



AUDITOR-GENERAL  
SOUTH AFRICA

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# FINAL MANAGEMENT REPORT

**Mkhondo Local Municipality**

**30 JUNE 2016**





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**30 June 2016**

**Discussed with management on: 28 November 2016**

### CONTENT

<b>Introduction</b>	<b>Page 3</b>
<b>Section 1: Interactions with stakeholders responsible for oversight and governance</b>	<b>Page 4</b>
<b>Section 2: Matters relating to the auditor's report</b>	<b>Page 5</b>
2.1 Misstatements in the financial statements	<b>Page 5</b>
2.2 Matters to be brought to the attention of users	<b>Page 6</b>
2.3 Report on predetermined objectives	<b>Page 7</b>
2.4 Findings on compliance with legislation	<b>Page 11</b>
2.5 Internal control	<b>Page 12</b>
2.6 Assurance providers and status of implementation of commitments and recommendations	<b>Page 19</b>
<b>Section 3: Specific focus areas</b>	<b>Page 22</b>
3.1 Financial viability	<b>Page 22</b>
3.2 Procurement and contract management	<b>Page 24</b>
3.3 Other financial information	<b>Page 27</b>
3.4 Fraud and consequence management	<b>Page 28</b>
3.5 Utilisation of conditional grants	<b>Page 30</b>
3.6 Public participation	<b>Page 31</b>
3.7 Use of consultants	<b>Page 32</b>
3.8 Water and sanitation	<b>Page 33</b>
3.9 Roads infrastructure	<b>Page 35</b>
<b>Section 4: Emerging risks</b>	<b>Page 36</b>
<b>Section 5: Ratings of detailed audit findings</b>	<b>Page 38</b>
<b>Section 6: Conclusion</b>	<b>Page 38</b>
<b>Section 7: Summary of detailed audit findings</b>	<b>Page 41-46</b>
<b>Detailed audit findings contained in annexures A to C</b>	<b>Page 47-179</b>



## FINAL MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THE MKHONDO LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2016

### INTRODUCTION

1. Our responsibility is to:

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

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

2. This management report includes audit findings arising from the audit of the financial statements, reporting on predetermined objectives and compliance with legislation for the year ended 30 June 2016. These findings were communicated to management and the report details management's response to these findings. The report includes information on the internal control deficiencies that we identified as the root causes of the matters reported. Addressing these deficiencies will help to improve the audit outcome.
3. This management report consists of an executive summary and annexures containing the detailed audit findings.
4. The purpose of the management report is to communicate audit findings to the accounting officer and does not constitute public information. The auditor's report is finalised only after the management report has been communicated. All matters included in this report that relate to the auditor's report remains in draft form until the final auditor's report is signed. In adherence to section 50 of the PAA, we do not disclose any information obtained during the audit and contained in this management report.

## EXECUTIVE SUMMARY

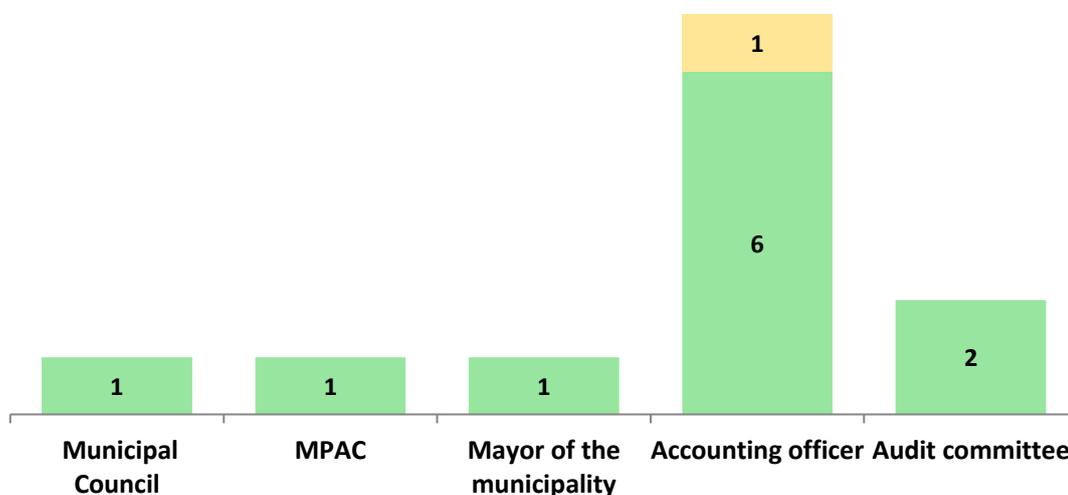
### SECTION 1: Interactions with stakeholders responsible for oversight and governance

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

Stakeholder	Number of interactions
Municipal council	1
Municipal public accounts committee (MPAC)	1
Mayor of the Mkhondo Local Municipality	1
Municipal manager	7
Audit committee	2

Figure 1: Effectiveness of planned interactions

### Effectiveness of planned interactions



6. At these interactions, we shared information such as the audit strategy, key controls and communications of audit findings that was discussed at the meetings. Some of the stakeholders made commitments to implement initiatives that can improve the audit outcome. The commitments given and the progress of previous commitments are included in section 2.6, which deals with the assessment of assurance providers.

## SECTION 2: Matters relating to the auditor's report

### 2.1 MISSTATEMENTS IN THE FINANCIAL STATEMENTS

7. We identified material misstatements in the financial statements during the audit. These misstatements were not prevented or detected by the municipality's system of internal control. These material misstatements also constitute non-compliance with section 122 of the Municipal Finance Management Act (MFMA).
8. The misstatements that were not corrected form the basis for the qualified opinion on the financial statements.

Material misstatement			Impact	Impact
Financial statement item	Finding	Occurred in prior year	R current year	R prior year
<b>Material misstatements not corrected</b>				
Non-current assets				
Property, plant and equipment	Duplicates and missing barcodes, Note not agreeing to Fixed asset register, Incorrect classifications	Yes	R709 771 661	R1 235 147 701
Irregular Expenditure	Irregular expenditure is not complete	Yes	R140 133 665	R134 395 703
<b>Material misstatements corrected</b>				
<b>Disclosures</b>				
Commitments	Schedule does not agree to the AFS	No	R41 364 756	
Financial Instruments	Disclosure note errors-prior year adjustment	Yes		R21 669 286
Contingencies	No details disclosed in the AFS	No	R37 960 614	

## 2.2 MATTERS TO BE BROUGHT TO THE ATTENTION OF USERS

### Emphasis of matter paragraphs

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

### Restatement of corresponding figures

10. As disclosed in note 43 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of an error discovered during 30 June 2016 in the financial statements of the Municipality at, and for the year ended, 30 June 2015.

### Material losses

11. As disclosed in note 49 to the financial statements, material losses of R30 130 496 (2014-15: R29 213 404) were incurred as a result of electricity distribution losses, which represent 31% (2014-15: 36%) of the total electricity purchased. Material losses of R759 363 (2014-15: R 1 696 592.88) were incurred as a result of water distribution losses, which represent 30% (2014-15: 83%) of the total water purchased.

### Material impairments

12. As disclosed in note 3 to the financial statements, the receivables balance was significantly impaired. The impairment of consumer debtors amounted to R168 404 721 (2014-15: R139 138 993), which represented 86% (2014-15: 85%) of the total consumer debtors. The contribution to the provision for debt impairment was R29 265 728 (2014-15: R25 074 937).

### Additional matter paragraphs

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

### Unaudited supplementary schedules

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

### Unaudited disclosure notes

15. In terms of section 125(2) (e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, we do not express an opinion thereon.

## 2.3 REPORT ON PREDETERMINED OBJECTIVES

### Introduction

16. As required by sections 4 and 20 of the PAA, read with the general notice issued in terms thereof, we have audited the reported performance information of the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2016:
- Development priority 1: Basic Service Delivery on pages ... to ...
  - Development priority 4: Financial Viability and Management on pages ... to ...
17. We conducted our audit in accordance with the International Standards on Assurance Engagements (ISAE) 3000: *Assurance engagements other than audits or reviews of historical financial information*.
18. We evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned development priorities. We further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information (FMPPI)*.
19. We assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
20. We believe that the evidence obtained from the work performed provides an appropriate basis for the reasonable assurance conclusions on the usefulness and reliability of the reported performance information expressed below.

### Summary of audit conclusions

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

Selected development priority	Usefulness	Reliability
Development priority 1: Basic Service Delivery	<i>Adverse</i>	<i>Disclaimer</i>
Development priority 4: Financial Viability and Management	<i>Adverse</i>	<i>Disclaimer</i>

## *Development priority 1: Basic Service Delivery*

### **Basis for adverse conclusion on usefulness**

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

22. Section 41(c) of the Municipal Systems Act requires the integrated development plan and service delivery agreement to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. Important reported objectives, indicators and targets were not consistent with those in the approved integrated development plan and service delivery agreement.
23. Section 25(2) of the Municipal Systems Act determines that an integrated development plan adopted by a municipal council may be amended in accordance with the process as prescribed per section 34 of the Municipal Systems Act, and that such a plan remains in force until an integrated development plan is adopted by the next elected council. Material changes were made to important objectives, indicators and targets in the annual performance report, without following the process as prescribed in section 34 of the MFMA and without adoption by the municipal council.

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

24. The FMPPI requires that performance targets should be specific in clearly identifying the nature and required level of performance and be measurable. Important targets were not specific and were not measurable.
25. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. A total of 51% of indicators were not verifiable.

### **Basis for disclaimer of conclusion on reliability**

#### *Basis 1– Reliability of reported performance information*

26. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. We were unable to obtain the information and explanations we considered necessary to satisfy ourselves as to the reliability of the reported performance information. This was due to limitations placed on the scope of our work due to the absence of information systems, the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information and the auditee's records not permitting the application of alternative audit procedures.

### **Adverse conclusion on usefulness**

27. In our opinion, because of the significance of the matters described in the basis for adverse conclusion paragraphs, the reported performance information of basic service delivery presented in the annual performance report is not useful in accordance with the identified performance management and reporting framework.

### **Disclaimer of conclusion on reliability**

28. Because of the significance of the matter described in the basis for disclaimer of conclusion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for conclusion. Accordingly, we do not express a conclusion on the reliability of basic service delivery.

## **Development priority 4: Financial Viability and Management**

### **Basis for adverse conclusion on usefulness**

#### *Basis 1 – Consistency of development priorities, indicators and targets*

29. Section 41(c) of the Municipal Systems Act requires the integrated development plan and service delivery agreement to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. Important reported objectives, indicators and targets were not consistent with those in the approved integrated development plan and service delivery agreement.
30. Section 25(2) of the Municipal Systems Act determines that an integrated development plan adopted by a municipal council may be amended in accordance with the process as prescribed per section 34 of the Municipal Systems Act, and that such a plan remains in force until an integrated development plan is adopted by the next elected council. Material changes were made to important objectives, indicators and targets in the annual performance report, without following the process as prescribed in section 34 of the MFMA and without adoption by the municipal council.

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

31. The FMPPI requires that performance targets should be specific in clearly identifying the nature and required level of performance and be measurable. Important targets were not specific and were not measurable.
32. The FMPPI requires that performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use. A total of 25% of indicators were not well defined.
33. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. A total of 58% of indicators were not verifiable.

### **Basis for disclaimer of conclusion on reliability**

#### *Basis 1– Reliability of reported performance information*

34. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. We were unable to obtain the information and explanations we considered necessary to satisfy ourselves as to the reliability of the reported performance information. This was due to limitations placed on the scope of our work due to the absence of information systems, the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information and the auditee's records not permitting the application of alternative audit procedures.

### **Adverse conclusion on usefulness**

35. In our opinion, because of the significance of the matters described in the basis for adverse conclusion paragraphs, the reported performance information of financial viability and management presented in the annual performance report is not useful in accordance with the identified performance management and reporting framework.

### **Disclaimer of conclusion on reliability**

36. Because of the significance of the matter described in the basis for disclaimer of conclusion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for conclusion. Accordingly, we do not express a conclusion on the reliability of financial viability and management.

### **Additional matter**

37. We draw attention to the following matter. Our conclusion is not modified in respect of this matter:

### **Achievement of planned targets**

38. Refer to the annual performance report on pages ... to ...; ... to ... for information on the achievement of planned targets for the year. This information should be considered in the context of the adverse and disclaimer of conclusions expressed on the usefulness and reliability of the reported performance information in paragraphs 27, 28, 35 and 36 of this report.

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

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

## 2.4 FINDINGS ON COMPLIANCE WITH LEGISLATION

40. Included below are material findings on compliance with selected specific requirements of applicable legislation, as set out in the general notice issued in terms of the PAA.

### **Strategic planning and performance management**

41. The service delivery and budget implementation plan (SDBIP) for implementing the municipality's delivery of municipal services and annual budget did not indicate projections for each month of the revenue to be collected, by source and the operational and capital expenditure, by vote as required by section 1 and 53(1)(c) of the MFMA.

### **Annual financial statements, performance and annual reports**

42. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act. Material misstatements of disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements in assets resulted in the financial statements receiving a qualified audit opinion.

43. The annual performance report for the year under review did not include the performance of the municipality and of each service provider, a comparison with the previous financial year and measures taken to improve performance as required by section 46 (1)(b) and (c) of the MSA.

### **Procurement and contract management**

44. Construction contracts were awarded to contractors that did not qualify for the contract, in contravention of section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A).

### **Expenditure management**

45. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the Municipal Finance Management Act.

46. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA.

47. Reasonable steps were not taken to prevent irregular expenditure as required by section 62(1)(d) of the MFMA.

48. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

### **Revenue management**

49. A credit control and debt collection policy was not implemented, as required by section 96(b) of the Municipal Systems Act and section 62(1)(f)(iii) of the MFMA.

### **Asset management**

50. An adequate management and accounting system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

51. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

## 2.5 INTERNAL CONTROL

52. Below is our assessment of implementing the drivers of internal control based on significant deficiencies identified during our audit of the financial statements, the annual performance report and compliance with legislation. Significant deficiencies occur when internal controls do not exist, are not appropriately designed to address the risk, or are not implemented. These either had caused, or could cause, the financial statements or the annual performance report to be materially misstated, and material instances of non-compliance with legislation to occur.

53. The internal controls were assessed as follows:

	The required preventative or detective controls were in place.
	Progress was made on implementing preventative or detective controls, but improvement is still required, or actions taken were not or have not been sustainable.
	Internal controls were either not in place, were not properly designed, were not implemented or were not operating effectively. Intervention is required to design and/or implement appropriate controls.

54. The movement in the status of the drivers from the previous year-end to the current year-end is indicated collectively for each of the three audit dimensions under the three fundamentals of internal control. The movement is assessed as follows:

	Improved
	Unchanged
	Regressed

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
<b>Leadership</b>						
<b>Overall movement from previous assessment</b>						
• Provide effective leadership based on a culture of honesty, ethical business practices and good governance, and protecting and enhancing the best interests of the entity						
• Exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls						
• Implement effective human resource management to ensure that adequate and						

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
sufficiently skilled resources are in place and that performance is monitored						
• Establish and communicate policies and procedures to enable and support the 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 information technology governance framework that supports and enables the business, delivers value and improves performance						
<b>Financial and performance management</b>						
<b>Overall movement from previous assessment</b>						
• 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 transactions						
• Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information						
• Review and monitor compliance with applicable legislation						
• Design and implement formal controls over information technology systems to ensure the reliability of the systems and the availability, accuracy and protection of information			N/A	N/A	N/A	N/A

Governance						
Overall movement from previous assessment	↔		↔		↔	
<ul style="list-style-type: none"> <li>Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of information technology risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored</li> </ul>						
<ul style="list-style-type: none"> <li>Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively</li> </ul>						
<ul style="list-style-type: none"> <li>Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and overseeing the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation</li> </ul>						

## Leadership

### Effective leadership culture

55. Management has established a formal code of conduct which addressed appropriate ethical and moral behaviour. However the issue of non-compliance on supply chain is still occurring. Inspected minutes of the meeting held on the 19 October 2015 - The purpose of the meeting was discussion of SCM process and procedure and SCM policy. Workshops are held to ensure all staff is aware of the policies. The leadership need to put measures in place to ensure that transgressions in terms of supply chain are dealt with accordingly.

### Oversight responsibility

56. The municipality did not have sufficient monitoring controls to ensure adherence to the internal policies and procedures and for purposes of taking corrective action.

57. Key staff members were available for meetings during the course of the audit.

58. Quarterly financial statements are not being prepared by Management.

### Human resource management

59. An assessment of human resource management has identified the following deficiencies:

#### Performance management

- The municipality performs performance assessments only for General Managers and Senior Managers.

### **Management of vacancies**

- The following vacancies have not yet been filled: Senior Manager: Forestry.

### **Policies and procedures**

60. Through inspection of the payment checklist and the budget confirmation attached to payment vouchers, it was confirmed that there are processes to prevent and detect unauthorised, irregular and fruitless and wasteful expenditure however based on the findings identified in the audit relating to procurement and expenditure, this has not been fully effective.

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

61. The municipality has an action plan to address the finding raised by the internal and external auditors. This however is not effectively monitored as some target dates are not met. Repeat findings evident in Property, plant and Equipment as well as Investment Property.

### **Information technology governance framework**

62. The Service Level Agreement (SLA) with Munsoft did not include quality of services, minimum acceptable levels of service, security requirements, resources required, frequency of performance reporting and provisions for addendums to the agreement due to the fact that it was a standard template being used from the Munsoft vendor. The lack of adequately documented SLAs could result in inadequate service delivery and the Municipality may have no legal recourse in this regard.

63. The Information and Communication Technology (ICT) Strategic Plan is not fully aligned with the Integrated Development Plan (IDP) and does not provide a breakdown of ICT projects and associated budgets and no formal ICT budgeting and monitoring processes are in place as management was not aware of the risks associated in this regard. If the ICT Strategic Plan is not fully aligned with the IDP, does not provide a breakdown of ICT projects and associated budgets and if no formal ICT budgeting and monitoring processes are in place, amounts spent on ICT projects may not be in support of the overall business objectives of the Municipality.

## **Financial and performance management**

### **Proper record keeping**

64. Not all supporting schedules were submitted with the 2015/2016 annual financial statements, the following supporting schedules were only submitted after a follow-up request was submitted to management:

- Payroll reports
- Contingencies
- Inventories
- Sundry creditors (Agreeing to AFS)

### **Daily and monthly processing and reconciling of transactions**

65. Asset counts are only performed twice a year. These counts are not adequate due to the findings raised in Assets.

### **Regular, accurate and complete financial and performance report**

66. As indicated in section 2, part A of this report, the financial statements contained numerous misstatements, some of which were corrected. This was mainly due to staff members not fully understanding the requirements of the financial reporting framework as well as inadequate reviews by Management.
67. As indicated in section 2.3, the annual performance report contained numerous misstatements that were not corrected. This was mainly due to staff not fully understanding the performance information requirements.

### **Compliance monitoring**

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

### **Information technology systems**

69. The ICT policy not including details of how often the firewall configurations should be reviewed, lack of a SLA with the firewall service provider, lack of review of firewall rules and configurations and workstations not receiving patches timeously were due to an oversight by management to implement the required controls and due to management not addressing the previous audit findings regarding firewall administration. If firewall activity reports, rules and configurations are not monitored and reviewed for threats and vulnerabilities, this could result in security exposures affecting the security and availability of the network and systems. Security violations may also not be timeously identified and investigated resulting in security exposures. Furthermore, if patches are not deployed timeously this could result in vulnerabilities and threats corrupting workstations.
70. Password configuration settings on the VIP, Active Directory and Munsoft systems were not set in accordance with the Municipal ICT policy due to regular reviews of actual password configurations on systems not being performed to ensure alignment with Municipality's ICT policy. Weak logical security settings increase the risk of passwords being compromised to gain unauthorised access to systems.
71. The weaknesses regarding the lack of reviews of system administrator activities, access and logon violations and inadequate procedures for maintaining segregation of duties on the Network, VIP and Munsoft systems were due to non-compliance with the review processes outlined in the ICT policy. Management did also not address the previously raised findings regarding user access management. System administrators have powerful access rights and if their activities are not monitored on a regular basis and reviewed by an independent person, the system administrators could potentially perform unauthorised user ID maintenance activities. If access and logon violations are not monitored and reviewed, this could result in potential security violations not being timeously identified. Where formal procedures are not in place for maintaining segregation of duties, users might have inappropriate access rights.
72. The weaknesses identified regarding the lack of access request documentation and inadequate review processes on the Electronic Funds Transfer (EFT) system were due to the fact that the ICT policy, that incorporates user account management procedures, had not been adequately communicated or work shopped with all the relevant users and system owners. Management did also not address the previously raised findings regarding EFT user access management. If access request documentation is not completed and formally authorised, it increases the likelihood of management not being adequately involved in the authorising of users' access. If there are no formal procedures to timeously terminate users' access, such users' IDs can be misused to perform unauthorised activities. If the appropriateness of users' access rights is not

periodically reviewed, users might have access to functions that are no longer in line with their actual job requirements. If activity logs are not reviewed, potential unauthorised activities may not be detected.

73. The lack of a comprehensive Business Impact Analysis (BIA) being done and a Business Continuity Plan (BCP) being compiled was due to the fact that internal staff did not have the skills required to conduct a BIA and to develop a BCP. Management also failed to address the previously identified findings regarding the Disaster Recovery Plan (DRP) and the DRP was therefore not tested during the year. The lack of an updated and formal business impact analysis being conducted and the lack of a BCP could result in key business processes and business functions not being able to be reinstated timeously in the event of a disaster. If the DRP is not tested regularly, there is a risk that should an event occur that renders unavailable all or part of the IT services, the Municipality might not be able to reinstate critical IT services within an acceptable or defined period of time.

## Governance

### Risk management activities and risk strategy

74. A risk assessment was completed for 2015/16 dated August 2015.
75. There was an awareness workshop conducted on Fraud and Corruption on the 24-26 February 2016.
76. The risk assessment was not comprehensive enough to prevent, detect and correct material misstatements.

### Internal audit

77. The internal audit did not adequately review the financial statements and annual performance report. This was evident by the repeat findings identified in the current financial period.

### Audit committee

78. The Audit committee did not adequately review the financial statements and annual performance report due to the high level review findings identified.

## Summary

79. The matters above, as they relate to the basis for the qualified opinion, findings on the annual performance report and findings on compliance with legislation, will be summarised in the auditor's report as follows:

### SUMMARY

80. The matters above, as they relate to the basis for the qualified opinion, findings on the annual performance report and findings on non-compliance with legislation, will be summarised in the auditor's report as follows:

### Leadership

81. The accounting officer did not exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.

### **Financial and performance management**

82. Proper record keeping was not implemented in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support financial and performance reporting resulting in insufficient audit evidence for audit purposes.
83. Management did not ensure that controls were implemented over daily and monthly processing and reconciling of transactions.
84. Management did not prepare regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information.
85. Management did not review and monitor compliance with applicable laws and regulations.

### **Governance**

86. The internal audit and audit committee operated effectively during the current period as per their legislated mandate. Recommendations were made to management to improve internal controls and ensure reliable reporting of financial and performance information as well as compliance with legislation. However, this did not result in improved controls due to management not implementing the recommendations.

## 2.6 ASSURANCE PROVIDERS AND STATUS OF IMPLEMENTATION OF COMMITMENTS AND RECOMMENDATIONS

87. The annual report is used to report on the financial position of auditees, their performance against predetermined objectives and overall governance. One of the important oversight functions of the legislature and council is to consider auditees' annual reports. To perform this oversight function, they need assurance that the information in the annual report is credible. To this end, the annual report includes our auditor's report, which provides assurance on the credibility of the financial statements and the annual performance report, as well as on the auditee's compliance with legislation.
88. Our reporting and the oversight processes reflect on past events, as it takes place after the end of the financial year. However, management, the leadership and those charged with governance contribute throughout the year to the credibility of financial and performance information and compliance with legislation by ensuring that adequate internal controls are implemented.
89. We assess the level of assurance provided by these assurance providers based on the status of internal controls (as reported in section 2.5) and the impact of the different role players on these controls. We provide our assessment for this audit cycle below.

Assurance provider	Assessment	Reason for the assessment of the assurance provider
Senior management	<b><i>Provides assurance</i></b>	Senior Management has by their actions started positively influencing good governance to ensure audit outcomes are maintained however there is still room for improvement due to findings raised during the audit. Issues identified include lack of regular reviews of assets, lack of implementation of the action plan, lack of compliance monitoring as well as issues with accurate and complete schedules submitted for audit purposes.
Municipal manager	<b><i>Provides some assurance</i></b>	The Accounting Officer has by his actions started positively influencing good governance to ensure audit outcomes are maintained however there is still room for improvement due to findings raised during the audit. Issues identified include lack of implementation of the action plan, unauthorised, irregular as well as fruitless and wasteful expenditure noted in the current year, inadequate performance information reviews as well as IT Findings.
Mayor of municipality	<b><i>Provides some assurance</i></b>	Based on the audit work performed the Mayor provides political guidance over the fiscal and financial affairs of the municipality. There is still room for improvement due to the issues identified with Performance information hence the PMS System is not properly implemented and managed.
Internal audit	<b><i>Provides some assurance</i></b>	1. Legislation in South Africa requires the establishment, roles and responsibilities of internal audit units. Internal audit units form part of the internal control and governance structures of the municipality as they have an important role in the monitoring activities of the municipality. Internal audit provides an independent assessment of governance, risk

Assurance provider	Assessment	Reason for the assessment of the assurance provider
		<p>management and internal control processes of the municipality.</p> <p>2. The internal audit unit of a municipality must prepare a risk based audit plan and internal audit program for each financial year, and advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management, performance management, loss control and compliance with the MFMA. The internal audit unit must also perform such other duties as may be assigned by the accounting officer.</p> <p>3. The internal audit did not adequately review the financial statements and annual performance report. This was evident by the repeat findings identified in the current financial period.</p> <p>4. The chief internal audit is currently on suspension subsequent to year end. The allegations are currently under investigation.</p>
Audit committee	<b><i>Provides some assurance</i></b>	<p>1. The audit committee is an independent advisory body to the municipal council, accounting officer and the management and staff of the municipality on matters relating to internal financial control and internal audits; risk management; accounting policies; the adequacy, reliability and accuracy of financial reporting and information; performance management; effective governance; with the MFMA, DORA and any other applicable legislation; performance evaluation; and any other issues.</p> <p>2. The audit committee is also expected to review the annual financial statements to provide an authoritative and credible view of the municipality, its efficiency and effectiveness and its overall level of compliance with the applicable legislation.</p> <p>3. The Audit committee did not adequately review the financial statements and annual performance report due to the high level review findings identified.</p>
Municipal council	<b><i>Provides some assurance</i></b>	Council has ensured that key management positions are filled to ensure stability in leadership. Investigations are long outstanding with regards to Unauthorised, Irregular and Fruitless and Wasteful Expenditure.

Assurance provider	Assessment	Reason for the assessment of the assurance provider
MPAC	<b>Provides some assurance</b>	MPAC has engaged management and others that are charged with governance and reported to council over issues brought to its attention however additional emphasis needs to be given to the evaluation of monthly budget statements, mid-year budget and performance assessments, financial statements and the annual report as non-achievement of targets on the performance side and several control weaknesses in the financial and compliance side were noted for 2015/16. Their involvement has allowed the municipality to maintain their opinion however there is still room for improvement to ensure the opinion is improved. Attention needs to be given to ongoing investigations and Asset Management

### Status of implementing commitments and recommendations

90. Below is our assessment of the progress in implementing the commitments made by the municipality to address the prior and current year's audit findings.

No.	Commitment	Made by	Date	Status
1	Guidance provided to the municipality to comply with all the legislative requirements relating to the municipality.	Mayor	2016/01/25	In Progress
2	Application of consequence management for non-performance and transgressions	Mayor	2016/01/25	In Progress
3	Monitoring and implementations of action plans	Mayor	2016/01/25	In Progress
4	Interrogation of the draft Annual Report and development of the preliminary questions for the administration team to respond	MPAC	2016/02/11	Completed

91. Four recommendations accepted by management in the prior year on matters included in the auditor's report and other important matters were implemented, or alternative actions were taken to resolve the finding.

92. Three recommendations are still being implemented

93. Details on the status of implementing the previous year's recommendations are provided in section 7, which summarises the detailed audit findings.

## SECTION 3: Specific focus areas

### 3.1 FINANCIAL VIABILITY

94. Our audit included a high-level overview of the municipality's financial viability as at year-end. The financial viability assessment provides useful information for accountability and decision-making purposes and complements the financial statements by providing insights and perspectives thereon. The financial viability assessment is expected to enhance timely remedial decision-making and policy reforms where financial viability may be at risk. It will also highlight to management those issues that may require corrective action and the urgency and magnitude of the reforms and decisions necessary to maintain operations. The information should be used to complement, rather than substitute, management's own financial assessment.

FINANCIAL VIABILITY ASSESSMENT			
		AS AT 30 JUNE 2016	AS AT 30 JUNE 2015
<b>EXPENDITURE MANAGEMENT</b>			
1.1	Creditor-payment period	259 Days	229 Days
<b>REVENUE MANAGEMENT</b>			
2.1	Debtor-collection period (after impairment)	65 Days	63 Days
2.2	Debtors impairment provision as a percentage of accounts receivable	84%	82%
	<ul style="list-style-type: none"> <li>• Amount of debtors impairment provision</li> <li>• Amount of accounts receivable</li> </ul>	R168 404 721 R200 336 286	R139 138 993 R167 928 771
<b>ASSET AND LIABILITY MANAGEMENT</b>			
3.1	A deficit for the year was realised (total expenditure exceeded total revenue)	No	Yes
	<ul style="list-style-type: none"> <li>• Amount of the surplus / (deficit) for the year</li> </ul>	R83 734 336	(R14 336 031)
3.2	A net current liability position was realised (total current liabilities exceeded total current assets)	Yes	Yes
	<ul style="list-style-type: none"> <li>• Amount of the net current assets / (liability) position</li> </ul>	(R 121 795 449)	(R88 641 185)
3.3	A net liability position was realised (total liabilities exceeded total assets)	No	No
	<ul style="list-style-type: none"> <li>• Amount of the net asset / (liability) position</li> </ul>	R1 303 533 740	R1 219 799 405
3.4	Liquid assets as a percentage of total current liabilities (acid test percentage)	27%	35%
	<ul style="list-style-type: none"> <li>• Amount of liquid assets (total current assets less inventory less prepayments)</li> <li>• Amount of total current liabilities</li> </ul>	R50 211 417 R181 357 496	R55 667 263 R155 315 063
<b>CASH MANAGEMENT</b>			
4.1	The year-end bank balance was in overdraft	No	No
	<ul style="list-style-type: none"> <li>• Amount of year-end bank balance (cash and cash equivalents) / (bank overdraft)</li> </ul>	R4 026 015	R2 152 367
4.2	Net cash flows for the year from operating activities were negative	No	No
	<ul style="list-style-type: none"> <li>• Amount of net cash in / (out)flows for the year from operating activities</li> </ul>	R197 152 451	R70 587 164

FINANCIAL VIABILITY ASSESSMENT			
		AS AT 30 JUNE 2016	AS AT 30 JUNE 2015
4.3	Creditors as a percentage of cash and cash equivalents	3854%	6224%
	<ul style="list-style-type: none"> <li>Amount of creditors (accounts payable)</li> <li>Amount of cash and cash equivalents / (bank overdraft) at year-end</li> </ul>	R155 150 331 R4 026 015	R133 968 878 R2 152 367
OVERALL ASSESSMENT			
Overall the financial viability is assessed as:		Concerning	Concerning
* <i>This (these) amount(s) has (have) been adjusted for uncorrected misstatements that resulted in the modification of the audit opinion and will therefore not agree to the financial statement amounts.</i> <sup>1</sup>			

95. A net current liability position is evident and this together with the inability to pay creditors within 30 days could result in poor relationships with suppliers as well as interest and penalties charged for later payments.
96. There are material impairments of debtors in both years indicating issues in debt collection and therefore reduced income for the Municipality.

### 3.2 PROCUREMENT AND CONTRACT MANAGEMENT

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

98. A summary of the findings from the audit are as follows:

#### Irregular expenditure

99. R 5 737 962 (100%) of irregular expenditure incurred in the current financial year was as a result of the contravention of SCM legislation. 100% (100% in the prior year) of this irregular expenditure was identified during the audit process and not detected by the municipality's monitoring processes. The root cause of the lack of effective prevention and detection is due to a lack of monitoring by officials.

#### Awards to persons in the service of the state

100. SCM Regulation 44 prohibits awards to persons or to entities owned/ managed by them if they are in service of the auditee (i.e. employees and councillors) or if they are in service of any other state institution. The audit included the identification of such prohibited awards. Further testing was also performed to determine whether the legislated requirements with regard to declarations of interest were adhered to.

The findings were as follows:

Finding	Number and value of awards made	Number and positions of officials/ councillors	Number of providers	Further non-compliance or irregularities regarding the awards			
				Provider did not submit declarations of interest	Provider did not declare interest (false declaration)	Officials/ councillors did not declare interest	Official/ councillor was involved of in the procurement process
Awards to officials of other state institutions	2 R 192 644	2 Officials	2	0	2		0

## Procurement processes

101. The table below is a summary of findings identified on procurement processes:

	Total		Quotations		Contracts	
	Number	Value	Number	Value	Number	Value
<b>Awards selected for testing</b>	56	R100 997 628	45	R2 004 181	11	R98 993 447
<b>Awards on which non-compliance was identified</b>	5	R87 459 433	0	0	5	R87 459 433
<b>Irregular expenditure identified</b>	5	R5 562 043	0	0	5	R5 562 043

Table 1: Irregular Expenditure comprises of

SCM related irregular expenditure	R5 737 962
<b>Total Irregular expenditure incurred in 2015-16 as disclosed in the AFS</b>	R5 737 962

Table 2: Nature of SCM related Irregular expenditure

Procurement without a competitive bidding or quotation process	R0
Non-compliance with procurement process requirements	R5 737 962
Non-compliance with legislation on contract management	R0
<b>Total SCM related irregular expenditure</b>	R5 737 962

Table 3: Reconciliation highlighting that the municipality did not deal with previous year's irregular expenditure

Opening balance	R 134 395 703
Less: written off	(R0)
<b>Balance not dealt with</b>	R 134 395 703
Incurred during year	R5 737 962
Closing balance	R140 133 665

### **Procurement processes – general**

102. One competitive bid with a total value of R1 895 919 was not adjudicated by a properly constituted bid adjudication committee.
103. Three contracts secured through other organs of state (S32) with a total value of R1 398 434 were participated in without being able to demonstrate the benefits and discounts of participating in the contracts.
104. One contract with a total value of R 84 165 080 was awarded to a bidder based on points given for criteria that differed from those stipulated in the original invitation for bidding.
105. One contract with a total value of R 84 165 080 was awarded to a bidder who did not score the highest points in the bid evaluations, and there was no justification for the deviation.

### *Construction contracts*

106. One construction contract with a total value of R 84 165 080 was awarded to a contractor whose CIDB grading was below the required grading for the value of the particular contract.

### *Internal control deficiencies*

- Allegations not investigated within a reasonable time
- Internal audit did not adequately evaluate SCM controls/ processes and compliance
- Inadequate actions taken to address SCM risks identified

## 3.3. OTHER FINANCIAL INFORMATION

UNAUTHORISED EXPENDITURE	Rands		Rands
<b>Extent</b>		<b>Nature relates to:</b>	
Incurring(as disclosed in the AFS)	R48 209 978	<i>Over-spending</i>	R48 209 978
Identified during audit	R0	<i>Not in accordance with purpose / condition</i>	R0
Identified by the auditee	R48 209 978	<i>Expenditure unrelated to functional area</i>	R0
Closing balance	R399 737 398	<i>Non-permissible grant</i>	R0
Cash/Non-cash items			
Non-Cash items	R19 631 508	Cash items	R28 578 470
Nature of non-cash items	Donations, landfill site provisions, leave pay provisions, 13 <sup>th</sup> cheque provision		
<b>Fruitless and Wasteful Expenditure</b>			
Incurring(as disclosed in the AFS)	R7 660 673	Number of incidents	204
Identified during the audit:	R0	Closing balance	R 32 753 379
Identified by the auditee:	R7 660 673		
Nature			
<i>Other</i>	R0	<i>Incurred to prevent irregularities/loss/FWE etc.</i>	R0
Interest and penalties	R7 660 673		

### 3.4 FRAUD AND CONSEQUENCE MANAGEMENT

107. The primary responsibility for preventing and detecting fraud rests with management and those charged with governance. We are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and to issue an auditor's report that includes our opinion. Due to the inherent limitations of an audit, there is a risk that some material misstatements, including fraud, may not be detected.
108. The MFMA and its regulations clearly stipulate that matters such as incurring unauthorised, irregular as well as fruitless and wasteful expenditure; the possible abuse of the SCM system (including fraud and improper conduct); and allegations of financial misconduct should be investigated. Disciplinary steps should be taken based on the results of the investigations. Our audits included an assessment of the municipality's management of consequences. The significant findings are provided below

#### Prolonged investigations

109. As at year end, the municipality had a total of three ongoing investigations on allegations relating to financial misconduct, fraud or improper conduct in SCM. Some of these investigations have been ongoing for a long time. The MFMA Municipal Regulations on Financial Misconduct, Procedures and Criminal Proceedings and the MSA Disciplinary Regulations for Senior Managers require that each investigation must be completed within 30 days from the date of appointing the investigator. The table below provides a summary of investigations which had not been completed as at year-end:

Details	Type of allegation under investigation	Allegation include element of fraud/ corruption	Length of investigation
UIF Investigation by MPAC (2011/12, 2012/13, 2013/14 and 2014/15 financial years)	Unauthorised, irregular and fruitless & wasteful expenditure	No	3 years
Fraudulent invoices implemented by two Senior Officials	Financial misconduct	Yes	3 years
Other financial misadministration (Four Licence officials)	Financial misconduct on eNatis	Yes	4 years

#### Transgressions identified in the current year

110. Unauthorised, irregular as well as fruitless and wasteful expenditure disclosed in note 46-48 to the financial statements must be investigated to determine whether any official is liable for losses incurred as a result of the unauthorised, irregular as well as fruitless and wasteful expenditure. Disciplinary steps must be taken against officials who caused or permitted the unauthorised, irregular as well as fruitless and wasteful expenditure and losses incurred as a result must be recovered from the person liable.

111. This report includes other audit findings that are indicative of transgressions by officials or other role players. Summarised in the table below are allegations of transgressions that must be investigated and disciplinary steps taken based on the results of the investigations:

Finding	Number of instances	Value
Supplier submitted false declaration of interest	2	R192 644

### 3.5. UTILISATION OF CONDITIONAL GRANTS

#### Utilisation of conditional grants received

112. For the financial year under review, the audit included an assessment of the effectiveness of the utilisation of the following conditional grants received:

- Municipal Infrastructure Grant (MIG)

113. For the grant tested as documented above, we selected key projects funded by the grant and audited the utilisation of grants on the project. Listed below are the audit findings identified for each project.

Summary of selected key project and result of testing	High value project.	High value project.
<b>Name of grant</b>	Municipal Infrastructure Grant (MIG)	Municipal Infrastructure Grant (MIG)
<b>Project/initiative funded by the grant</b>	MKHO 16/2014/15:Construction of Bulk Water Infrastructure for Maphepheni, Rustplaas and Malaynini	MKHO 19/2014/15:Construction of Bulk water Infrastructure for Driefontein , Iswepe and Haartebeesfontein
Achievement of planned targets	Not achieved - as the contract is way behind schedule. The reason for the delay is that the concrete failed during the test and needed to done from scratch. The project was stopped during the political campaign for local governance.	Achieved
Correctness of reported performance/achievement of targets	Correct	Correct
Results of testing procurement of goods and services for the project	Findings identified in the prior year : Bid Adjudication Committee not constituted appropriately	Findings identified in the prior year: Bid Adjudication Committee not constituted appropriately
Misstatements were identified on the accounting for the assets/ work-in-progress	No misstatement identified	No misstatement identified
Results of testing the receipt of goods/ services for the project	No misstatement identified	No misstatement identified

### 3.6 PUBLIC PARTICIPATION

114. Sub-outcome 2 as per MTSF chapter 9 aims at addressing poor communication with communities and weak and ineffective platforms for public participation. The anticipated impact through this sub-outcome is to strengthen the capacity of municipalities, especially at ward level, for deliberate public participation through improved consultation, communication and feedback mechanisms to citizens to participate in decision-making and be kept informed of key issues and developments.

115. As part of the audit of predetermined objectives we audit compliance with the provisions of the Municipal Systems Act (MSA) relevant to community participation. The following findings were identified:

- Ward level improvement plans have not been developed.
- The municipality is not using MISA's Municipal Infrastructure Performance Management Information System (MIPMIS) or a similar system.

### 3.7 USE OF CONSULTANTS

116. The audit included an assessment of the effective use of consultants. In the local government environment, the partnership between the private and public sector has become important in driving strategic goals.
117. The total expenditure on consultants is R18 424 730.
118. A summary of the significant findings from the audit are as follows:

#### Internal capacity

119. Consultants were appointed to perform work of a permanent/continuous nature for which a suitable vacant position exists in the establishment and insufficient attempts were made to fill the positions.

### 3.8 WATER AND SANITATION

120. The audit included an assessment of the water and sanitation service delivery objective of the municipality. We focused on the following:

- Management of grant funding for water and sanitation infrastructure
- Management processes for water and sanitation infrastructure projects
- Maintenance of water infrastructure
- Water losses

121. A summary of the significant findings from the audit are as follows:

#### Management processes for water and sanitation infrastructure projects

122. Water projects in progress in 2015-16 do not address the cause of the water backlog.

123. Sanitation projects in progress in 2015-16 do not address the cause of the sanitation backlog.

#### Maintenance of water infrastructure

124. The municipality did not plan for the maintenance of water infrastructure by setting specific timeframes and targets in this regard.

125. Targets and timeframes for routine maintenance of water infrastructure were not achieved.

126. Maintenance of water infrastructure was not budgeted for by the municipality.

127. Conditional assessments were not done on water infrastructure to inform the routine water infrastructure maintenance plan and budget.

128. Appropriate steps to prevent over/under spending of the budget allocation for routine water infrastructure maintenance were not taken.

#### Infrastructure value add

129. The audit included an assessment of the water and sanitation service delivery objective. We focused on the infrastructure lifecycle to assess whether value for money was received for the selected infrastructure projects. The objective was to identify deficiencies and gaps regarding:

- Project planning
- Project implementation/ construction
- Close-out and commissioning.

130. A summary of the significant findings from the audit are as follows:

#### Project management

131. Delays in the hand-over of projects between the municipality and the District Municipality.

132. Extension of time approvals was not compiled.

133. Revised construction schedules were not compiled where construction significantly exceeded the expected completion date.
134. Unfinished construction works existed after project handover due to a lack of quality control management from the implementing agent and the responsible project manager during the handover of the project.

#### Project administration

135. The accounting officer did not implement proper record keeping in a timely manner to ensure adequate project administration, specifically where project documentation resides with the implementing agent.

### 3.9 ROADS INFRASTRUCTURE

136. The audit included an assessment of the roads infrastructure service delivery objective. We focused on the following:

- The existence of a policy, plan and strategy for the upgrade of roads infrastructure
- Availability of budgeted funds to maintain and upgrade ageing road networks

137. A summary of the significant findings from the audit are as follows:

#### The existence of a policy, plan and strategy for the upgrade of roads infrastructure

138. The municipality does not have an approved policy in place for the planning, management and reporting of roads infrastructure.

139. The municipality does not have an approved roads maintenance plan/priority list in place for the renewal and routine maintenance of roads infrastructure.

140. The municipality does not have an approved priority list of roads infrastructure renewal and routine maintenance projects.

#### Availability of budgeted funds to maintain and upgrade ageing road networks

141. The municipality overspent their 2015-16 roads infrastructure repair and maintenance budget by 76.93% due to unforeseen circumstances

## SECTION 4: Emerging risks

### Accounting, performance management/reporting and compliance matters

#### New pronouncements

##### Standards of GRAP

142. The ASB has approved the following Standards of GRAP and Interpretations of Standards of GRAP for which the Minister of Finance has not yet determined an effective date:

- GRAP 20 – Related party disclosures
  - GRAP 32 – Service concession arrangements: grantor
  - GRAP 108 – Statutory receivables
  - GRAP 109 – Accounting by principals and agents
- IGRAP 17 – Service concession arrangements where a grantor controls a significant residual interest in an asset

143. In addition the ASB approved Directive 12 – Selection of an appropriate reporting framework by public entities, which will become effective for financial periods commencing on or after 1 April 2018, but early application is permitted.

##### Municipal SCOA

144. The mSCOA regulations were gazetted on 22 April 2014, which established the application of the mSCOA in local government as a legislated requirement. mSCOA will take effect on 1 July 2017 and will thus impact the 2017-18 financial statements and audits of all local government auditees. The piloting of mSCOA has already commenced in 19 local, two district and eight metropolitan municipalities, phased over the 2015-16 and 2016-17 financial years. Piloting is done in close cooperation with the National Treasury's mSCOA project team and the provincial treasuries.

145. mSCOA is a significant project which, by its very nature and purpose, poses various risks to local government, the more important being:

- Inability of some of the current system vendors to accommodate the technical specifications set in mSCOA, which could result in significant changes having to be effected to current systems and/or the implementation of new systems
- Municipalities being constrained by a scarcity of capacity and skills from managing the changes required by the mSCOA classification framework
- Funding constraints related to the implementation of the mSCOA The National Treasury is closely involved in ensuring that municipalities and their entities will comply with the mSCOA requirements as contained in the government gazette of 22 April 2014. For most of the municipalities this will, however, mean having to adopt another financial system, or to re-implement a current IT system, or to subject it to major upgrades. These changes expose the municipalities to a variety of risks, which should be closely managed to ensure the completeness, accuracy and validity of the information captured, processed and transmitted through the IT systems.

146. Each municipality is ultimately accountable for ensuring that it has and maintains effective, efficient and transparent systems of financial and risk management and internal control (section 62 of the MFMA). An assessment was undertaken to establish municipalities' readiness to implement mSCOA by 1 July 2017.

147. The municipality is aware of the mSCOA requirements, but has made little progress in ensuring that the municipality would be in a better position to implement mSCOA by the due date of 1 July 2017. The municipality might consequently not be able to comply with the mSCOA regulations as gazetted on 22 April 2014.

## New legislation

### National Treasury's SCM reforms:

148. The National Treasury, through the Office of the Chief Procurement Officer is accelerating measures that will make it easy for business and government to transact; and ensure that government purchase what it needs at the right time, the right price, in the correct quantities and delivered to right location. The measures implemented by the national treasury include:

- a) Establish the Central Supplier Database (CSD) of government to be used by all organs of state: The CSD is a single database that will serve as the source of all supplier information for organs of state.
- b) Establish the eTender Portal: This portal provides a single point of access to information on all tenders made by all public sector organisations at all spheres of government.

These measures were communicated by the national treasury through MFMA circulars 81 and 83 and they are already effective from 01 July 2016.

149. The audit included a basic assessment of whether the municipality has implemented the measures. The following weaknesses were identified with regard to the municipality's implementation of these reforms:-

#### Central suppliers' database:

- The SCM policy is updated to provide for inviting quotations from suppliers registered in the CSD.
- The municipality is requesting quotations from suppliers registered in the National Treasury's Central Suppliers' Database.
- Relevant SCM officials have attended the training offered by National Treasury on how to use the CSD.
- Relevant SCM officials have been granted access to the CSD.

#### eTender Portal

- The SCM policy was not updated to provide for invitation of competitive bids through the eTender portal.
- As at the date of this report, the municipality has not started inviting bids through the eTender Portal.
- SCM officials do not have access to the eTender portal

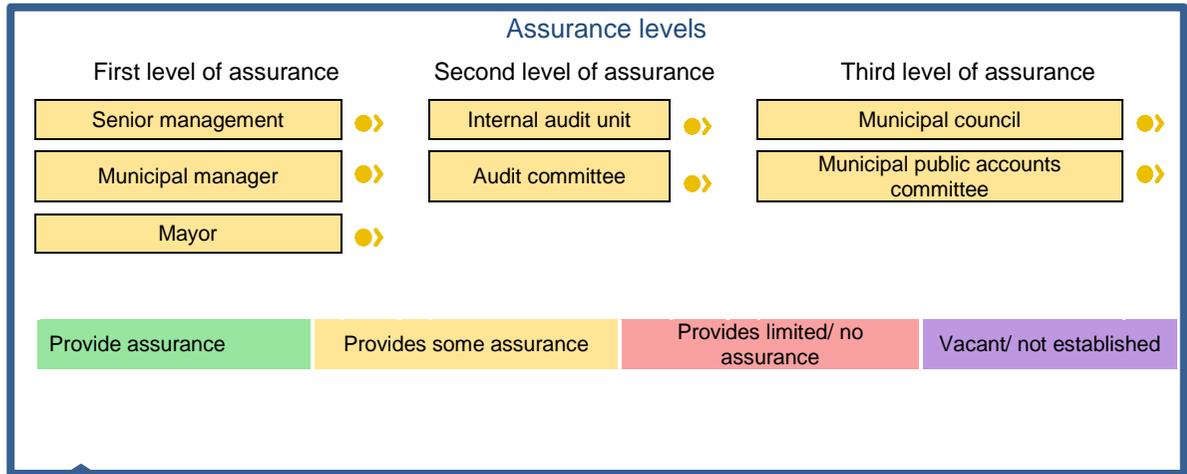
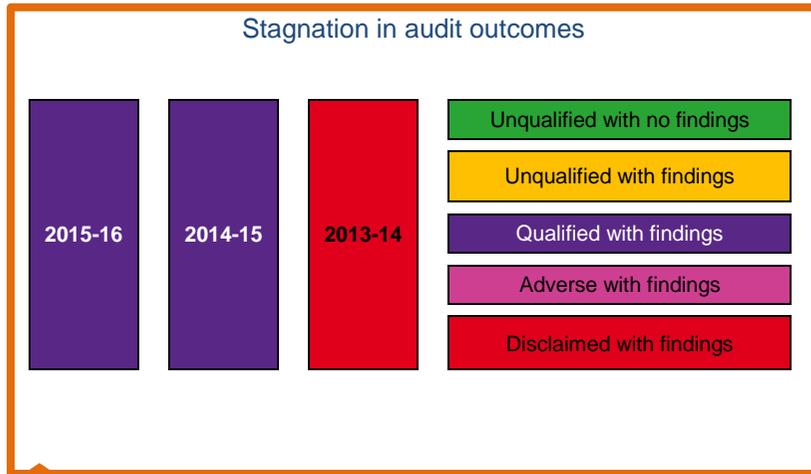
## SECTION 5: Ratings of detailed audit findings

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

- Matters to be included in the auditor's report: These matters should be addressed as a matter of urgency.
- Other important matters: These matters should be addressed to prevent them from leading to material misstatements of the financial statements or material findings on the performance report and compliance with legislation in future.
- Administrative matters: These matters are unlikely to result in material misstatements of the financial statements or material findings on the performance report and compliance with legislation.

## SECTION 6: Conclusion

151. The following figure summarises our message.

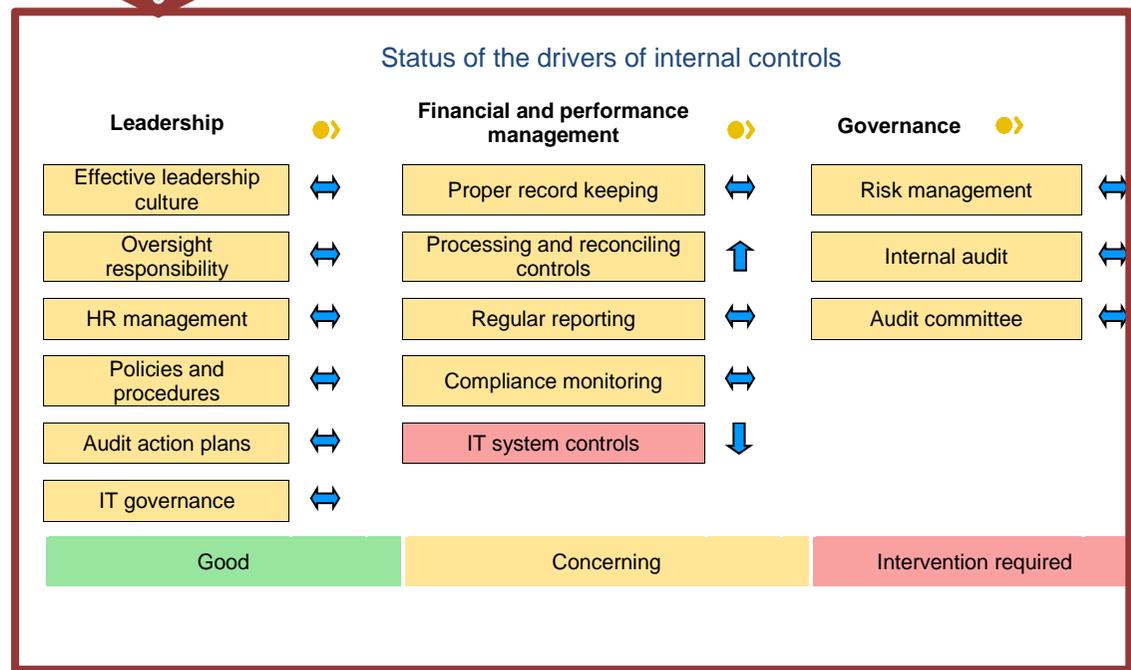
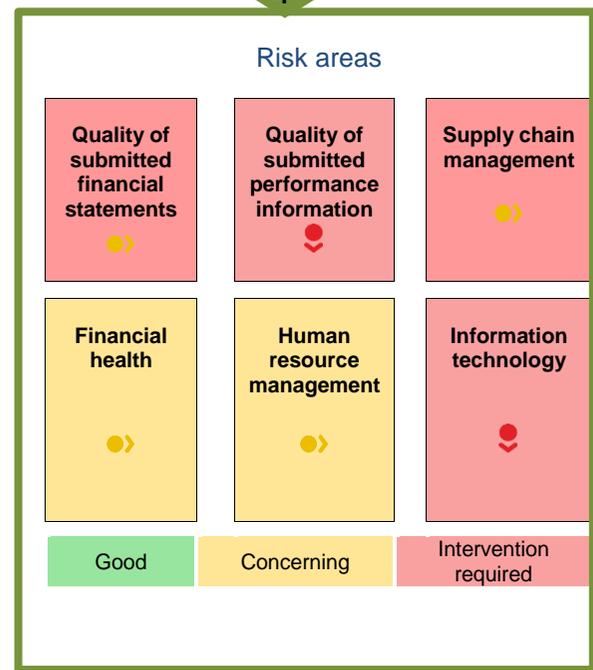


**1** ... To improve/maintain the **audit outcomes** ...

**2** ... the **key role players** need to assure that...

**5** ... the **root causes** are addressed... **4** ...the **risk areas**, and ... **3** ... attention is given to the **key controls**, and ...

- ### Root causes should be addressed
- Lack of consequence management
  - Key officials lack appropriate competencies
  - Slow response by management
  - Slow response by political leadership



152. Based on the above, there has been no significant improvement in controls resulting in a stagnant audit opinion. Assurance providers need to ensure the tone at the top promotes good governance by addressing the root causes.

153. Our staff remains committed to assisting in identifying and communicating good practices to improve governance and accountability and to build public confidence in government's ability to account for public resources in a transparent manner.

Yours faithfully

Bomkazi Bhobho  
Deputy Business Executive: Mpumalanga Business Unit  
30 November 2016

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