



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

FINAL MANAGEMENT REPORT

MAMUSA LOCAL MUNICIPALITY

2013-06-30



MANAGEMENT REPORT

MAMUSA LOCAL MUNICIPALITY

2013-06-30

CONTENT

Introduction	3
Section 1: Meetings with oversight bodies and those charged with governance	4
Section 2: Matters relating to the auditor's report	5
Part A: Misstatements in the financial statements	5
Part B: Matters to be brought to the attention of the users	12
Part C: Conclusion on the annual performance report	12
Part D: Findings on compliance with laws and regulations	15
Part E: Internal control	19
Part F: Status of implementation of commitments and recommendations	25
Part G: Investigations/other audits	25
Section 3: Specific focus areas	26
Part A: Procurement and contract management	25
Part B: Service delivery	27
Part C: Financial indicators	27
Part D: Consultants	31
Part E: Fraud	33
Section 4: Emerging risks	33
Section 5: Ratings of detailed audit findings	35
Section 6: Conclusion	35
Section 7: Summary of detailed audit findings	36
Detailed audit findings contained in annexures A – C	52
Financial indicators contained in annexure D	552

MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THE MAMUSA LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2013

INTRODUCTION

1. Our responsibility is to express an opinion on the financial statements, to express a conclusion on the annual performance report in the management report and to report on material findings relating to compliance with specific requirements in key applicable laws and regulations as set out in the *General Notice* issued in terms of the Public Audit Act, 2004 (Act No.25 of 2004). Our engagement letter sets out our responsibilities and the responsibilities 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 laws and regulations for the year ended 30 June 2013 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 as the root causes for the matters reported. Addressing these deficiencies will assist in ensuring an improvement in the audit outcomes.
 3. The management report consists of an executive summary and detailed audit findings which are contained in annexures A, B and C.
-

EXECUTIVE SUMMARY

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

1. 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 drivers of the controls that impact these audit outcomes to enable corrective action to be taken.
2. Meetings were conducted as follows:
 - Those charged with governance
 - 21 August 2013
 - 02 September 2013
 - 09 September 2013
 - 17 September 2013
 - 23 September 2013
 - 30 September 2013
 - 01 October 2013
 - 10 October 2013
 - 15 October 2013
 - 29 October 2013
 - 05 November 2013
 - 12 November 2013
 - 19 November 2013
 - 26 November 2013
3. At these meetings commitments were made to address improvements in the internal control environment with the objective of achieving a clean audit outcome. The commitments given and the progress made on previous commitments are included under section 2, part F – Status of implementation of commitments and recommendations.

SECTION 2: MATTERS RELATING TO THE AUDITOR'S REPORT

PART A – MISSTATEMENTS IN THE FINANCIAL STATEMENTS

4. 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 section 122 of the MFMA.
5. The misstatements not corrected form the basis for the disclaimed opinion on the financial statements.

Financial statement item	Material misstatements		Impact	Impact
	Finding (Include a brief description of misstatements as per findings and audit report. Include reasons for not correcting when applicable.)	Occurred in prior year ("Yes/ "No")	R current year	R prior year
Material misstatements not corrected				
Property, plant and equipment	During 2012, I was unable to obtain sufficient appropriate audit evidence for journal entries relating to the property plan and equipment balance.	Yes	R-	R81 561 596
	I was unable to obtain sufficient appropriate audit evidence that management has properly accounted for property, plant and equipment as an underlying asset register did not support balances for working in progress, not all asset could be traced to the asset register, and non-submission of information and various control weaknesses.	Yes	R100 778 073	R-
	The municipality did not review the residual values and useful lives of property, plant and equipment at each reporting date or assessed whether there is any indication that an asset may be impaired in accordance with SA Standard of GRAP, GRAP 17 <i>Property, plant and equipment</i> . The municipality's records did not permit the performance of alternative audit procedures. Consequently, I was unable to practicably determine the resulting misstatement in the depreciation and amortisation expense of R851 907 (2012: R755 091) as per the statement of financial performance or in the valuation of property, plant and equipment of R101 778 073 (2012: R81 561 596) disclosed in note 6 to the financial statements.	Yes	R851 907	R755 091
Investment property	The municipality did not recognise all property held to earn rentals or for capital appreciation as investment property in accordance with SA Standard of GRAP, GRAP 16, <i>Investment</i>	Yes	R-	R-



	<i>property</i> . I was not able to determine the correct net carrying amount of investment property as the municipality's records did not permit the application of alternative audit procedures.			
Trade and other payables	The municipality did not disclose bad debts of R28 669 946 separately from the bad debts impairment in the note 19. Had this correctly been disclosed, bad debts written off would have been disclosed as R28 669 946 while provision for impairment would have been disclosed as R60 968 704.	No	R28 669 946	R-
	Bad debts written off, the amount of R28 669 946 have been incorrectly disclosed in the statement of financial performance as R27 427 933. Had this been correctly disclosed, bad debts would have increased with R1 242 013 and an unknown expenditure account.	No	R1 242 013	R-
	I was unable to obtain sufficient appropriate audit evidence for journals and other receivable balance. I could not determine the effect on the other account balances or classes of transactions contained in the financial statements. The municipality's records did not permit the application of alternative audit procedures.	Yee	R243 009 568	R176 055 309
Trade and other payables	SA Standards of GRAP, GRAP 104, <i>Financial Instrument</i> requires that after initial recognition, an entity shall measure all financial liabilities at amortised cost using the effective interest method.	No	R-	R-
	The municipality did not recognise payables amounting to R15 661 721 in the accounting records of the municipality. Had this been correctly disclosed, payables would have increased with R15 661 721 while accumulated surplus and relating expenditure would have increase/decreased with the same amount Furthermore, I was unable to obtain sufficient appropriate audit evidence to determine for trade and other payables of R28 153 030 (2012: R26 183 290) as per the statement of financial position and disclosed in note 10 to the financial statements. The municipality's records did not permit the application of alternative audit procedures. Consequently I was unable to determine whether any adjustment relating to	Yes	R28 153 030	R26 183 290

	these amounts was necessary.			
Cash flow statement	I was unable to obtain sufficient appropriate audit evidence that management has properly managed and accounted for cash and cash equivalents for the current and prior year due to the status of the accounting records.	No	R-	R-
	The municipality did not disclose the ledged as collaterals for liabilities including the classifications as required by SA Standards of GRAP, GRAP 104, Financial Instruments. Consequently I was unable to determine whether any adjustment relating to disclosure of cash and cash equivalents as disclosed in note 26 to the financial statements was necessary.	No	R-	R-
Provisions	In 2012, the municipality was unable to provide sufficient appropriate audit evidence for balances and journals relating to provisions of R11 525 987 as disclosed in note 9 to the financial statements.	Yes	R-	R11 525 987
	The municipality did not have adequate system in place to maintain records of accounts provision for land fill site as required by SA Standards of GRAP, GRAP 19, <i>Provisions, contingent liabilities and contingent assets</i> , as no disclosure were made for current and prior year.	Yes	R12 552 929	R11 999 202
Employee Benefits	The municipality did not perform disclose information relating to the nature of the define benefit plans and the financial effects of changes in those plans during the period year which include but not limited to current service costs, interest cost, contributions to the plan actuarial gains and losses as required by SA Standards of GRAP, GRAP 25, <i>Employee benefits</i> . The municipality's records did not permit the application of alternative audit procedures. Consequently, I was unable to determine whether any adjustments were required to the balance of employee benefits included in provision of R23 484 421 as disclosed in note 46 to the statement.	No	R23 484 421	R-
Revenue	SA Standards of GRAP, GRAP 9, Revenue requires that revenue be recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity and the amount of the revenue can be measured reliably. Contrary to the requirement, the	Yes	R142 435 620	R100 565 993



	municipality did not record all revenue relating to service charges, due to the differences identified between the actual meter readings, services not billed and incorrect tariffs being used. The municipality's records did not permit the application of alternative audit procedures.			
Expenditure	The municipality was did not provide sufficient appropriate audit evidence relating to journals, cut-off of expenditure, duplicated transactions in the accounting records and differences between the general ledger and financial statements for expenditure included in general expenses, as disclosed in the statement of financial performance.	Yes	R21 774 776	R14 081 318
Employee Cost	In 2012, the employee cost as disclosed in note 17 was understated by R1 740 935 and the remuneration of councillors is understated by R315 424. I was unable to obtain sufficient appropriate audit evidence for personnel cost of R2 491 130 included in personnel cost of R27 390 263 as disclosed in the statement of financial performance.	Yes	R- R-	R1 740 935 R315 424
	The municipality effected salary increase of more than the approved increase rate 6.50% resulting that salaries are overstated. I could not obtain reasonable assurance that the additional increases were approved by council. Furthermore, sufficient appropriate audit evidence for medical aid contributions and pension employment.	No	R33 852 454	R-
Capital commitments	The municipality did not have an adequate contract management system in place for the identification and recognition of contracts and there were no satisfactory alternative procedures I could perform to obtain reasonable assurance that all commitments were accurately and completely disclosed.	Yes	R27 420 252	R21 114 424
VAT	In 2012, the municipality was unable to provide sufficient appropriate audit evidence for the VAT receivable of R1 410 200 as disclosed in the statement of financial position. Alternative procedures performed indicate a variance of R5 391 139. Consequently, VAT has been understated with R5 391 139.	Yes	R-	R5 391 139
	The municipality did not provide sufficient appropriated audit	Yes	R166 548	R3 335 550



	evidence for journals recorded in the VAT account for the current year and prior year. Furthermore, the municipality did not account for input Value Added Tax (VAT) to the extent to which the input expenditure is used for taxable purposes. The apportionment ratio (taxable use) of the municipality is below the allowable 95%, therefore input tax had to be claimed as per the apportionment ratio. I was not able to determine the full extent of the overstatement or understatement in the VAT receivable as it was impracticable to do so.			
Fruitless and wasteful expenditure	I was unable to obtain sufficient appropriate audit evidence for fruitless and wasteful expenditure of R943 730 disclosed in note 33 to the financial statements. Section 125(2)(d)(i) of the MFMA requires disclosure of all material fruitless and wasteful expenditure. In addition, the municipality incurred fruitless and wasteful expenditure of R1 078 145 in 2012 due to penalties and interest paid on arrear accounts. This was not disclosed in the notes to the financial statements for the comparative period.	Yes	R943 730	R1 078 145
Irregular expenditure	The municipality did not provide sufficient appropriate evidence that awards of R 2 901 564 (2012: R50 302 878) was made in terms of the supply chain management requirements as required by section 125(2)(d)(i) of the MFMA. Consequently I was unable to determine whether any further irregular expenditure should have been disclosed in notes to the financial statements. Furthermore, the municipality did not disclose irregular expenditure of R13 145 461 (2012: R2 015 589) was incurred in the current year as a result of result of payments made in contravention of the municipality's supply chain management policy, and these were not disclosed as irregular expenditure	Yes	R13 145 461	R2 015 589
Material losses	The municipality did not disclose material losses in the notes to the financial statements as required by section 125(2)(d)(i) of the MFMA. I was unable to obtain sufficient appropriate audit evidence for distribution losses incurred or calculated distribution losses by alternative means.	Yes	R-	R-
Budget information	The municipality did not disclose any budgeted information in the notes to the financial statements as required by the Standards of Generally Recognised Accounting Practice, GRAP 24, <i>Presentation of Budget Information in Financial</i>	No	R-	R-



	<i>Statements.</i> No budget information was recognised by the municipality. Consequently, the financial statements are not fairly presented.			
Risk management	The municipality did not disclose the requirements for financial assets, past due but not impaired, expenditure to price risks, classification of liquidity risk, credit risk and interest rate risks, nature and carrying amount of financial and non-financial assets and maturity analysis for any borrowings as required by Standards of Generally Recognised Accounting Practice, GRAP 104, Financial Instruments. I was unable to confirm the disclosure to risk management.	No	R-	R-
Prior period errors	The municipality did not disclose any prior period errors in the notes to the financial statements as required by the Standards of Generally Recognised Accounting Practice, GRAP 3, <i>Accounting Policies, Estimates and Errors</i> . The nature, the amount of the correction for each financial statement line items affected and the amount of the correction at the beginning of the earliest prior period should be disclosed. I was unable to obtain sufficient appropriate audit evidence regarding the nature of the prior period adjustments made. I was unable to confirm the full extent and the nature of the misstatement by alternative means. Consequently, I was unable to determine whether any adjustments to prior period error note in the financial statements were necessary.	No	R-	R-
Accumulated surplus/(deficit)	Limitations placed on my audit relating to expenditure and revenue has not been resolved. Furthermore unexplained differences exist between the general ledger, trial balance and the financial statements for the 2012 and 2013 financial years and unsupported journals of R134 898 986. In the absence of sufficient appropriate audit evidence to substantiate these transactions included in the accumulated surplus of R78 215 508 (2012: R126 216 049) as per the statement of changes in net assets. Consequently I was unable to determine whether any adjustment relating to accumulated surplus in the financial statements was necessary.	Yes	R78 215 508	R126 216 049
Cash flow statement	Taking into account the misstatements identified in the financial statements and set out in this report, I was unable to practicably quantify the misstatements in the cash flow	Yes	R-	R-



	statement and notes thereto for both the current and prior year. Consequently, I was unable to determine the any adjustments were necessary to the cash flow statement and notes.			
Material misstatements corrected				
Cash and cash equivalents	Disclosure as required by GRAP104 to include the collaterals for the bank overdraft	No	R4 800 000	R -
Unauthorised expenditure	Overstatement of unauthorised expenditure disclosed in the financial statements.	No	R3 438 222	R -

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

EMPHASIS OF MATTER

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

Unauthorised expenditure]

7. As disclosed in note 32 to the financial statements, unauthorised expenditure of R74 976 774 was incurred in the current year and the unauthorised expenditure in respect of prior years of R3 298 138 has not yet been dealt with in accordance with section 32 of the MFMA.

ADDITIONAL MATTER PARAGRAPHS

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

8. 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 annexures and, accordingly, I do not express an opinion thereon.

PART C – CONCLUSION ON THE ANNUAL PERFORMANCE REPORT

Introduction

9. I have audited the annual performance report of the Mamusa Local Municipality for the year ended 30 June 2013, as set out on pages XX to XX.

The accounting officer's responsibilities

10. The accounting officer is responsible for the preparation and fair presentation of the annual performance report in accordance with the identified performance management and reporting framework, as defined in paragraph 6 of *General Notice 839 of 2011*, regarding the planning, management, monitoring and reporting of performance against predetermined objectives and for such internal control as management determines necessary to enable the preparation of the annual performance report that is useful and reliable.

The Auditor-General's responsibilities

11. As required by sections 4 and 20 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), read with *General Notice 839 of 2011*, issued in *Government Gazette 34783 of 28 November 2011*, my responsibility is to prepare an audit conclusion on the annual performance report.

12. I conducted my audit in accordance with the International Standards on Assurance Engagements (ISAE) 3000: *Assurance engagements other than audits or reviews of historical information*.

I will report on whether I have received all the information and explanations required to conduct the engagement or if I became aware of additional information, the omission of which may result in the annual performance report being materially misstated or misleading.

13. I provide reasonable assurance with respect to the usefulness of the information contained in the annual performance report.

I further provide reasonable assurance with respect to the reliability of the following selected material programmes as set out in the annual performance report:

- Programme: Basic Service Delivery
14. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability as required by the identified performance management and reporting framework.
 15. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the requirements of the relevant reporting frameworks and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required.
 16. The reliability of the information in respect of the selected programmes is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
 17. The audit involves performing procedures to obtain audit evidence about the usefulness of the annual performance report and reliability of the selected programmes as set out in the annual performance report. The procedures selected depend on the auditor's judgement, including our assessment of the risks of material misstatement of the annual performance report. Because of the test nature and other inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some, even material, misstatements may not be detected, even though the audit is properly planned and performed in accordance with the ISAE 3000. The procedures performed include the following:
 - Understanding and testing the internal policies, procedures and controls relating to the management of and reporting on performance information;
 - Evaluating and testing the processes, systems, controls and review of documentation maintained at the audited institution to support the generation, collation, aggregation, monitoring and reporting of the performance indicators and targets;
 - Evaluating, testing and confirmation of the usefulness of planned and reported performance information in accordance with the identified performance management and reporting framework;
 - Conducting detailed audit testing and obtaining sufficient appropriate audit evidence to verify the reliability (validity, accuracy and completeness) of reported performance information.
 18. I believe that the evidence obtained from the work performed provides an appropriate basis for the reasonable assurance conclusions expressed below.

Usefulness of annual performance report

Basis for qualified conclusions

Presentation

19. Section 46 of the Municipal Systems Act (MSA) requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Measures to improve performance for a total of 26% of the planned targets not achieved were not reflected in the annual performance report. This is due to the lack of oversight exercised by management and implementation of the Performance Management System.
20. Section 46 of the MSA requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Adequate and reliable corroborating evidence could not be provided for 49% measures taken to improve performance as disclosed in the annual performance report. The municipality's records did not permit the application of alternative audit procedures.

Consistency



21. The Municipal Systems Act, section 41(c) requires that the integrated development plan should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 22% of the reported indicators and 47% of the reported targets are not consistent with the objectives, indicators and targets as per the approved integrated development plan. This is due to the lack of oversight exercised by management and implementation of the Performance Management System.

Measurability

22. Performance targets not specific:

The National Treasury Framework for managing programme performance information (FMPPI) requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 38% of the targets in relation to the selected programme were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was not aware of the requirements of the FMPPI.

23. Performance targets not measurable:

The National Treasury Framework for managing programme performance information (FMPPI) requires that performance targets be measurable. The required performance could not be measured for a total of 53 % of the targets. This was due to the fact that management was not aware of the requirements of the FMPPI.

24. Performance indicators not well defined:

The National Treasury Framework for managing programme performance information (FMPPI) requires that indicators/measures should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 34% of the indicators were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was not aware of the requirements of the FMPPI.

25. Indicators not verifiable:

The National Treasury Framework for managing programme performance information (FMPPI) requires that it must be possible to validate the processes and systems that produce the indicator. A total of 45% of the indicators were not verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to the lack of key controls in the relevant systems of collection, collation, verification and storage of actual performance information.

Conclusion

17. In my opinion, except for the effects of the matters described in the basis for qualified conclusion paragraphs, the annual performance report presents performance information that is useful, in all material respects, in accordance with the identified performance management and reporting framework.

Reliability of Programme: Basic Service Delivery in the annual performance report

Basis for disclaimer conclusion

Reported performance not reliable

26. The National Treasury Framework for managing programme performance information (FMPPI) requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of information presented with respect to the programme: Basic Services Delivery.

This was due to limitations placed on the scope of my work due to the fact that the institution could not provide sufficient appropriate evidence in support of the information presented with respect to the programme: Basic Services Delivery.

Conclusion

27. Because of the significance of the matters described in the basis for disclaimer conclusion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for a conclusion. Accordingly, I do not express a conclusion on the programme: Basic Services and Infrastructure Investments and programme: Local Economic Development, as set out in the annual performance report.

PART D – FINDINGS ON COMPLIANCE WITH LAWS AND REGULATIONS

Included below are material findings of non-compliance with specific requirements in key applicable laws and regulations.

Strategic planning and performance management

28. The municipal council did not consult with the local community in the drafting and implementation of the municipality's IDP, through a forum that enhances community participation, as required by section 28 of the Municipal Systems Act and Municipal planning and performance management regulation 15(1)(a)(i).
29. The municipality did not give effect to its integrated development plan, as required by section 36 of the Municipal Systems Act, section 21(2)(a) of the Municipal Finance Management Act and Municipal planning and performance management regulation 6.
30. The municipality did not establish a performance management system, as required by section 38(a) of the Municipal Systems Act.
31. The annual report for the previous financial year was not prepared, as required by section 46 of the Municipal Systems Act and section 121(3)(c) of the Municipal Finance Management Act.
32. The annual performance report for the year under review does not include the performance of the municipality and name of external service providers, a comparison with the previous financial year and measures taken to improve performance, as required by section 46 (1)(a) of the Municipal Systems Act.
33. The municipality did not have and maintain effective, efficient and transparent systems of financial and risk management and internal controls as required by section 62(1)(c)(i) of the Municipal Finance Management Act.

Budgets

34. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.
35. Quarterly reports were not submitted to the council on the implementation of the budget and financial state of affairs of the municipality within 30 days after the end of each quarter, as required by section 52(d) of the MFMA.

Annual financial statements, performance and annual reports

36. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.
37. The 2011/12 annual report was not tabled in the municipal council within seven months after

the end of the financial year, as required by section 127(2) of the MFMA.

38. A written explanation was not submitted to council setting out the reasons for the delay in the tabling of the 2011/12 annual report in the council, as required by section 127(3) and 133(1)(a) of the MFMA.

Audit committee

39. The audit committee did not advise the council on matters relating to internal financial control and internal audits as required by section 166(2)(a) of the MFMA.
40. The audit committee did not advise the council on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.
41. The audit committee did not advise the council on matters relating to compliance with legislation, as required by section 166(2)(a)(vii) of the MFMA.
42. The audit committee did not review the annual financial statements to provide the council with an authoritative and credible view of the financial position of the entity, its efficiency and effectiveness and its overall level of compliance with legislation, as required by section 166(2)(b) of the MFMA.

Internal audit

43. The internal audit unit did not function as required by section 165(2) of the MFMA in that it did not advise the accounting officer and/or report to the audit committee on matters relating to internal audit.
44. The internal audit unit did not advise the accounting officer and/or report to the audit committee on matters relating to compliance with the MFMA, the Division of Revenue Act and other applicable legislation, as required by section 165(2)(b)(vii) of the Municipal Finance Management Act.

Human resource management

45. The municipality did not develop and adopt appropriate systems (policies) and procedures to monitor measure and evaluate performance of staff in contravention of MSA sec 67(d).

Procurement and contract management

46. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) & (c).
47. Quotations were accepted from prospective providers who are not registered on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy in contravention of SCM regulation 16(b) and 17(b).
48. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).
49. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required the code of conduct for staff members issued in terms of the Municipal Systems Act.
50. Sufficient appropriate audit evidence could not be obtained that all contracts and quotations were awarded in accordance with the legislative requirements and a procurement process which is fair, equitable, transparent and competitive, as documentation was not available during the audit.

Expenditure management

51. Money owing by the municipality was not always paid within 30 days of receiving an invoice or

statement, as required by section 65(2)(e) of the MFMA.

52. An effective system of expenditure control, including procedures for the payment of funds, was not in place, as required by section 65(2)(a) of the MFMA.
53. An adequate management, accounting and information system was not in place which accounted for creditors, as required by section 65(2)(b) of the MFMA.
54. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure, fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Conditional grants received

55. The municipality did not submit quarterly performance reports to the transferring national officer, the provincial treasury and the National Treasury, within 30 days after the end of each quarter, as required by section 12(2)(c) of the Division of Revenue Act (DoRA).
56. Sufficient appropriate audit evidence could not be obtained that the allocations for the Municipal Infrastructure Grant, Local Government Financial Management Grant and Municipal Systems Improvement Grant were utilised for purposes other than those stipulated in the grant framework, in contravention of section 16(1) of the Division of Revenue Act.
57. The municipality did not evaluate its performance in respect of programmes funded by the Municipal Infrastructure Grant, Local Government Financial Management Grant and Municipal Systems Improvement Grant within two months after the end of the financial year, as required by section 12(5) of the DoRA.

Revenue management

58. An adequate management, accounting and information system was not in place which accounted for debtors, as required by section 64(2)(e) of the MFMA.

Asset management

59. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
60. 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.

Consequences management

61. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.
62. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.
63. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.

Waste management

64. The municipality operated its waste disposal sites and wastewater treatment facilities without licenses or permits in contravention of section 20(b) of the National Environmental Management Waste Act, 2008 (Act No. 59 of 2008) (NEMWA), section 24(2)(a) of the National Environmental Management Act, 1998 (Act No. 107 of 1998) (NEMA), section 20(1) of the Environmental Conservation Act, 1989 (Act No. 73 of 1989) (ECA) and section 22(1)(b) of the National Water Act, 1998 (Act No. 36 of 1998) (NWA).

65. The municipality's operational activities at its waste disposal sites and wastewater treatment facilities contravened or failed to comply with the requirements of a waste management permit or license and the regulatory provisions in terms of section 67(1)(f)&(h) of the NEMWA and section 29(4) of the ECA in instances where such were issued.
 66. The municipality's waste management and disposal activities contravened or failed to comply with the requirements of section 28(1) of the NEMA, section 19 of the NWA and sections 16(1)(c)&(d) and 26.
-

PART E – INTERNAL CONTROL

IMPLEMENTATION OF THE DRIVERS OF INTERNAL CONTROL

67. The implementation of effective internal control helps in the achievement of important objectives and sustained and improved performance. Objectives are derived from the regulatory environment and fall into the following categories:
- Operations – Effectiveness and efficiency of operations including goals for operational and financial performance and safeguarding resources against loss (financial and performance management)
 - Reporting – Pertaining to the reliability of reporting including internal and external reporting of financial and non-financial information
 - Compliance – Pertaining to compliance with laws and regulations.
68. Objectives are driven by the mandate and the mission and vision of the organisation. Setting objectives is a prerequisite to internal control and a key part of strategic planning.
69. Internal control is a multi-dimensional iterative process of ongoing tasks and activities, affected by the people not just policies and systems, which provide assurance concerning the achievement of objectives. The fundamental principles contained in the drivers of internal control below must be present and operate together in order for the system of internal control to be effective.
70. For purposes of focusing corrective action, the principles of the different components of internal control have been categorised under leadership, finance and performance management and governance. These are the drivers of internal control.
71. The leadership of an organisation sets the tone from the top regarding the importance of internal controls and expected standards of conduct. This establishes the control environment which is the foundation for the other components of internal control and provides discipline, process and structure. In order to establish what control activities (e.g. policies and procedures) are required to ensure achievement of the control objectives a risk assessment should be conducted. The availability of accurate and complete information and the communication of information, another component of internal control, are required to carry out the day-to-day internal control activities. Thereafter there should be ongoing monitoring of activities (good governance) to ascertain whether all components of internal control are present and functioning.
72. When internal control is effective, management and those charged with governance have reasonable assurance that operations are managed effectively and efficiently, financial and non-financial reporting is reliable and laws and regulations are complied with.
73. Below is our assessment of the implementation of the drivers of internal control based on significant deficiencies identified during our audit of the financial statements, the annual [performance report / insert name of performance report] and 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 the annual performance report to be materially misstated and material non-compliance with laws and regulations to occur. When the required preventative or detective controls are in place, it is assessed with a , when progress on the implementation of such controls were made but improvement is still required or where the actions taken are not or have not been sustainable, it is assessed with a , while  indicates that internal controls are not in place and intervention is required to design and implement appropriate controls. The movement in the status of the drivers from the previous year-end to the current year-end assessment is indicated, collectively for each of the three audit dimensions under the three fundamentals of internal control, with a  (improved), 

(unchanged) or a  (regressed). The status of the commitments made by management is reported in part F.

.

Fundamentals of internal control	Financial		Performance objectives		Compliance with laws and regulations	
	Current Yr	Prior Yr	Current Yr	Prior Yr	Current Yr	Prior Yr
Leadership						
Overall movement from previous assessment	↔		↔		↔	
• 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						
Overall movement from previous assessment	↔		↔		↔	
• 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	Current Yr	Prior Yr	Current Yr	Prior Yr	Current Yr	Prior Yr
Movement from previous assessment	↔		↔		↔	
• 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	☹	☹	☹	☹	☹	☹

LEADERSHIP

Effective leadership

74. The entity has not established or used a formal code and other policies communicating appropriate ethical and moral behavioural standards and addressing acceptable operational practices and conflicts of interest. There was an overall lack of commitment to improve the financial administration of the municipality.

Oversight responsibility

75. The municipality did not have sufficient monitoring controls to ensure the proper implementation of the overall oversight process.

Human resource management

76. The municipality did not have sufficient capacity to plan, manage and report on its performance.

Policies and procedures

77. Management does not have documented policies and procedures to guide the operations of the municipality, resulting in numerous instances of non-compliance with the MFMA, as detailed under the 'reporting on compliance with laws and regulations section' of this report.

Action plans to address internal control deficiencies¹

78. The municipality did not develop an action plan timely to address internal and external audit findings, as a result audit findings reported in the prior year have recurred and no corrective action was taken with regards to matters previously reported.

IT governance framework

79. Adequate systems were not in place whether manual or computerised to record information required for accurate and complete reporting on financial and performance information. Staff were not properly trained to enable them to sufficiently operate the Venus financial system, only a select few of the employees had a limited knowledge of the IT system.

FINANCIAL AND PERFORMANCE MANAGEMENT

Record management

80. As indicated in our engagement letter, we agreed that all information requested for purposes of the audit would be submitted within 3 working days of the request by the auditors. Despite this agreement, management did not supply the documentation requested on time in several occasions and in most instances no information was obtained resulting in numerous qualifications in the audit report.

Daily and monthly processing and reconciling of transactions

81. Processes are not in place to ensure that daily and monthly processing of transactions is recorded timely. Limited reconciliations are performed to identify and resolve differences.

Regular, accurate and complete financial and performance reports

82. As indicated in section 2, part A and part C of this report, the financial statements and annual performance report contained numerous misstatements that were not corrected. This was mainly due to staff members not fully understanding the requirements of the financial reporting framework and not adhering to the FMPPI.

Compliance monitoring

83. Management does not have a specific framework/policy in place to ensure that all the staff are familiar with the applicable laws and regulations impacting the municipality therefore compliance has not been reviewed or monitored to prevent non-compliances.

IT systems

84. The Municipality had not formulated and documented any IT security policy regarding the security of IT assets, software and data security and the security officer's job description was not provided for review.

GOVERNANCE

Risk management activities and risk strategy

85. The municipality performed a risk assessment as required by the MFMA during the year; however this had a limited impact on the municipality's administration, as only a limited number of the prior year matters were addressed.

Internal audit

86. The internal audit functioned during the year, however they did not report on all the statutory requirements, for example performance information audit.

87. The following matters regarding the effectiveness of the internal audit unit are of concern and require attention:

- Numerous reports were not finalised by the internal audit function.
- Internal audit does not follow up the implementation of internal and external audit recommendations to address audit outcomes.

Audit committee

88. The audit committee did not report to Council during the year under review.

SUMMARY

89. The matters above, as they relate to the basis for disclaimer of opinion, findings on the annual performance report and findings on compliance with laws and regulations, will be summarised in the auditor's report as follows:

Leadership

90. Management does not provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the interests of the entity. Management also did not exercise their oversight responsibility regarding financial and performance reporting and compliance and related internal controls. Furthermore management did not implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored. Management also did not establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities. Management did not develop action plans to address internal control deficiencies identified. Management did not establish an IT governance framework that supports and enables the business, delivers value and improves performance.

Financial and performance management

91. The municipality did not implement proper record keeping ensuring that complete, relevant and accurate information is accessible and available to support financial and performance reporting. Management did not implement controls over daily and monthly processing and reconciling of transactions. The municipality did not prepare regular, accurate and complete performance reports that are supported and evidenced by reliable information. The municipality also did not review and monitor compliance with applicable laws and regulations. Furthermore the municipality did not design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

Governance

92. The internal audit and audit committee fulfilled its function, however the municipality did not adequately respond to the concerns raised, resulting in the internal control environment over financial and performance information and compliance with laws and regulations being ineffective. Council and management failed to recognise the value that internal audit and audit committee can add to the municipality.

PART F – STATUS OF IMPLEMENTATION OF COMMITMENTS AND RECOMMENDATIONS

93. Below is our assessment of the progress on commitments made by senior management, the accounting officer and audit committee to address audit outcomes in the prior and current years

No	Commitment	Made by	Date	Status
	No commitments were made			

94. None of the prior year recommendations have been addressed or very limited progress has been made. Detail on the status of these recommendations is provided in the summary of detailed findings in this report (section 8).

PART G – INVESTIGATIONS / OTHER AUDITS

95. The following audits, which relate to the municipality are in progress or have been completed.

INVESTIGATIONS

96. No investigations are pending as at the date of this report.



SECTION 3: SPECIFIC FOCUS AREAS**PART A – 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 SCM system, the processes and controls need to comply with legislation and minimise the likelihood of fraud, corruption, favouritism as well as unfair and irregular practices. A summary of the findings from the audit are as follows:

Irregular expenditure

R13 786 292 (100%) of irregular expenditure incurred in the current financial year was as a result of the contravention of SCM legislation. A further R8 162 860 that was incurred in prior years was also identified. 0% (0% prior year) of this irregular expenditure was identified during the audit process and not detected by monitoring processes of the municipality. The root cause of the lack of effective prevention and detection are that the SCM processes are not adequately designed and implemented.

Awards to persons in the service of the state

SCM Regulation 44 prohibits awards to persons 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 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 (declaration submitted)	Officials/ councillors did not declare interest	Official/ councillor was involved of in the procurement of the award
Awards to officials of other state institutions	1 <i>R67 260</i>	0	1	1	N/A		0

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

Awards to providers owned/ managed by persons that are close family members of persons in the service of the state, whether at the municipality or any other state institution, are not prohibited. However such awards of more than R2 000 must be disclosed in the financial statements of the municipality for the sake of transparency and as required by SCM Regulation 45. The audit included the identification of awards to close family members. Further testing was also performed to determine whether the financial statement disclosure was made and the legislated requirements with regards to declarations of interest were adhered to.

The findings were as follows:

- Close family members of 2 officials have an interest in awards made to the value of R47 571. 2 of these officials did not declare their interest and none was involved in the procurement process for the award.

Procurement processes

The following findings on procurement processes result from the testing of 18 contracts with a total value of R42 201 275 and 46 of price quotations with a total value of R1 755 366.

List of accredited prospective providers

- The following shortcomings in administration of the list of prospective suppliers were identified:

It could not be confirmed if the suppliers are aware of the rotation policy.

Procurement process – Quotations

- 34 awards to the total value of R1 755 366 were procured without inviting at least three written price quotations from prospective suppliers and the deviations were not approved by a properly delegated official.

Procurement process - Competitive bidding

- 8 awards to the total value of R13 913 613 were awarded without following the tender process.

Internal control deficiencies

Management did not establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities.

PART B – SERVICE DELIVERY MATTERS

Road infrastructure

The audit included an assessment of specific service relevant to road infrastructure. For the financial year under review the following findings were identified:

98. The municipality has not approved or implemented a policy relating to road infrastructure.
99. The municipality has not set a performance indicator or target for the construction of new roads.
100. The municipality does not have an approved road maintenance plan which clearly indicates the strategy to be followed for the financial year.

PART C – FINANCIAL INDICATORS

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

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

The entity's financial indicators have been assessed according to the following areas and are set out in the table below:

- budgets
- expenditure management
- revenue management

- asset and liability management
- conditional grants

FINANCIAL INDICATORS							
(Limitation = unable to obtain sufficient appropriate information)		AS AT 30 JUNE 2013			AS AT 30 JUNE 2012		
BUDGET MANAGEMENT							
1.1	Percentage over-spending of the final approved operating expenditure budget	Not over-spent	% over-spent	Limitation	Not over-spent	% over-spent	Limitation
			64.4%		X		
1.2	Percentage under-spending of the final approved capital budget	Not under-spent	% under-spent	Limitation	Not under-spent	% under-spent	Limitation
		X				48.9	
GRANT MANAGEMENT							
2.1	Percentage under-spending of conditional grants received	Not under-spent	% under-spent	Limitation	Not under-spent	% under-spent	Limitation
		X			X		
EXPENDITURE MANAGEMENT							
3.1	Creditor-payment period	Days		Limitation	Days		Limitation
		122.7			245		
REVENUE MANAGEMENT							
4.1	Debtor-collection period (before impairment)	Days		Limitation	Days		Limitation
				X	447		
4.2	Debtor-collection period (after impairment)	Days		Limitation	Days		Limitation
				X	158		
4.3	Debtors impairment provision as a percentage of accounts receivable	% debtors impaired to accounts receivable		Limitation	% debtors impaired to accounts receivable		Limitation
				X	2.4		
4.4	Debtors impairment provision as a percentage of revenue from goods and services rendered on credit	% debtors impaired to revenue from goods and services		Limitation	% debtors impaired to revenue from goods and services		Limitation
				X	64.6		



FINANCIAL INDICATORS							
(Limitation = unable to obtain sufficient appropriate information)		AS AT 30 JUNE 2013			AS AT 30 JUNE 2012		
4.5	Percentage water losses incurred	% water losses	Limitation		% water losses	Limitation	
			X			X	
4.6	Percentage electricity losses incurred	% electricity losses	Limitation		% electricity losses	Limitation	
			X			X	
ASSET AND LIABILITY MANAGEMENT							
5.1	A deficit for the year was realised (total expenditure exceeded total revenue)	No	Yes	Limitation	No	Yes	Limitation
			X		X		
5.2	A net current liability position was realised (total current liabilities exceeded total current assets)	No	Yes	Limitation	No	Yes	Limitation
			X			X	
5.3	A net liability position was realised (total liabilities exceeded total assets)	No	Yes	Limitation	No	Yes	Limitation
			X		X		
5.4	Percentage of PPE and/or intangible assets impaired	% PPE and intangible assets impaired	Limitation		% PPE and intangible assets impaired	Limitation	
		0			0%		



FINANCIAL INDICATORS									
(Limitation = unable to obtain sufficient appropriate information)		AS AT 30 JUNE 2013				AS AT 30 JUNE 2012			
5.5	Percentage of loan receivables (loans awarded) and/or investments impaired	% loans and investments impaired		Limitation	% loans and investments impaired		Limitation		
		0%			0%				
CASH MANAGEMENT									
6.1	The year-end bank balance was in overdraft	No	Yes	Limitation	No	Yes	Limitation		
			X		X				
6.2	Net cash flows for the year from operating activities were negative	No	Yes	Limitation	No	Yes	Limitation		
			X		X				
6.3	Cash and cash equivalents as a percentage of operating expenditure	Bank in overdraft	% cash to operating expenditure	Limitation	Bank in overdraft	% cash to operating expenditure	Limitation		
		X			X				
6.4	Creditors as a percentage of cash and cash equivalents	Bank in overdraft	% creditors to cash	Limitation	Bank in overdraft	% creditors to cash	Limitation		
		X			X		X		
6.5	Percentage by which unspent conditional grants received exceeds cash available at year-end	Bank in overdraft	Not exceeded	% exceeded	Limitation	Bank in overdraft	Not exceeded	% exceeded	Limitation
			X				X		
6.6	Current liabilities as a percentage of net cash inflows for the year from operating activities	Negative/no cash flows	% current liabilities to cash inflows	Limitation	Negative/no cash flows	% current liabilities to cash inflows	Limitation		
			-290.9%				X		
6.7	Long-term debt as a percentage of net cash inflows for the year from	Negative/no cash flows	% long-term debt to cash inflows	Limitation	Negative/no cash flows	% long-term debt to cash inflows	Limitation		



FINANCIAL INDICATORS							
(Limitation = unable to obtain sufficient appropriate information)		AS AT 30 JUNE 2013			AS AT 30 JUNE 2012		
	operating activities		-94.8%				X
6.8	Employee benefit obligation as a percentage of net cash inflows for the year from operating activities	Negative/no cash flows	% employee benefit obligation to cash flows	Limitation	Negative/no cash flows	% employee benefit obligation to cash flows	Limitation
			0%			0%	
The above assessment is based on financial statement amounts, adjusted for uncorrected misstatements that resulted in the modification of the audit opinion.							



PART D – CONSULTANTS

102. No financial or performance management consultants were appointed by the municipality.

PART E – FRAUD

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

103. The following audit findings indicate that the deficiencies in the respective controls would not prevent or detect fraudulent activities:

Due to the numerous scope limitations encountered, the auditor cannot confirm nor deny the possible risk of fraud.

SECTION 4: EMERGING RISKS**Accounting and compliance matters**

104. The following emerging risks regarding accounting and compliance matters were identified:

- New pronouncements/requirements

New pronouncements/requirements described in the technical guidance memorandums relating to the GRAP reporting framework.

The ASB has issued the following additional Standards of GRAP, which are not effective for the 30 June 2013 year-end:

GRAP 18 Segment reporting

GRAP 20 Related party disclosures

GRAP 25 Employee benefits

GRAP 105 Transfers of functions between entities under common control

GRAP 106 Transfers of functions between entities not under common control

GRAP 107 Mergers

Upon issuing the additional Standards of GRAP, the ASB removed the GAAP or IPSAS equivalents of these standards from appendix G to Directive 5. This has resulted in gaps in the GRAP reporting framework for transactions, events or conditions previously addressed by these GAAPs or IPSASs.

- New legislation:

Municipal regulations on minimum competency level

Minimum competency regulations were issued on 15 June 2007. As per regulation 15 and 18, all municipalities must ensure that their staff complies with the competency requirements with effect from 1 January 2013.

- IT governance:

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

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

A task team was established by the Minister of Cooperative Governance and Traditional Affairs (CoGTA) to guide the implementation of the CGICTPF at municipalities, amongst others. A process is still underway to define implementation requirements that would be suitable for municipalities. The implementation guide and dates for the phases defined for municipalities will be communicated by CoGTA, in collaboration with their provincial departments.

SECTION 5: RATINGS OF DETAILED AUDIT FINDINGS

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

- Matters to be included in the auditor's report - These matters should be addressed as a matter of urgency.
- Other important matters – These matters should be addressed to prevent the likelihood that these matters may in future lead to material misstatements of the financial statements, material findings on predetermined objectives and compliance with laws and regulations.
- Administrative matters – These matters are unlikely to result in material misstatements of the financial statements, material findings on predetermined objectives and compliance with laws and regulations.

SECTION 6: CONCLUSION

106. 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 remains 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



Riaan du Plessis
Senior Manager: North West

30 November 2013

Enquiries: Riaan du Plessis
Telephone: (014) 597 9700
Fax: (014) 597 9730
Email: riaand@agsa.co.za

Distribution:

Mayor
Municipal Manager
CFO
Audit committee
Head of internal audit