenditure reports not sent to the Mayor, MEC and Auditor General - Sec 32(4)

Audit finding

Sec 32(4) The accounting officer must promptly inform the mayor, the MEC for local government in the province and the Auditor-General, in writing, of—

- (a) any unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality;
- (b) whether any person is responsible or under investigation for such unauthorised, irregular or fruitless and wasteful expenditure; and
- (c) the steps that have been taken—
 - (i) to recover or rectify such expenditure; and
 - (ii) to prevent a recurrence of such expenditure

During the testing of Irregular and fruitless and wasteful expenditure, the following discrepancy was identified:

- Irregular or fruitless and wasteful expenditure reports were not sent to the Mayor, MEC and Auditor General - Sec 32(4) of the MFMA.

1. Fruitless and wasteful expenditure

	R' 2011	R' 2010
Opening balance -	R 2,245.00	R 2,245.00
Fruitless and wasteful expenditure current year	R 633.73	
Condoned or written off by Council	-R 2,878.73	
To be recovered – contingent asset	R 0.00	R 0.00
Fruitless and wasteful expenditure awaiting condonement	R 0.00	R 2,245.00

2. Irregular expenditure

	R' 2011	R' 2010
Opening balance -	R 10,581,393.03	R 0.00
Irregular expenditure current year	R 11,211,204.10	R 10,581,393.03
Condoned or written off by Council	-R 9,930,230.01	R 0.00
Transfer to receivables for recovery – not condoned	R 0.00	R 0.00
Irregular expenditure awaiting condonement	R 11,862,367.12	R 10,581,393.03

Failure to sent reports to the Mayor, MEC and Auditor General results in non-compliance - Sec 32(4) of the MFMA

Internal control deficiency

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

Recommendation



Management must develop a strategy that ensure that ensures that the Mayor, MEC and Auditor General is informed of all irregular or fruitless and wasteful expenditure incurred by the municipality.

Management response

Management agrees with the audit finding. Irregular expenditure amounting to R10 581 393.03 will be taken to council for condonement on the 18th November 2011, and R1 280 974.09 for financial year 2010/11 after finalization of the audit.

Auditor's conclusion

Management agrees with the finding. Material non-compliance with enabling legislation and therefore reported in the audit report.

Payables

66. EX.161 - Creditors: Break down of creditors balance not provided.(ex.161)

Audit finding

Section 15 of the Public Audit Act No 25 of 2004 states:

15. General auditing powers.—

(1) When performing an audit referred to in section 11, the Auditor-General or an authorised auditor has at all reasonable times full and unrestricted access to—

- (a) any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee;

Total breakdown of the creditors balance at year end could not be obtained:

Other creditors only the R8,716.09 + R18,090.92 could be tested as the remaining balance could not be tested as a breakdown and supplier statements could not be provided.

Tested amount = R26,807.01

Total balance = R33,644.00

Remaining = -R6,836.99

Trivial threshold = R5000

This results in a limitation of scope.

Internal control deficiency

Financial Management and Performance.

2.a 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.

- The documents and records such as schedules and reconciliations of debtors, creditors, bank etc, supporting the financial statements and performance report are properly filed and easily retrievable and are available for audit purposes.

Recommendation

The breakdown should have been provided.

Management response

Management accepts the audit finding and auditors' recommendation has been noted.

Auditor's conclusion

Management agrees with the finding. Immaterial misstatement and therefore reported in the management report.

Predetermined objectives

67. EX.2 - Planning: Vacant post - Director: Community Service and Public Safety (ex. 2)

Audit finding

MFMA section 77(1)(c)(d):

Top management of municipalities

77. (1) The top management of a municipality's administration consists of-

- (a) the accounting officer;
- (b) the chief financial officer;
- (c) all senior managers who are responsible for managing the respective votes of the municipality and to whom powers and duties for this purpose have been delegated in terms of section 79: and 35
- (d) any other senior officials designated by the accounting officer.

Through inspection of the organogram it was established that the following key management position in the Organisational Structure (Organogram) was vacant:

> Director: Community Services and Public Safety. The position has not been filled due to financial constraints i.e. lack of budget.

It was further established that the following positions which might affect the municipality's performance regarding predetermined objectives were vacant:

- > Communication Manager (office of the mayor)
- > Manager (office of the speaker)
- > Procurement Officer (budget and treasury office)
- > Waste Removal and Management Officer (Community Service and Public Safety)
- > LED Officer: Agriculture (office of the municipal manager)
- > LED Officer: SMME Development (office of the municipal manager)
- > Personnel Officer (office of the municipal manager)
- > HR and Labour Relations Officer (office of the municipal manager)

Participation by the accounting officer – The accounting officer does not understand and exercise oversight responsibility related to financial reporting and related internal control.

Lack of human resource capacity which may hinder service delivery and the municipality's objectives.

Internal control deficiency

Leadership: Implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.

Recommendation

As determined by the Organogram, the municipality must ensure that all the key management position and other positions that are necessary to meet the predetermined objectives are filled.

Management response

The positions could not be filled due to budgetary constraints and the municipality has also reviewed the current organogram. Some of the above-mentioned positions have already been filled during the current year, i.e. 2011/2012.

A copy of the reviewed Organogram adopted by Council is attached as ANNEXURE A, and appointment letters of some of the employees for the above-mentioned positions are attached as ANNEXURE B.

Other vacancies in the Finance Department that have been advertised for the current year are attached as Annexure C

Auditor's conclusion

Vacant post might result in controls being weak, therefore reported in the management report.

68. Planning: No skills retention policy (ex. 3)

Audit Finding

Municipal Systems Act section 68(1):

A municipality must develop its human resource capacity to a level that enables it to perform its functions and exercise its powers in an economical, effective, efficient and accountable way and for this purpose must comply with the Skills Development Act and Skills Levies Act.

It was found out that the municipality does not have a Skills Development and Retention policy.

Human resource policies do not facilitate the training and disciplining of personnel.

The municipality may lose the required skills to enable it to perform its functions and exercise its powers in an economical, effective, efficient and accountable way.

Internal control deficiency

Leadership - Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Recommendation

The municipality should establish and implement a Retention Policy.

Management response

The Skills Development Policy is in place, and a copy is hereby attached as ANNEXURE D.

The Skills Retention policy is not in place. The Draft Retention Policy has been developed and is currently undergoing consultative processes with relevant structures, i.e. Local Labour Forum, Staff, Council, etc. A copy of the draft Skills Retention policy is attached as

ANNEXURE E

Auditor's conclusion

Skills Development plan was received (resolved).

Retention policy is not yet developed (final adopted policy) and implemented therefore the exception in this regard still stands.

69. EX.19 - AOPO: Organogram not included in the IDP (ex. 19)

Audit finding

MSA section 26(f):

An integrated development plan must reflect:

- the council's operational strategies

It was established that the IDP does not include an organogram (as means to reflect the municipality's human resource operational strategy and use thereof).

Management does not take appropriate steps/measures to ensure that necessary information/data is identified and included in the IDP as required by legislature.

Non-compliance with MSA section 26(f). Non-reflection of the municipality's human resource structure might be an indication that the municipality does not have sufficient human resource capacity to fulfil predetermined objectives.

Internal control deficiency

Recommendation

Management must ensure that the organisational structure is included in the IDP.

Management response

We agree that the organogram does not appear in the IDP but was submitted to auditors as a separate document.

The above issue was responded to in a meeting with the auditors with CFO and Corporate Services staff on 10.10.2011, wherein it was submitted that the organogram was reviewed in 2010/11 and has since been adopted in current 2011/12 financial year.

Management will ensure that the development of the new (as resolved by Council) 2011/12 & until 2016 process, currently underway, takes into account the correction of your finding.

Name: Glen Lekomanyane

Position: Acting Municipal Manager

Date: 11 Oct 2011

Auditor's conclusion

Immaterial non-compliance with enabling legislation and therefore reported in the management report.

70. EX.22 - AOPO: Budget/financial strategy not included in the IDP (ex. 22)**Audit finding**

Municipal Planning and Performance Management Regulations section 2(3):

(3) A financial plan reflected in a municipality's integrated development plan must at least—

- (a) include the budget projection required by section 26 (h) of the Act;
- (b) indicate the financial resources that are available for capital project developments and operational expenditure; and
- (c) include a financial strategy that defines sound financial management and expenditure control, as well as ways and means of increasing revenues and external funding for the municipality and its development priorities and objectives, which strategy may address the following:
 - (i) Revenue raising strategies;
 - (ii) asset management strategies;
 - (iii) financial management strategies;
 - (iv) capital financing strategies;
 - (v) operational financing strategies; and
 - (vi) strategies that would enhance cost-effectiveness.

It was established that the IDP does not include the budget/financial strategy of the municipality in terms of section 2(3) of the Municipal Planning and Performance Management Regulations.

Management does not take appropriate steps/measures to ensure that necessary information/data is identified and included in the IDP as required by legislature.

Non-compliance with MP&PMR section 2(3) and resulting in the incompleteness of information in the IDP thus not being appropriate.

Internal control deficiency

Financial and performance management

No review and monitoring of compliance with applicable laws and regulations.

Recommendation

Management must ensure that the budget/financial strategy as required by section 2(3) of the MP&PMR is included in the IDP.

Management response

Most documents were submitted as attachments to the IDP.

Management has admitted to the non-legislative compliance on some of the issues related to municipal planning and performance management and the IDP and has initiated processes to ensure compliance.

Name: Glen Lekomanyane

Position: Acting Municipal Manager

Date: 11 Oct 2011

Auditor's conclusion

Immaterial non-compliance with enabling legislation and therefore reported in the management report.

71. AOPO: Notice of the adopted IDP (ex.41)**Audit Finding**

Municipal Systems Act section 25(4)(a), (b):

(4) A municipality must, within 14 days of the adoption of its integrated development plan in terms of subsection 1 or C3)—

(a) give notice to the public—

(i) of the adoption of the plan; and

(ii) that copies of or extracts from the plan are available for public inspection at specified places; and

(b) publicise a summary of the plan.

section 32(1)(a):

32. Copy of integrated development plan to be submitted to MEC for local government.—(1) (a)

The municipal manager of a municipality must submit a copy of the integrated development plan as adopted by the council of the municipality, and any subsequent amendment to the plan, to the MEC for local government in the province within 10 days of the adoption or amendment of the plan.

The following information requested (refer to request number 19 of 2011 dated 03 October 2011) was not submitted by management:

1. Proof of submission of the IDP to the MEC for Local Government

Information not properly kept and provided as and when needed.

Non-submission of the notice might indicate non-compliance with MSA section 25(4) and 32(1)(a).

Internal control deficiency

Financial management and performance:

Non-implementation of 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

- A proper filing system is in not place.

Recommendation

Management must ensure that information requested for audit purposes is submitted.

Management response

Management provided the documentation.

Auditor's conclusion

Immaterial non-compliance with enabling legislation and therefore reported in the management report.

72. EX.128 - AOPO: No budget for programmes on predetermined objectives (ex.128)**Audit finding****Municipal Planning and Performance Management Regulations section 2(3):**

- (3) A financial plan reflected in a municipality's integrated development plan must at least—
- (a) include the budget projection required by section 26 (h) of the Act;
 - (b) indicate the financial resources that are available for capital project developments and operational expenditure; and
 - (c) include a financial strategy that defines sound financial management and expenditure control, as well as ways and means of increasing revenues and external funding for the municipality and its development priorities and objectives, which strategy may address the following:
 - (i) Revenue raising strategies;
 - (ii) asset management strategies;
 - (iii) financial management strategies;
 - (iv) capital financing strategies;
 - (v) operational financing strategies; and
 - (vi) strategies that would enhance cost-effectiveness.

It was established that there were no budget allocated for the following objectives in the IDP:

1. Maintenance of municipal assets and buildings
2. Development of employment equity plan
3. Implement records management system (Financial System management).
4. Development of municipal by-laws
5. Leave administration
6. Ensure accident free environment for communities in relation to stray animals in municipal roads
7. Enforce all by-laws applicable in the whole jurisdiction

Management not ensuring proper planning regarding the predetermined objectives that planned programmes are budgeted for in the adopted IDP.

Hampering of the municipality's performance due to programmes not being budgeted for. Non-measurability of objectives as financial targets (budget) are not included as part of the objectives' targets.

Internal control deficiency

Leadership:

Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls

- The budget was not prepared in accordance with legislated requirements.

Recommendation

Management must ensure that there are budget amounts for all the development priorities included in the approved IDP.

Management response

Management accepts the audit finding and the recommendation has been noted.

Auditor's conclusion

Immaterial non-compliance with enabling legislation and therefore reported in the management report.

Provisions

73. EX.119 - Bad debts-correspondence with attorney for accounts (ex.119)

Audit finding

Section 35 of the Public Audit Act requires management of an entity to submit the required information in order to facilitate the audit process.

According to MSA section 96: a municipality

(a) must collect all money that is due and payable to it, subject to this act and any other applicable legislation,

(b) for this purpose, must adopt, maintain and implement a credit control and debt collection policy which is consistent with its rates and tariff policies and complies with the provisions of this act.

The MFMA section 64 further states:

64. (1) The accounting officer of a municipality is responsible for the management of the revenue of the municipality.

(2) The accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure—

(a) that the municipality has effective revenue collection systems consistent with section 95 of the Municipal Systems Act and the municipality's credit control and debt collection policy;

(b) that revenue due to the municipality is calculated on a monthly basis;

(c) that accounts for municipal tax and charges for municipal services are prepared on a monthly basis, or less often as may be prescribed where monthly accounts are uneconomical;

(d) that all money received is promptly deposited in accordance with this Act into the municipality's primary and other bank accounts;

(e) that the municipality has and maintains a management, accounting and information system which—

(i) recognises revenue when it is earned;

(ii) accounts for debtors; and

(iii) accounts for receipts of revenue;

(f) that the municipality has and maintains a system of internal control in respect of debtors and revenue, as may be prescribed;

(g) that the municipality charges interest on arrears, except where the council has granted exemptions in accordance with its budget-related policies and within a prescribed framework; and

(h) that all revenue received by the municipality, including revenue received by any collecting agent on its behalf, is reconciled at least on a weekly basis.

(3) The accounting officer must immediately inform the National Treasury of any payments due by an organ of state to the municipality in respect of municipal tax or for municipal services, if such payments are regularly in arrears for periods of more than 30 days.

(4) The accounting officer must take all reasonable steps to ensure—

(a) that any funds collected by the municipality on behalf of another organ of state is transferred to that organ of state at least on a weekly basis; and

(b) that such funds are not used for purposes of the municipality.

Therefore when the municipality has outstanding debtors it must make means and ways to receive the outstanding amount.

We could not verify through correspondence with Ratlou Local Municipality's lawyers regarding collection of outstanding debtors.

During the test of details it was established that management could not provide correspondence with attorney for long outstanding accounts to ensure that all steps were taken to recover debts prior increasing provisions.

Proper record keeping has not been implemented in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial reporting.

Information not submitted by management resulted as limitation of scope and therefore we were unable to verify that the Municipality took all steps to recover bad debts prior writing off.

Internal control deficiency

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

The accounting officer/authority does not evaluate whether management has implemented effective internal controls by gaining an understanding of how senior management has met its responsibilities.

Recommendation

Management should ensure that a proper record keeping system is implemented in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial reporting.

Management response

Management response not yet received on 21 November 2011

Auditor's conclusion

Material non-compliance with enabling legislation and therefore reported in the audit report.

Receivables

74. EX.14 - Receivables: Note for arrangement to pay outstanding balance (ex. 14)

Audit finding

According to Section 9.1.1 of Credit Control and Debt Collection Policy, Final notices/accounts will be posted or delivered where accounts are in arrears for 60 days (2 months) or more. The final notice/account will contain a note that the client may arrange to pay the outstanding balance in terms of this policy. Our results have revealed that, debtors are called to be made aware of their debt; No letter of demand/note is sent to debtors with outstanding balance for two months reminding them to make an arrangement to pay.

Non compliance with Credit Control and Debt Collection Policy.(Section 9.1.1 credit control and debt collection)

Management do not ensure that proper monitoring of controls is being implemented.

Non-compliance with the policy might hamper the municipality's ability to recover debts and thus result in high debt write-off and loss of revenue.

Internal control deficiency

Leadership:

Non-establishment and communication policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities.

Recommendation

Management must ensure that they comply with Credit Control and Debt Collection Policy.(Section 9.1.1 credit control and debt collection).

Management response

Management accepts the finding and the auditor recommendation has been noted.

Auditor's conclusion

Immaterial non-compliance with enabling legislature and therefore reported in the management report.

75. EX.26 - Receivables: Non-compliance with S64 of the MFMA (EX. 26)

Audit finding

According Section 64 (2)(g) of MFMA the municipality must charge interest on arrears, except where the council has granted exemptions in accordance with its budget-related policies and within a prescribed framework.

Our audit result has revealed that the municipality did not charge any interest on arrears. On approval of the budget, the council did not indicate that the municipality was exempted from charging interest on arrears. This constitutes non-compliance with S 64 of MFMA.

Procedures are not in place to identify customers that did not pay and ensuring that interest is charged on late payments.

Non-compliance with S 64 of the MFMA

Internal control deficiency

Leadership

Oversight responsibility - Actions are not taken to address risks relating to the achievement of complete and accurate financial and performance reporting.

Recommendation

Management should ensure that interest is levied on all debtors in arrears. Alternatively, a council approval for exemption should be obtained.

Management response

Management agrees with the finding. The credit control and debt collection policy is still under review as it is silent on the rate of interest to be charged on overdue accounts. Auditors' recommendation noted.

Auditor's conclusion

Material non-compliance with enabling legislation and therefore reported in the audit report.

76. EX.137 - Receivables: Debtor's confirmation (ex.137)**Audit finding**

During our audit debtor's confirmation were sent out to debtors and the following differences were identified:

No.	Item description	Amount as per Statement	Amount confirmed by Debtor	Difference
1	Independent Electoral Commission (IEC)	25,344.00	26,136.00	(792.00)
2	Arekopaneng Training Centre	16,052.26	16,052.26	-
3	Batho-Botlhe Company	232,817.50	39,928.11	192,889.39
4	Social Development	86,043.90	71,446.25	14,597.65
5	Workshop	33,821.16	19,500.00	14,321.16
6	VTs Wholesaler	28,589.22	28,510.89	78.33
7	Tlotlego Copy Shop & Salon	15,543.46	15,543.46	-
				221,094.53

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

The accounting officer/authority does not evaluate whether management has implemented effective internal controls by gaining an understanding of how senior management has met its responsibilities.

Receivables recognised are overstated an amount of R 206 496.

Internal control deficiency

Financial and performance management

Adequate financial management systems

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

Recommendation

Management must ensure that receivables recognised are correctly disclosed.

Management response

1. Social Development: Amount confirmed by the debtor is only invoices up to April 2011.

See statements attached.

Auditor's conclusion

Management subsequently provided supporting reconciliations for the amount regarding Batho Botlhe Company and Social Development. Supporting documentation inspected and confirmed that amount at year end and the resulting difference is R34,032 and the total difference is R47,639. The difference is individually immaterial and therefore will be assessed with other individually immaterial findings for materiality on the summary of unadjusted misstatements.

Revenue

77. EX.11 - Revenue: Short term liability (ex. 11)

Audit finding

According to Section 3.2.4(Control over deposit security) of Credit Control and Debt Collection Policy, deposits received must be reviewed annually and a register must be maintained for this purpose the total sum of deposit received shall constitute a short term liability in the books of the municipality. Our results have revealed that the municipality did not maintain an appropriate deposit register for the period 2010/2011.

Management do not ensure that monitoring of appropriate controls have been implemented.

Appropriate deposit register not kept by the Municipality.

Non compliance with credit control and debt collection policy.(sec 3.2 control over deposits of security).

Overstatement of revenue(Deposits recognised as revenue instead of short term liability)/Understatement of short term liability.

Internal control deficiency

Leadership - Provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the best interests of the entity

Financial and Performance Management - Sufficient and appropriate controls are in place to ensure the completeness of revenue.

Recommendation

Management must ensure that they comply with Section 3.2.4(Control over deposit security) of Credit Control and Debt Collection Policy.

Management response

Management agrees with the finding but we have evaluated all the receipts and noted that there were consumer deposits of an amount of R1 870.00. Consumer deposit registers have been attached with the receipts.

Name: Rachel Gaepe

Position: CFO

Date: 04/10/2011

Auditor's conclusion

Management agrees with the finding. The finding will not be included in the management/audit report as it is below the trivial threshold/materiality.

78. EX.66 - Revenue: Proof of Reconciliations (ex.66)

Audit finding

Section 35 of the Public Audit Act requires management of an entity to submit the required information in order to facilitate the audit process.

During the test of details no proof was obtained from management that a reconciliation between the general ledger and deposit register was performed.

Documents are not readily available to be submitted for audit upon request

Errors may not be detected and corrected on time.

Internal control deficiency

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

The accounting officer/authority does not evaluate whether management has implemented effective internal controls by gaining an understanding of how senior management has met its responsibilities.

Recommendation

Management must ensure that proper reconciliations are performed for rental deposit and submitted for audit purposes.

Management response

Management accepts the audit finding and auditors' recommendation has been noted.

Auditor's conclusion

Control weakness identified and therefore reported in the management report.

79. Revenue: supporting documents (rental contracts) (ex.103)**Audit Finding**

In terms of section 62(1)(b) of the Municipal Finance Management Act of South Africa, 2003 (Act No.56 of 2003) (MFMA),

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

During the test of details it was established that management was unable to submit rental contracts for the following individuals.

No:	Rental Debtors	Rent Received for period
1	Setlagole Butchery	33,120
2	Social Development no. 1	36,576
		69,696

Extrapolation: $69,696/922,796.68 \times 1,007,332.45 = 76,080.73$

Proper record keeping has not been implemented in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial reporting.

Information not submitted by management resulted as limitation of scope and therefore we were unable to test accuracy of revenue charged by the Municipality.

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

- A proper filing system is not in place.

Recommendation

Management should ensure that a proper record keeping system is implemented in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial reporting.

Management response

Management does not agree to the audit finding in regard to the rental contract for Setlagole Butchery. Although it was not a signed contract, it was submitted for audit purpose.

Auditor's conclusion

As the contract was not signed, we were unable to verify the rights and validity of the terms. Amount is not material and has been transferred to the SUM for further evaluation.

80. Revenue: Direct income reconciliation (ex.104)

Audit Finding

Section 35 of the Public Audit Act requires management of an entity to submit the required information in order to facilitate the audit process.

During the test of details no proof was obtained from management that a reconciliation between the general ledger and direct income register (receipt books) was performed.

Documents are not readily available to be submitted for audit upon request.

Errors may not be detected and corrected on time.

Internal control deficiency

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

The accounting officer/authority does not evaluate whether management has implemented effective internal controls by gaining an understanding of how senior management has met its responsibilities.

Recommendation

Management must ensure that proper reconciliations between direct income register and the general ledger are performed on monthly purposes.

Management response

Management agrees with the audit finding and auditors' recommendation has been noted.

Auditor's conclusion

Control weakness identified and therefore reported in the management report.

81. Revenue: Recalculation of rent (ex.113)**Audit Finding**

During the test of details the following rental discrepancies were identified.

No	Rental Debtors	Total Rent Recalculated	Revenue as per debtors list for the period	Difference
1	Mecca Builders	59,880.00	64,090.00	4,210.00
2	Setlagole Vulstasie 1	87,594.00	79,629.00	7,965.00

Extrapolation: $12,085/922,796.68 \times 1007,332.45 = 13,192.10$

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

The accounting officer/authority does not evaluate whether management has implemented effective internal controls by gaining an understanding of how senior management has met its responsibilities.

Overstatement of Rental income.

Extrapolation: $12,085/922,796.68 \times 1007,332.45 = 13,192.10$

Internal control deficiency

Financial and performance management

Adequate financial management systems

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

Recommendation

Management must ensure that revenue recognition is completely and accurately processed.

Management response

The following were resolved as per the discussions and recalculations performed with the auditors;

No	Rental Debtors	Total Rent Recalculated	Revenue as per debtors list for the period	Difference
1	Ipelegeng City Funeral	14,625.60	14,636.16	10.56
2	Tlotlego Hair Salon	12,012.00	12,022.56	10.56
3	Workshop			1 207.80

		13,285.80	12,078.00	
4	Health Department	406,491.00	406,492.80	1.80
		<u>1 230.72</u>		

Auditor's conclusion

The finding is individually immaterial and therefore will be assessed with other individually immaterial findings for materiality on the summary of unadjusted misstatements.

82. Revenue: Recovery of rates and taxes (ex.156)**Audit Finding**

Municipal Finance Management Act section 64(2)(a):

(2) The accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure—

(a) that the municipality has effective revenue collection systems consistent with section 95 of the Municipal Systems Act and the municipality's credit control and debt collection policy;

GRAP 23.25

.25 Tax laws and regulations can vary significantly from jurisdiction to jurisdiction, but they have a number of common characteristics. Tax laws and regulations establish government's right to collect the tax, identify the basis on which the tax is calculated, and establish procedures to administer the tax, that is, procedures to calculate the tax receivable and ensure payment is received. Tax laws and regulations often require taxpayers to file periodic returns to an entity that administers a particular tax. The taxpayer generally provides details and evidence of the level of activity subject to tax, and the amount of tax receivable by government is calculated. Arrangements for receipt of taxes vary widely but are normally designed to ensure that government receives payments on a regular basis without resorting to legal action. Tax laws are usually rigorously enforced and often impose severe penalties on individuals or other entities breaching the tax law.

During the test of details it was established that management did not take any reasonable measures to recover the long outstanding debts (rates and taxes), to the value of **R 1,329,756**

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

The accounting officer/authority does not evaluate whether management has implemented effective internal controls by gaining an understanding of how senior management has met its responsibilities.

Under collection of revenue.

Internal control deficiency

Financial and performance management

Adequate financial management systems

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

Recommendation

Management must ensure that reasonable measures are taken to recover long outstanding debtors (rates and taxes).

Management response

Management agrees with the audit finding and auditors' recommendation has been noted.

Auditor's conclusion

Management agrees with the finding. Non Material non-compliance with enabling legislation and therefore reported in the report to management.

Taxes

83. EX.13 - VAT Receivable: VAT reconciliations not reviewed or performed monthly (ex. 13)

Audit finding

Value added tax reconciliations between pastel and the VAT 201 forms should be performed and reviewed on a month to month basis.

During the walkthrough testing it was identified that there was no evidence that a reconciliation between pastel and the VAT 201 forms were performed on a monthly bases.

Lack of management oversight.

Errors in the VAT 201 form may not be identified timeously, resulting in the submitted forms being inaccurate or incomplete. This would thus create an under/overstatement of the VAT balance at reporting date resulting in a modified audit report.

Internal control deficiency

Financial and Performance Management - A reconciliation between the VAT 201 forms and the amount of VAT per the general ledger (pastel) is not performed on a monthly basis and differences are not followed up timeously.

Recommendation

Management should ensure that reconciliations between the VAT 201 forms and the general ledger are performed on a monthly basis and reviewed by a senior official.

Management response

Agree, only Vat reports used for the preparation of Vat 201's are compiled on a monthly basis and scrutinised by the Accountant (the senior personnel).

Management will ensure that reconciliations between the VAT 201 forms and the general ledger are performed on a monthly basis and reviewed by a senior official within the Finance Department.

Name: Rachel Gaepe

Position: CFO

Date: 04/10/2011

Auditor's conclusion

Control weakness identified and therefore reported in the management report.

84. EX.12 - VAT Receivable: VAT 201 not reviewed by a senior personnel (ex. 12)

Audit finding

VAT returns are to be prepared on a monthly basis and reviewed by the appropriate level of management.

During the walkthrough testing it was identified that there was no evidence of VAT 201 review by the accountant.

Lack of management oversight.

VAT returns may not be accurate or complete due to errors during completion of the VAT 201 form.

Internal control deficiency

Financial and Performance Management - VAT returns are not reviewed.

Recommendation

The VAT 201 should be reviewed prior to the form being submitted to the Receiver of Revenue. Management should create a VAT control sheet whereby the clerk and the accountant indicate by signatures that the clerk filled out the VAT 201 form and that the accountant actually reviewed it.

Management response

Management agrees to the finding and will ensure that Vat 201's are signed by senior personnel within the Finance Department as acknowledgement of review before submission.

Auditor recommendations will be implemented with immediate effect.

Name: Rachel Gaepe

Position: CFO

Date: 04/10/2011

Auditor's conclusion

Control weakness identified and therefore reported in the management report.

85. EX.60 - VAT: Non-Compliance with S11 of the VAT Act (VAT Return incomplete) (ex.60)**Audit finding**

In terms of section 11 of the Vat Act, grants paid to the municipality by a public authority and deemed (in terms of s8) to be for supply of goods and services are zero rated. Therefore, grants received by the municipality should be included (at zero-rate) on the vat return.

The vat return (VAT 201) of the municipality has not been appropriately completed. The municipality received grants amounting to R72,851,193.25 during the year under review. In terms of the vat act the receipts from a public authority will be zero rated. The municipality did not include the receipts from the grant on their vat return. This constitutes non compliance with the VAT Act.

The VAT 201 return form is not reviewed after being completed to ensure compliance with the VAT act.

Non Compliance with s11(2)(t), s8(23) and s11(2)(s)

Internal control deficiency

Management does not ensure that the VAT returns are reviewed to ensure accuracy and completeness.

Recommendation

Management should ensure that the vat return is reviewed to ensure that it is appropriately completed.

Management response

Management agrees with the audit finding and the auditors' recommendation will be implemented.

Auditor's conclusion

Immaterial non-compliance with enabling legislation and therefore reported in the management report.

86. EX.106 - VAT: Non-compliance with S11 2(w) of the VAT Act (Property Rates) (EX. 106)**Audit finding**

In terms of S11(2)(w) of the VAT Act specifically zero-rates the municipal property rates charged by a municipality. This implies that a municipality will levy VAT at the rate of zero per cent on these rates, and will claim VAT input on expenses incurred in connection with services, which were funded from the municipal property rates income.

The vat return (VAT 201) of the municipality has not been appropriately completed. The municipality charged property rates to R1,482,655.23 during the year under review. In terms of the Act the municipality will levy VAT at the rate of zero per cent on these rates, and will claim VAT input on expenses incurred in connection with services, which were funded from the municipal property rates income. This constitutes non compliance with the VAT Act.

The VAT 201 return form is not reviewed after being completed to ensure compliance with the VAT act.

Non Compliance with s11(2)(w)

Internal control deficiency

Management does not ensure that the VAT returns are reviewed to ensure accuracy and completeness.

Recommendation

Management should ensure that the vat return is reviewed to ensure that it is appropriately completed.

Management response

Management agrees with the audit finding and auditors' recommendation has been noted.

Auditor's conclusion

Control weakness identified and therefore reported in the management report.

ANNEXURE C: ADMINISTRATIVE MATTERS**Commitments****87. EX.18 - Commitments: Project registers were not reviewed (ex. 18)****Audit finding**

The project register is created and updated when new projects, expenditure and payments occur and at the financial year end, from that project register the commitments relating to those projects are then updated and from there disclosed.

There is no review of the project register performed by a senior official pending the inclusion thereof in the financial statements.

Review of pertinent information to be included in the financial statements is not performed by management.

Possible inaccurate and incomplete amount regarding commitments disclosed.

Internal control deficiency

Financial and performance management

Non-review and monitoring of compliance with applicable laws and regulations

Recommendation

Project registers should be reviewed by a senior official who is not involved in their preparation.

Management response

The project register that has been submitted to Auditor General has been signed by the Deputy Director, Supply Chain who has been responsible for its preparation. Note that the Chief Financial Officer also reviews the register to confirm its completeness although she does not acknowledge by signing. Management will ensure that in future the project register is signed by a senior official who is not involved in the preparation to acknowledge review thereof.

Name: Rachel Gaepe

Position: CFO

Date: 04/10/2011

Auditor's conclusion

Control weakness identified and therefore reported in the management report.

88. EX.33 - VAT Receivable: No evidence that VAT 201 form submitted on time (EX.33)

Audit finding

In terms of section 15 of the Public Audit Act no. 25 of 2004:

"When performing the audit, the Auditor-General or an authorized auditor has at all reasonable times full and unrestricted access to—

- any document, book or written or electronic record or information of the auditee or which reflects or may elucidate the business, financial results, financial position or performance of the auditee;

During the walkthrough testing it was identified that there was no evidence (eg. fax cover page) that VAT 201 forms were submitted on time.

Lack of management oversight

The municipality might be charged penalties and interest due to late submission of the VAT 201 form resulting in wasteful expenditure.

Internal control deficiency

Financial and Performance Management

VAT returns are not submitted and paid over on a timely basis in accordance with the VAT Act.

Recommendation

Management should ensure that evidence for submission of VAT 201 is kept and provided for audit purposes.

Management response

Disagree, fax covers are filed at the back of the VAT 201 file, copies have been submitted as proof with this communication.

Auditor's conclusion

Control weakness identified and therefore reported in the management report.