



AUDITOR-GENERAL
SOUTH AFRICA

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MANAGEMENT REPORT

PRINCE ALBERT MUNICIPALITY

30 June 2018

Communicated to the accounting officer on: 28 November 2018





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MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THE PRINCE ALBERT MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2018

INTRODUCTION

1. The purpose of the management report is to communicate audit findings and other key audit observations to the accounting officer and does not constitute public information. This management report includes audit findings arising from the audit of the financial statements, performance information and compliance with legislation for the year ended 30 June 2018.
2. 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. In accordance with the terms of engagement, our responsibility in this regard 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 the selected objective, and report the material findings in the auditor's report
 - report on material findings raised on 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.

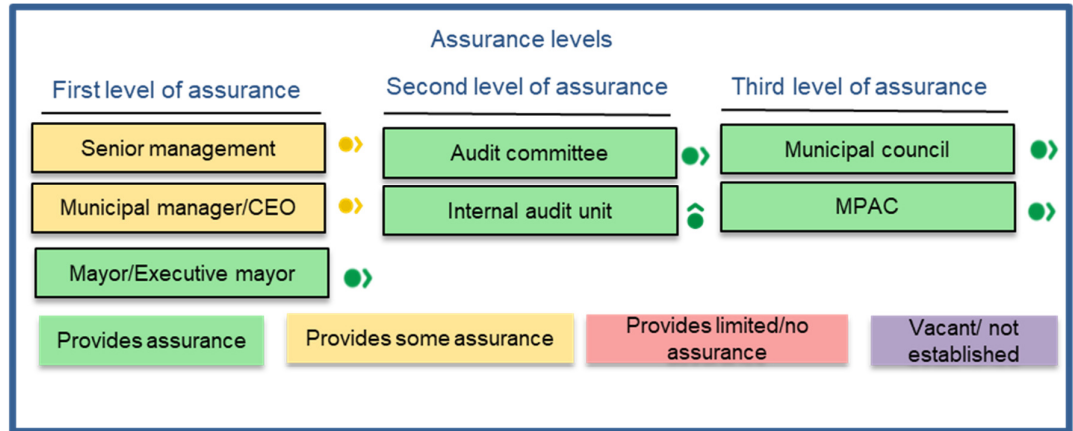
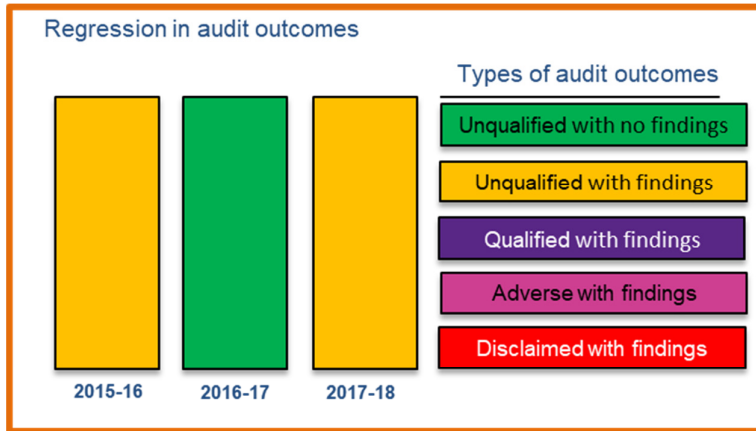
4. This management report consists of the overall message arising from the audit, summary of key findings and observations, annexures containing the detailed audit findings, annexures to the report on the audit of performance information as well as the annexure to internal control deficiencies reported.
5. 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 remain 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, unless requested in terms of section 18 (4) of the PAA.
6. Please note that the information contained in these documents is confidential, privileged and only for the information of the intended recipients and may not be used, published or redistributed without the prior written consent of the Auditor-General of South Africa (AGSA). Any form of reproduction, dissemination, copying, disclosure, modification, distribution and or publication of this material is strictly prohibited. Should the information be used or processed in a manner that contravenes any laws in the Republic, the AGSA is fully indemnified from liability that may arise from such contravention.
7. The figure that follows provides a pictorial summary of the audit results and our key messages on how to improve the audit outcomes with the focus on the following:
 - Status of the audit outcomes
 - Status of the level of assurance provided by key role players
 - Status of the drivers of internal controls



- Status of risk areas
- Root causes to be addressed that should be maintained

Movement from the previous year is depicted as follows:

		Improved
 		Maintained/unchanged/slight improvement/slight regression
		Regressed



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

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

5 ... the **root causes** are addressed ...

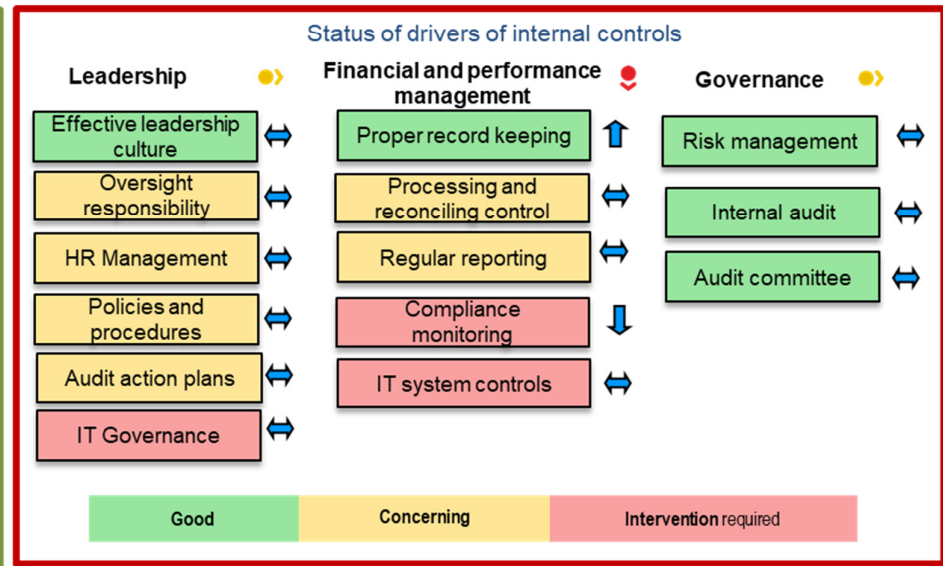
4 ... the **risk areas** and ...

3 ... attention is given to the **key controls** and ...

... the **best practices** are maintained.

Root causes should be addressed

Management did not develop, implement or fully monitor internal controls regarding financial and performance reporting. This would have prevented the misstatements which were identified in the financial statements and performance report which required subsequent adjustment. Material non-compliance relating to procurement and contract management as a result of local content requirements were identified. Impetus to drive processes for clean administration should now be strengthened to eliminate the weak controls still present in the municipality.



OVERALL MESSAGE

8. The summary figure above reflects the conclusion of the 2017/18 financial year audit. Management should undertake to use the 2017/18 findings as a basis against which controls and monitoring procedures can be further implemented and developed. This ought to assist the prevention of similar findings in the following year's audit.
9. Further specific intervention is required in relation to supply chain management and more specifically the compliance requirements relating to procuring local content included in the designated sectors as defined.
10. The municipality does not have an IT department or IT personnel and therefore lacks the capacity and appropriately skilled IT resources to operate and maintain the necessary IT systems and ensure data integrity and reliability.

SECTION 1: Interactions with stakeholders responsible for oversight and governance

11. During the audit cycle, we met with the following key stakeholders responsible for oversight and governance to communicate matters relating to the audit outcome and matters identified during our status of records review of the municipality:

Key stakeholder	Purpose of interaction	Number of interactions
Executive Mayor	Audit steering committee meetings: - Discussion of audit strategy plan	1
Municipal Manager	Audit steering committee meetings: - Discussion of audit strategy plan - Discussion of draft management report and audit report - Discussion of final management report and audit report	3
Audit committee	Audit steering committee meetings: - Discussion of audit strategy plan - Discussion of draft management report and audit report - Discussion of final management report and audit report	3
Chief Financial Officer	Audit steering committee meetings: - Discussion of audit strategy plan - Progress meetings - Discussion of communication of audit findings - Discussion of draft management report and audit report - Discussion of final management report and audit report	6

12. At these interactions, we highlighted matters affecting audit outcomes of the municipality, the concerns identified and any emerging risks. Insight was provided on the drivers of the internal controls that impact these audit outcomes to enable corrective actions to be taken.

13. All stakeholders made commitments to implement initiatives that can maintain the audit outcome. The commitments given and the progress of previous commitments are included in section 3, which deals with the assessment of assurance providers.

SECTION 2: Matters relating to the auditor's report

AUDIT OF THE FINANCIAL STATEMENTS

14. We identified material misstatements in the financial statements during the audit. These misstatements relates to reclassification misstatements and does not constitute non-compliance with section 122 of the Municipal Finance Management Act (MFMA) due to the nature of the cash flow statement reclassification being an anomalous adjustment and the impairment/depreciation reclassification being as a result of the mSCOA reclassification implementation.

Financial statement item	Material misstatement		Impact	Impact
	Finding	Occurred in prior year	R current year	R previous year
Material misstatements corrected				
Expenditure	Reclassification between depreciation and impairment as a result of mSCOA implementation	No	1 204 877	-
Disclosure	Cashflow statement reclassification within cashflow from operating activities	No	5 119 098	2 270 950

MATTERS TO BE BROUGHT TO THE ATTENTION OF USERS

Emphasis of matter paragraphs

15. 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

16. As disclosed in note 44 and 45 to the financial statements, the corresponding figures for 30 June 2017 have been restated as a result of the reclassification due to the implementation of mSCOA and errors discovered during 2017-18, in the financial statements of the Prince Albert Municipality at, and for the year ended, 30 June 2018.

Material impairments

17. As disclosed in notes 7 and 8 to the financial statements, the municipality has provided for impairment of trade receivables from exchange transactions and other receivables from non-



exchange transactions in the amount of R7 258 568 and R26 853 002 respectively, as management's impairment assessment indicated that these debtors would default on their accounts.

Material unauthorised expenditure

18. As disclosed in note 50.1 to the financial statements, the municipality incurred material unauthorised expenditure to the value of R5 116 614 due to incorrect budgeting.

Other matter paragraphs

19. The following other 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

20. The supplementary information set out on pages 88 to 98 did 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

21. In terms of section 125(2)(e) of the Municipal Finance Management Act, 2003 (Act No.56 of 2003) (MFMA) the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and accordingly we do not express an opinion thereon.

AUDIT OF THE ANNUAL PERFORMANCE REPORT

22. In terms of the general notice issued in terms of the PAA, the opinion on the audit of reported information will be included in the management report. The report is included below to enable management and those charged with governance to see what the report will look like once it is published in the auditor's report. We will report all the audit findings included under the basis for opinion and the other matter sections of this report in the auditor's report.

Introduction and scope

23. We have undertaken a reasonable assurance engagement on the reported performance information for the following selected strategic objective presented in the annual performance report of the municipality for the year ended 30 June 2018:

Strategic objective	Pages in annual performance report	Opinion	Movement
Strategic objective 4: To provide quality, affordable and sustainable services on an equitable basis	77 – 81	Unqualified	➡

24. We conducted our reasonable assurance engagement in accordance with the International Standard on Assurance Engagements, ISAE 3000: *Assurance engagements other than audits or reviews of historical financial information*.
25. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Strategic objective 4: To provide quality, affordable and sustainable services on an equitable basis

Opinion

26. In our opinion, the reported performance information for Strategic objective 4: To provide quality, affordable and sustainable services on an equitable basis is useful and reliable, in accordance with the applicable criteria as developed from the performance management and reporting framework as set out in annexure D to this report.

Other matters

27. We draw attention to the matters below. Our opinion is not modified in respect of these matters.

Achievement of planned targets

28. Refer to the annual performance report on pages 70 to 77 for information on the achievement of planned targets for the year.

Unaudited supplementary information

29. The supplementary information set out on pages 97 to 110 does not form part of the annual performance report and is presented as additional information. We have not audited these schedules and, accordingly, we do not express a conclusion on them.

Responsibilities of the accounting officer for the reported performance information

30. The accounting officer is responsible for the preparation of the annual performance report in accordance with the prescribed performance management and reporting framework, as set out in annexure D to this report and for such internal control as the accounting officer-determines is necessary to enable the preparation of performance information that is free from material misstatement in terms of its usefulness and reliability.

Auditor-general's responsibilities for the reasonable assurance engagement on the reported performance information

31. Our objectives are to obtain reasonable assurance about whether the reported performance information for the selected objective presented in the annual performance report is free from material misstatement, and to issue a management report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that the assurance engagement conducted in accordance with the relevant assurance standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if they could reasonably be expected to influence the relevant decisions of users taken on the basis of the reported performance information.
32. Our procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. We have not evaluated the appropriateness of the performance indicators established and included in the planning

documents. Our procedures do not extend to any disclosures or assertions relating to planned performance strategies and information relating to future periods that may be included as part of the reported performance. Accordingly, our opinion does not extend to these matters.

33. A further description of our responsibilities for the reasonable assurance engagement on reported performance information is included in annexure E to this report.

AUDIT OF COMPLIANCE WITH LEGISLATION

34. 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.

Procurement and contract management

35. Bid documentation for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2).
36. Commodities designated for local content and production, were procured from suppliers who did not submit a declaration on local production and content as required by the 2017 preferential procurement regulation.
37. Sufficient appropriate audit evidence could not be obtained that commodities designated for local content and production, were procured from suppliers who met the prescribed minimum threshold for local production and content, as required by the 2017 preferential procurement regulation 8(5).

OTHER INFORMATION

38. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected strategic objective presented in the annual performance report that have been specifically reported in the auditor's report.
39. Our opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.
40. In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected strategic objective presented in the annual performance report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.
41. The following paragraphs will be included in the auditor's report to highlight to the users whether any inconsistencies in the other information exist:
42. We did not receive the other information prior to the date of this auditor's report. When we do receive and read this information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, we may have to retract this auditor's report and re-issue an amended report as appropriate, however, if it is corrected this will not be necessary.

INTERNAL CONTROLS

43. The significant deficiencies in internal control which led to our overall assessment of the status of the drivers of key controls, as included in the figure in paragraph 7, is described below. The detailed assessment of the implementation of the drivers of internal control in the areas of financial statements, performance reporting and compliance with legislation is included in annexure F.

Leadership

Oversight responsibility

44. Management did not adequately develop and implement internal controls regarding financial and performance reporting. This would have prevented the disclosure and material misstatements corrected which were identified in the audit of the financial statements.
45. Management did not exercise oversight responsibility regarding adherence to the Supply Chain Management Regulations in procurement of goods and services during the financial year resulting in material non-compliance relating to the procurement process of local content.

Human resource management

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

Performance management

- No performance management system is in place for employees other than senior managers.

Policies and procedures

47. The municipality has not fully established procedures and processes to address non-compliance with supply chain regulations which resulted in a material non-compliance finding being identified.
48. The municipality did not ensure that the necessary policies and procedures are in place with regards to roads and water infrastructure.

Action plans to address internal control deficiencies

49. The accounting officer did not take reasonable steps to monitor the full implementation of managements action plan in place around the recommendations of the prior year, resulting in repeat findings with regard to the inadequacy of formally designed and implemented controls.

Information technology governance framework

50. The municipality does not have an information technology (IT) department or IT personnel and therefore lacks the capacity and appropriately skilled IT resources to implement the necessary IT controls and processes.

Financial and performance management

Daily and monthly processing and reconciling of transactions

51. There was no adequate review of the performance information to ensure that reported information is consistent with the IDP and SDBIP such as inconsistent description and disclosures of indicators in the IDP, SDBIP and performance report.
52. Management has not implemented adequate record management processes to facilitate the internal controls around expenditure as no adequate controls in place to monitor the quantity of goods and services received.

Regular, accurate and complete financial and performance reports

53. The financial statements were not adequately reviewed to ensure that the information presented and disclosed was accurate prior to being submitted for audit purposes which resulted in material misstatements which were identified in the financial statements which were subsequently corrected.

Compliance monitoring

54. Management did not implement adequate controls over compliance monitoring to ensure compliance with laws and regulations relating to local content, and non-compliance with monthly submission requirement of back to basics dashboard and the audit committee not consisting of at least three members throughout the year.

Information technology systems

55. The municipality does not have an IT department or IT personnel and therefore lacks the capacity and appropriately skilled IT resources to operate and maintain the necessary IT systems and ensure data integrity and reliability.

Summary

56. The matters above, as they relate to the findings on compliance with legislation, will be summarised in the auditor's report as follows:

Leadership

57. Management did not exercise oversight responsibility regarding adherence to the 2017 Preferential Procurement Regulations in procurement of goods and services during the financial year resulting in material non-compliance relating to the procurement process of local content.

Financial and performance management

58. Management has not implemented adequate internal controls around local content to ensure that the bid documentation for procurement of commodities designated for local content did not stipulate the minimum threshold for local production and was awarded to suppliers who did not submit the declaration. Although corrective action was taken during the financial year there were instances which were not timeously responded to which resulted in the material non – compliance.



SECTION 3: Assurance providers and status of implementation of commitments and recommendations

ASSESSMENT OF ASSURANCE PROVIDERS

59. 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 municipal 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.
60. Our reporting and oversight processes reflect on past events, as they take 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.
61. We assess the level of assurance provided by these assurance providers based on the status of internal controls (as reported in section 2.6) and the impact of the different role players on these controls. We provide our assessment for this audit cycle below.

First level of assurance

Senior management: provides some assurance

- Senior management is hands-on with the day to day financial activities of the municipality. Non-compliance, certain control deficiencies together with misstatements were identified during the audit. Two misstatements were considered material in value, however relating to reclassification adjustments which does not fall within the scope of Section 122 of the MFMA. Further to the misstatements identified, material non-compliance were identified relating to procurement and contract management area of local content and therefore the level of assurance has been assessed as "providing some assurance".

Municipal Manager: provides some assurance

- The Municipal manager attended the audit steering committee meeting to discuss the audit strategy plan and the meeting relating to the communication of audit findings and gave assurance of the seriousness with which management view the audit.
- Non-compliance, certain control deficiencies together with misstatements were identified during the audit. Two misstatements were considered material in value, however relating to reclassification adjustments which does not fall within the scope of Section 122 of the MFMA. Further to the misstatements identified, material non-compliance were identified relating to procurement and contract management area of local content and therefore the level of assurance has been assessed as "providing some assurance".



Mayor: provides assurance

- From a review of council minutes it was established that the mayor provided assurance as proof could be obtained from the minutes that the mayor was involved or provided oversight with regards to the actions taken/to be taken by the municipality to work towards clean administration.

Second level of assurance

Internal audit unit: provides assurance

- Legislation in South Africa requires the establishment, roles, and responsibilities of internal audit units. Internal audit units must form part of the internal control and governance structures of the municipality and must play an important role in its monitoring activities. Internal audit must provide an independent assessment of the municipality's governance, risk management and internal control processes.
- The internal audit unit of a municipality must prepare a risk-based audit plan and internal audit programme for each financial year. It must advise the accounting officer and report to the audit committee on 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.
- The internal audit unit fulfilled their minimum responsibilities as contained in the MFMA and therefore has been assessed as "provides assurance".

Audit committee: provides assurance

- The audit committee must be an independent advisory body to the council 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; the DoRA, the MFMA and any other applicable legislation; performance evaluation and any other issues.
- 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.
- Disclosure misstatements were identified in the annual financial statements and annual performance report which were subsequently corrected by management. The audit committee places reliance on external service providers to review the financial statement in detail. The audit committee did review the financial statements and therefore fulfil their minimum responsibilities as contained in the MFMA and therefore has been assessed as "provides assurance".

Third level of assurance

Municipal council: provides assurance

- The council meets regularly to consider matters in terms of their mandate and function. The council also operates through subcommittees including the municipal public account committee and the audit committee, which strengthen the oversight role of the council.



Municipal public account committee (MPAC): provides assurance

- The extent to which the council adopted the MPAC guides has been considered in the assessment of MPAC as an assurance provider.
- The MPAC has been established and functions as part of council as its members are all council members. The council meets regularly to consider matters in terms of their mandate and function.

STATUS OF IMPLEMENTING COMMITMENTS AND RECOMMENDATIONS

Below is our assessment of the progress in implementing the commitments made by the municipality to address the previous and current years' audit findings.

No.	Commitment	Made by	Date	Status
1.	No performance contracts for lower level staff	Manager: Corporate and Community Services	30/12/2017	Not yet implemented
2.	Internal Control deficiencies	Management	30/06/2018	Partially implemented
3.	Land of the auditee not recognised in the FAR	Senior Accountant	30/11/2018	Implemented
4.	Water, Sanitation and Infrastructure policy not in place	Manager: Corporate and Community Services	30/06/2018	Not yet implemented
5.	Planning for maintenance of water, sanitation and road infrastructure	Manager: Corporate and Community Services	30/06/2018	Not yet implemented
6.	Local Government Support: Not reporting on a monthly basis on the B2B to Provincial Department of Cooperative Governance	Manager: Corporate and Community Services	31/12/2017	Not yet implemented
7.	Property belonging to the municipality has not been changed at the deeds office	Manager: Corporate and Community Services	28/02/2018	Implemented

- 2 audit recommendations accepted by management in the previous year on matters included in the auditor's report and other important matters were implemented, or alternative actions were taken to resolve the finding.
- 1 recommendations are still being implemented and 4 have not been addressed, or very limited progress has been made.
- Details on the status of implementing the previous year's recommendations are provided in section 10, which summarises the detailed audit findings.



SECTION 4: Specific focus areas

FINANCIAL VIABILITY

62. 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 2018	AS AT 30 JUNE 2017
EXPENDITURE MANAGEMENT			
1.1	Creditor-payment period	24.4 Days	34.9 Days
REVENUE MANAGEMENT			
2.1	Debtor-collection period (after impairment)	26.4 Days	28.6 Days
2.2	Debtors impairment provision as a percentage of accounts receivable	81.9%	71.5%
	• Amount of debtors impairment provision	R8 306 889	R4 824 789
	• Amount of accounts receivable	R10 146 948	R6 745 747
ASSET AND LIABILITY MANAGEMENT			
3.1	A deficit for the year was realised (total expenditure exceeded total revenue)	No	No
	• Amount of the surplus for the year	R9 067 729	R18 595 747
3.2	A net current liability position was realised (total current liabilities exceeded total current assets)	No	No
	• Amount of the net current assets position	R26 989 293	R22 054 862
3.3	A net liability position was realised (total liabilities exceeded total assets)	No	No
	• Amount of the net asset position	R143 005 201	R133 522 517
CASH MANAGEMENT			
4.1	The year-end bank balance was in overdraft	No	No
	• Amount of year-end bank balance (cash and cash equivalents)	R25 414 091	R27 411 509
4.2	Net cash flows for the year from operating activities were negative	No	No
	• Amount of net cash in flows for the year from operating activities	R8 470 380	R16 379 109

FINANCIAL VIABILITY ASSESSMENT			
		AS AT 30 JUNE 2018	AS AT 30 JUNE 2017
4.3	Creditors as a percentage of cash and cash equivalents	9.9%	14.9 %
	• Amount of creditors (accounts payable)	R2 520 543	R4 077 352
	• Amount of cash and cash equivalents at year-end	R25 414 091	R27 411 509
4.4	Current liabilities as a percentage of next year's budgeted resources **	11.3%	22.2%
	• Amount of current liabilities	R7 925 632	R12 951 575
	• Amount of next year's budgeted income *	R69 839 000	R58 417 000
OVERALL ASSESSMENT			
Overall the financial viability is assessed as:		Green (Good)	Green (Good)
* This amount excludes the portion of next year's budgeted resources that is budgeted to be spent on "employee costs" and "remuneration of councillors".			

High-level comments

Expenditure Management

63. The creditor-payment period has decreased from 34.9 to 24.4 days compared to the 2016/17 financial year and is now within the required 30 days as required by the MFMA. This is an improvement compared to the previous year.

Revenue Management

64. Debtor impairment provision as a percentage of accounts receivable have increased from 71.5% to 81.9%. The percentage regressed compared to the previous year and still remains high due to debtors being unable to pay their debts due to economic circumstances. The municipality is not recovering its debts in a timely manner and this could contribute to cash flow problems in the future. There has been an improvement however in the debtor collection period from 28.6 to 26.4 days in the current year, which indicates that the municipality has tighten the controls surrounding the debt collection.

Asset and liability Management

65. The asset and liability ratios have improved compared to the previous year with a strong cash balance of R25,4 million at year end. There has been a decrease in cash inflows from operating activities from R16,3 million to R8,5 million. This decrease was mainly driven by the increase in payments to suppliers and receiving less government grants and subsidies compared to the previous year. The liquid asset test percentage has improved significantly from 265.9% in 2016/17 to 431.5% in 2017/18 financial year and the municipality appears to have sufficient cash to settle their current liabilities. The municipality also generated a R9,0 million surplus for the year. This surplus is lower compared to the R18,6 million surplus in the previous year, which was mainly driven by the decreases in fines revenue and government grants received and increases in employee related costs.

Cash Management

66. The municipality maintained a strong cash balance of R25,4 million at year end compared to R27,4 million in the 2016/17 financial year. The creditors' percentage of cash and cash equivalents has decreased compared to the previous year and this indicates that the cash is managed to enable sufficient resources to be available to settle the municipality's debt as and when it is due.

Overall assessment

67. The risks posed by the above assessment include:

- The municipality's debtors impairment provision at year end as a percentage of accounts receivable is not within the acceptable norm and it has a negative impact on the municipality's cash flow which in turn could have a negative impact on the municipality's creditor payment period.
- Overall the municipality has sufficient cash to settle its debt as and when it becomes due and the financial indicators appears to be fairly consistent compared to the previous financial year and showing a marked improvement in the liquidity ratio.

PROCUREMENT AND CONTRACT MANAGEMENT

68. The audit included an assessment of procurement processes, contract management and the related controls in place. These processes and controls must comply with legislation to ensure a fair, equitable, transparent, competitive and cost-effective supply chain management (SCM) system and to reduce the likelihood of fraud, corruption, favouritism and unfair and other irregular practices. A summary of the findings from the audit are as follows:

Irregular expenditure

69. R772 114 (100%) of the irregular expenditure incurred in the current financial year was as a result of the contravention of SCM legislation. 11.4% (100% of irregular expenditure relating to the previous 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 are due to ineffective review and monitoring activities which resulted in irregular expenditure and non-compliance with Supply Chain Management Regulation and the MFMA.

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

70. Awards to providers owned/managed by 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 performed to determine whether the financial statement disclosure was made and the legislated requirements with regard to declarations of interest were adhered to. No findings were identified.

Procurement processes

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

- procurement processes – quotations
- procurement processes – competitive bids and deviations
- deviations
- preference point system
- CIDB requirements /construction contracts
- Local content.

	Total		Quotations		Contracts	
	Number	Value R	Number	Value R	Number	Value R
Awards selected for testing	116	R34 722 363	107	R19 368 012	9	R15 354 351
Expenditure incurred on selected awards – current year		R25 455 614		R15 468 947		R9 986 667
Awards on which non-compliance was identified	15	R772 114	15	R772 114	-	-
Irregular expenditure identified	7	R83 916	7	R83 916	-	-

Procurement processes – general

- Six (6) quotations with a total value of R17 444 were accepted from a prospective provider who was not registered on the list of accredited prospective providers or the National Treasury’s central suppliers database and it could not be assessed as to whether the prospective provider met the listing requirements prescribed by the SCM policy, as there are no listing requirements included in the SCM policy.

Local content and production (designated sectors)

- Specifications for nine (9) awards with a total value of R750 260 did not stipulate the minimum threshold for local production and content.
- Seven (7) quotations with a total value of R364 100 were awarded to bidders that did not submit a declaration of local production and content.
- For seven (7) quotations with a total value of R364 100, it could not be established whether the provider met the minimum threshold for local production and content due to not submitting a declaration of local production and content.



Internal control deficiencies

72. Management did not implement adequate controls over compliance monitoring to ensure that quotations are accepted from prospective providers who are registered on the list of accredited prospective providers or the National Treasury's central supplier's database in terms of the SCM regulations and policies.
73. Management did not implement adequate controls over compliance monitoring to ensure that bid specifications stipulate the minimum threshold for local production and content.
74. Management did not implement adequate controls over compliance monitoring to ensure that awards were only made to bidders that submitted a declaration of local production and content.

FRAUD AND CONSEQUENCE MANAGEMENT

75. 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. No fraud risk factors were identified during the audit.
76. The MFMA and its regulations clearly stipulate that matters such as incurring unauthorised, irregular and 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. No significant findings were identified.

USE OF CONDITIONAL GRANTS

77. For the financial year under review, the audit included an assessment of the effectiveness of the municipality's use of the following conditional grants received:
 - Municipal Infrastructure Grant (MIG)
 - Integrated National Electrification Program Grant (INEP)
78. No compliance findings were raised on the use of selected grants.
79. For each of the grants tested as per above, we selected key projects funded by the grant and audited the use of grants on the project. No audit findings were raised on each of the projects tested.

Key projects/initiatives funded by the grant		
Summary of selected key project and result of testing	Details	Details
Name of grant	Municipal Infrastructure Grant	Integrated National Electrification Program Grant
Project/initiative funded by the grant	Upgrading of Prince Albert Raw Water Storage Units: Tender 117/2017	Department of Human Settlement (DOHS): Electrification of 241 Houses – Prins Albert
Audit findings	(For each project, tick ✓ applicable findings below)	
Planned completion target for the selected project were not achieved	No findings identified	No findings identified
Project stage of completion was not assessed	No findings identified	No findings identified
Project stage of completion assessed by the municipality is incorrect	No findings identified	No findings identified
Findings were identified on the procurement of goods and services for the project	No findings identified	No findings identified
Misstatements were identified on the accounting for the expenditure relating to the project	No findings identified	No findings identified
Payments were made for goods/services not received	No findings identified	No findings identified
Misstatements were identified on the accounting of funds used through implementing agents	No findings identified	No findings identified
Process for appointing implementing agents did not comply with legislation	No findings identified	No findings identified
Implementing agents failed to comply with SCM prescripts when spending the funds	No findings identified	No findings identified

FREE BASIC SERVICES

80. The municipality received an equitable share allocation of R17,7 million. Part of the equitable share is used to fund free basic services that are meant for the poor. The audit work performed indicated that sufficient measures were in place to ensure that free basic services reach the intended beneficiaries and no findings were identified.

PUBLIC PARTICIPATION

81. As part of the audit of predetermined objectives we audit compliance with the provisions of the Municipal Systems Act relevant to community participation. No findings were identified.

USE OF CONSULTANTS

82. The audit included an assessment of the effective use of consultants. In the local government environment, the partnership between the private and public sectors has become important in driving strategic goals. No audit findings were identified.

83. The total expenditure on consultants was R3 317 608.

WATER AND SANITATION

84. The audit included an assessment of the water and sanitation service delivery objective of the municipality. Procedures were performed in relation to the following:

- Performance planning and reporting on the provision of water and sanitation services
- Planning and budgeting for routine maintenance of water and sanitation infrastructure
- Planning and budgeting for new water and sanitation infrastructure projects
- Reporting on water losses

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

Water services

Planning and budgeting for routine maintenance of water infrastructure

- A policy on routine maintenance of water infrastructure was not developed.

Sanitation services

Planning and budgeting for routine maintenance of sanitation infrastructure

- A policy on routine maintenance of sanitation infrastructure was not developed.

86. The audit included obtaining an understanding of key water and sanitation infrastructure projects undertaken at the municipality. In the context of these key projects, we evaluated whether the municipality executed its mandate in accordance with the predetermined objectives, whether the procurement processes were complied with, whether the transactions were recorded appropriately in the financial statements, and whether quality goods and services were delivered which agreed with the initial requirements.

87. The table below summarises the key projects tested. No audit findings were identified.



Summary of selected key projects and results of testing		
	Water infrastructure	Water infrastructure
Key project name	<i>Upgrade raw water storage</i>	<i>Water drought relief</i>
Brief description of key project	Update of water storage reservoir	Building of new water storage reservoir
Project commenced as planned	Yes 17 Aug 2017	Yes 15 Feb 2018
Project completed within defined duration (applicable if completed)	Project in progress	Project in progress
Status of completion (applicable if WIP)	Expected to be completed in December 2018	Expected to be completed in November 2018
Available budget for the year	R497 999,89	R98 150,46
Actual amount spent in current year	R3 496 230,11	R383 162,04
Total project budget (multi-year)	R3 994 230,00	R500 000,00
Actual amount spent from initiation to date	R3 496 230,11	R383 162,04
Source of funding	Municipal Infrastructure Grant	Municipal Infrastructure Grant
Key performance indicator and target as per annual or strategic planning document (if applicable)	Not applicable	Not applicable

ROADS INFRASTRUCTURE

88. The audit included an assessment of the roads infrastructure service delivery objective. Procedures were performed in relation to the following:

- Planning for renewal and routine roads maintenance projects
- Planning for new or refurbished roads infrastructure projects
- Follow-up on the previous year's findings

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



Planning for renewal and routine roads maintenance projects

- Roads maintenance plan for routine maintenance and renewal for the roads infrastructure was not developed.
90. The audit included obtaining an understanding of key roads infrastructure projects undertaken at the municipality. In the context of these key projects, we evaluated whether the municipality executed its mandate in accordance with the predetermined objectives, whether the procurement processes were complied with, whether the transactions were recorded appropriately in the financial statements, and whether quality goods and services were delivered which agreed with the initial requirements.
91. The table below summarises key projects audited. No audit findings were identified.

Summary of selected key projects and results of testing		
Key project name	MIG: New Links Road and Stormwater	Klaarstroom New Sidewalks
Brief description of key project	Development new links Road and Stormwater in Prince Albert	Building of Klaarstroom New Sidewalks for residence
Project commenced as planned	Yes, 19 April 2017	Yes, 17 Nov 2017
Project completed within defined duration (applicable if completed)	Yes- 30 June 2018	Yes- 2 March 2018
Status of completion (applicable if WIP)	Not applicable	Not applicable
Available budget for the year	R0,41	R1 170.35
Actual amount spent in current year	R2 515 170.41	R218 127,89
Total project budget (multi-year)	R2 515 170,00	R219 298,24
Actual amount spent from initiation to date	R2 515 170.41	R218 127,89
Source of funding	Municipal Infrastructure Grant	Municipal Infrastructure Grant
Key performance indicator and target as per annual or strategic planning document (if applicable)	Not applicable	Not applicable

Follow-up on the previous year’s findings

92. Corrective actions to address all findings raised in the prior year were not implemented. This was due to budget constraints and capacity of personnel to assist and guide the municipality in developing and implementing the policy and procedures for water, sanitation and road



infrastructure. The audit included obtaining an understanding of key infrastructure projects undertaken at the municipality. In the context of these key projects, we evaluated whether the municipality executed its mandate in accordance with the predetermined objectives, whether the procurement processes were complied with, whether the transactions were recorded appropriately in the financial statements, and whether quality goods and services were delivered which agreed with the initial requirements.

SUPPORT TO LOCAL GOVERNMENT

93. The audit included an assessment of the support to local government. Procedures were performed in relation to the following:

- Managing and coordinating the intergovernmental system to ensure sustainable and reliable access to basic services
- Back to basics

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

- Monthly Back-to-Basics dashboard reports were not all submitted to National DCoG for 9 months of the year under review. This is due to capacity constraints of employees.

SECTION 5: Using the work of internal auditors

95. The auditing standards allow external auditors the optional use of the work of internal audit for external audit purposes and for direct assistance. We have used internal audit as follows:

- The following internal audit reports were used for risk identification during the planning stage of the audit:
 - Internal Audit review mSCOA Implementation self assessment 5
 - Internal Audit review mSCOA Implementation self assessment 6
 - Leave and attendance
 - Prince Albert Expenditure
 - Performance management Q1 2018
 - Prince Albert Grants 2018
 - Prince Albert Management Report
 - Prince Albert Performance Management 2017 verslag Q4
 - Prince Albert Performance Management report Q2
 - Prins Albert building control
- Based on our audit assessment of the information received from the internal auditors, the conclusion was made as communicated in the Audit Strategy Plan that we will not use the work performed by internal audit for external audit purposes. However, from the audit assessment of the internal audit reports received, I concluded that these reports would be used as guidance to identify key related risks which pertain to the municipality.

SECTION 6: Emerging risks

Accounting, performance management/reporting and compliance matters

New pronouncements

Standards of GRAP

The ASB has issued the following GRAP pronouncements, with effective dates as indicated:

GRAP pronouncement	Effective date
GRAP 18 - <i>Segment reporting</i>	1 April 2020
GRAP 20 - <i>Related-party disclosures</i>	1 April 2019
GRAP 32 - <i>Service concession arrangements: grantor</i>	1 April 2019
GRAP 34 - <i>Separate financial statements</i>	To be determined
GRAP 35 - <i>Consolidated financial statements</i>	To be determined
GRAP 36 - <i>Investments in associates and joint ventures</i>	To be determined
GRAP 37 - <i>Joint arrangements</i>	To be determined
GRAP 38 - <i>Disclosure of interests in other entities</i>	To be determined
GRAP 108 - <i>Statutory receivables</i>	1 April 2019
GRAP 109 - <i>Accounting by principals and agents</i>	1 April 2019
GRAP 110 - <i>Living and non-living resources</i>	1 April 2020
IGRAP 17 - <i>Service concession arrangements where a grantor controls a significant residual interest in an asset</i>	To be determined
IGRAP 18 - <i>Recognition and derecognition of land</i>	1 April 2019
IGRAP 19 - <i>Liabilities to pay levies</i>	1 April 2019

Risk that require continuous monitoring

B-BBEE certificates

- Footnote 3 in Treasury Instruction 4A of 2016-17 noted that the Central Supplier Database (CSD) does not verify B-BBEE status level and set a date for verification of B-BBEE status (1 October 2016). The office of the chief procurement officer (OCPO) failed to achieve this deadline and up to now the CSD does not verify the B-BBEE status of suppliers. The instruction did not exempt institutions from complying with the PPPF Act requirements for obtaining a valid evidence of B-BBEE level status (e.g. sworn affidavits)

Suppliers in service of state – monitoring by CSD

97. The central supplier database has a field to indicate whether any directors of the company are government employees. Based on feedback received from Provincial Treasury, this field interfaces with the PERSAL system for departments and the employee records from municipalities. The possibility exists that employees that are employed in public entities or other spheres of government may not be identified by this field. A request will be made to the National Treasury audit team to include this field in their walk through's to assess whether reliance can be placed on the field. The municipality should however monitor this to prevent non-compliance and also use alternate sources of information to confirm that directors of companies are not employed by the state.

Deviations

98. In terms of SCM regulation 36, an accounting officer may deviate from official competitive bidding procurement processes established by the SCM policy and procure any required goods or services through any convenient process, provided that such deviation is properly approved and justifiable. SCM regulation 36(1)(a) sets out the circumstances under which a deviation could be justifiable and SCM regulation 36(2) sets out the recording and reporting requirements regarding such deviations.
99. Our audits at municipalities have brought to light that this SCM regulation is increasingly being used by municipalities and approved by the accounting officer even though it was not impractical to invite competitive bids. Future audits will continue to focus on evaluating whether the deviations are appropriately justified and/or that the justification can be appropriately supported through adequately documented reasons, to confirm that this regulation is not being used to circumvent competitive bidding.

Local content

100. The compliance requirements of local content for commodities within designated sectors are applicable for all tenders. The term tender in terms of the Preferential Procurement Regulations of 2017 is attributed to all awards above R30 000.

Subsequent events

101. No subsequent events have been identified during the audit work performed.

Audit findings on the annual performance report that may have an impact on the audit opinion in future

102. The planned and reported performance information of the selected strategic objective was audited against the following additional criteria as developed from the Performance Management Reporting Framework:

- **Presentation and disclosure – Overall presentation:**
 - Overall presentation of the performance information in the annual performance report is comparable and understandable

 - **Relevance – Completeness of relevant indicators:**
 - Completeness of relevant indicators in terms of the mandate of the auditee, including:
 - relevant core functions are prioritised in the period under review
 - relevant performance indicators are included for the core functions prioritised in the period under review
103. Material audit findings arising from the audit against the additional criteria do not have an impact on the audit opinion of the selected strategic objective in this report. However, it may impact on the audit opinion in future.
104. No material findings were identified in respect of the additional criteria.

SECTION 7: 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 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 8: Conclusion

106. The matters communicated throughout this report relate to the three fundamentals of internal control that should be addressed to achieve sustained clean administration. 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

Ashiq Allie
Senior Manager: Western Cape Business Unit

30 November 2018

Enquiries: Ashiq Allie
Telephone: (021) 528 4100
Fax: (021) 528 4200
Email: ashiqua@agsa.co.za

Distribution:
Audit committee
Internal audit

SECTION 9: Summary of detailed audit findings

Page no.	Finding	Classification					Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
Cash flow statements											
43	COMAF 26: Cash flow statement: Differences identified in the cash flow statement.	✓						✓		-	
Employee costs											
46	COMAF 3: Human Resources Internal control deficiencies				✓			✓		Year - 2	Not addressed
49	COMAF 18: Payroll reconciliations not performed on a monthly basis				✓			✓		-	
General IT controls											
51	COMAF 2: IT Internal control deficiencies				✓			✓		All three previous years	Not addressed
Audit Committee											
54	COMAF 1: Audit Committee: Audit Committee not consisting of at least 3 members			✓				✓		-	



Page no.	Finding	Classification					Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
Prior period errors/mSCOA reclassification											
56	COMAF 31: Creditors with debit balances incorrectly classified as a MSCOA Reclassification and not a Prior Period error	✓						✓		-	
Irregular expenditure											
59	COMAF 36: Completeness of Irregular expenditure	✓						✓		-	
Financial instruments											
61	COMAF 35: Classification - Financial Instruments	✓						✓		-	
Journals											
63	COMAF 5: Journals – Segregation of duties				✓			✓		All three previous years	Not addressed
Employee benefits											
68	COMAF 10: Differences noted between the Actuarial Report on Post-employment Medical Aid subsidy liability and the PAM Post medical Retirement Policy	✓						✓		-	
71	COMAF 11: Leave Internal Control Deficiency				✓			✓		-	



Page no.	Finding	Classification					Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
Local Government Support											
73	COMAF 28: Non-compliance with monthly submission of back to basics dashboard			✓				✓		Year - 1 and 2	Not addressed
Roads, water and sanitation											
75	COMAF 38: Roads, water and sanitation - Municipality does not have an approved policy that addresses routine maintenance of water, sanitation and road infrastructure			✓				✓		All three previous years	Not addressed
Property, plant and equipment											
77	COMAF 9: Difference in carrying value between fixed asset register and the financial statements	✓						✓		-	
80	COMAF 33: Negative additions included in impairment - Note 2 to the financial statements	✓						✓		-	
82	COMAF 34: Impairment incorrectly included under depreciation	✓						✓		-	
Investment property											
85	COMAF 8: Investment property: Correction of Investment property accounted for in the incorrect period	✓						✓		-	



Page no.	Finding	Classification					Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
Operating expenditure											
88	COMAF 7: Bulk Purchases: Purchase of electricity pump was incorrectly included in the bulk purchases accounts.	✓						✓		-	
90	COMAF 14: Compliance – Payments not made within 30 days			✓				✓		All three previous years	Not addressed
92	COMAF 15: Weakness of controls on receipt of goods and services				✓			✓		All three previous years	Not addressed
94	COMAF 16: Expenses – VAT has been recorded inclusive in the general ledger	✓						✓		-	
96	COMAF 17: Expenses paid on Pro Forma Invoices	✓						✓		-	
Predetermined objectives											
98	COMAF 22: Inconsistent description of Indicator in the SDBIP and Performance Report		✓					✓		Year - 2	Not addressed
100	COMAF 23: Inconsistent disclosures of Indicators in the IDP, SDBIP and Performance Report		✓					✓		Year - 2	Not addressed
102	COMAF 24: Misstatement on Reported Performance		✓					✓		All three previous years	Not addressed
104	COMAF 25: Misstatement on Reported Performance		✓					✓		All three previous years	Not addressed



Page no.	Finding	Classification					Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
Procurement and Contract Management											
106	COMAF 20: Procurement and contract management: Supplier used which is not on the CSD	✓		✓						-	
108	COMAF 21: Completeness of Irregular expenditure	✓						✓		-	
110	COMAF 29: Deviations identified on local content	✓						✓		-	
113	COMAF 30: Deviations identified on irregular expenditure	✓						✓		-	
36	COMAF 37: Non-compliance identified on local content.			✓			✓			-	
Receivables											
116	COMAF 32: Reversal of impairment on fines	✓						✓		-	
Related parties											
119	COMAF 27: Related Party- Non-disclosure	✓						✓		-	
Revenue											
121	COMAF 12: Pre-Paid Electricity recorded in the incorrect period	✓						✓		-	
125	COMAF 13: Unused used units of pre-paid electricity not deferred at year end	✓						✓		-	



Detailed audit findings

ANNEXURE A: MATTERS AFFECTING THE AUDITOR'S REPORT

Procurement and Contract Management

COMAF 37: Non-compliance identified on local content

Audit finding

In terms of section 8(2) of the Preferential Procurement Regulations of 2017 states that:
"An organ of state must, in the case of a designated sector, advertise the invitation to tender with a specific condition that only locally produced goods or locally manufactured goods, meeting the stipulated minimum threshold for local production and content will be considered"

Additionally in terms of section 8(5) of the Preferential Procurement Regulations of 2017 states that:
"A tender that fails to meet the minimum stipulated threshold for local production and content is an unacceptable tender".

Contrary to the above the following deficiencies were identified during the testing of Local content:

Item description	Total rand-value of award (R):	Expenditure (Payments) - current year (R):	Minimum threshold	Bid specification specified the minimum threshold	The winning provider has furnished the declaration on local production and content.	The winning service provider met the minimum threshold
Installation of high mast lights at Klaarstroom sport field - 75/2018	R191 240,63	R191 240,63	90%	✘	✓	✓
Installation of high mast lights at Leeu-Gamka sport field - 76/2018	R194 920,00	R194 920,00	90%	✘	✓	✓
Chairs - 35/2018	R50 593,20	R50 593,20	90%	✘	✘	✘
Toilet- Informal Park - 86/2018	R59 895,43	R59 895,43	100%	✘	✘	✘

Jan Nel - 110/2017	R66 879,24	R66 879,24	90%	✘	✘	✘
Safety Mate - 71/2017	R31 514,09	R31 514,09	100%	✘	✘	✘
Conlog 133/2017	R36 946,26	R36 946,26	70%	✘	✘	✘
C25 Trading - 112/2017	R51 800,00	R51 800,00	100%	✘	✘	✘
Conlog 143/2017	R66 471,63	R66 471,63	70%	✘	✘	✘
	R750 260,48	R750 260,48				

- ✘ - indicates non – compliance in the above table
- ✓ - indicates compliance in the above table

Non-compliance with section 8(2) and (5) of the Preferential Procurement Regulations of 2017

The above deviations results in material non – compliance. Irregular expenditure is already disclosed with regards to the local content.

Internal control deficiency

Financial and Performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.

The municipality did not insert the minimum threshold for local production and content in the bid specifications and did not ensure that the winning provider furnish the municipality with the declaration on local production and content. However management did identified disclose local content as Irregular expenditure.

Recommendation

Management should ensure that:

- (a) The municipality specify the minimum threshold for local production and content which is not less than the threshold prescribed in the relevant NT Instruction Notes.
- (b) That the winning provider did not furnish the municipality with the declaration on local production and content.

Management's response

Name: JD Neethling
 Position: CFO
 Date: 29/10/2018

Management comment on the audit finding:

As part of management action plans to ensure the control environment with regards to Supply Chain Management is sufficient, management has performed a review during the year of quotations and tenders advertised, to ensure compliance to SCM regulations. During this review, it was established that Prince Albert Municipality did not always adhere to Local Content requirements. Consequently, on year-end, management has performed a 100% review of all applicable local content tenders, during which it was established that for the said amount of **R 750,260.48**, all applicable local content requirements were not adhered to.

Management has consequently reported this to Council as irregular expenditure, as correctly included in your finding above. We regard this as indicative of leadership's commitment in ensuring correct financial and performance reporting and compliance. In our opinion, although certain deficiencies were identified in our pro-active controls, we did ensure re-actively that the areas of non-compliance were correctly dealt with and reported as irregular expenditure.

Furthermore, we want to emphasise the following:

- This is not a repeat finding – we did not receive findings on local content from the Office of the Auditor-General in the past;
- We disagree that this is a material non-compliance, as **R 9,865,898.81** of total awards made during the year of **R 750,260.48** only represent a **7.6% exception rate**. Clearly this cannot be regarded as a material non-compliance.

Additional response received on 6 November 2018:

MEMORANDUM: AGSA AUDIT OPINION FOR THE FINANCIAL YEAR 2017/2018, SPECIFICALLY RELATED TO THE APPLICATION OF THE LOCAL CONTENT LEGISLATION

EXECUTIVE SUMMARY

Due to the extensive discussions in this report, author thought it prudent to provide you with an Executive Summary of findings at this stage of the report. The remainder of the document will then serve as evidence of the following conclusions reached by author:

- *It is author's respectful opinion that the auditor, in applying his/her professional judgement, failed to comply with his/her burden of proof to substantiate **material non-compliance with legislation**.*
- *The above opinion is based on the 'burden of proof' requirements stipulated by:*
 - *The AGSA's legislative mandate,*
 - *International and National standards and guidelines, and*
 - *The AGSA's engagement with the Prince Albert Municipality.*

- In summary, it is argued that the AGSA failed to substantiate the following:
 - (i) **Management failed to identify and disclose the non-compliance and there is insufficient appropriate audit evidence** – The evidence on record confirms that the Municipal management, at own accord, after identifying the non-compliance to local content requirements matter, concluded a 100% review/investigation. Thereafter the Municipal management informed Council of its finding and timely disclose the non-compliance matter in its Financial Statements. It is also important to note that the AGSA accepted and relied on the Municipal disclosure on this matter. This was also confirmed by the AGSA in its communication on this matter.
 - (ii) **Poor internal controls by Management** – It is important to consider that the Municipal management at own accord and prior to financial year-end, concluded a 100% review of the non-compliance to local content requirements. After the Municipal management informed Council of its finding, timely disclose the non-compliance matter in its Financial Statements it commenced with exercising its consequence management activities. In this regard it is important to note that the AGSA confirmed in its draft report that it has **NO FINDINGS** in relation to consequence management, confirming that the AGSA accepts the municipal practices in place.
 - (iii) **Finding of non-compliance is material** – No financial loss was incurred, No public resource was lost or misused, No substantial harm is evident and there is NO evidence on record of any serious adverse consequences to any party in financial or non-financial terms.
 - (iv) **Material non-compliance relates to only this focus area** - The agreed focus area in the AGSA engagement letter of 5 September 2018, relates to the **subject matter: Procurement and Contract Management and NOT local content**. The attempt by the AGSA to now, at this late stage, infer one of various compliance elements as a ‘focus area’ does not relate to fair audit practices and will also not reflect fair and balanced audit reporting. It is still argued that the non-compliance to local content is insignificant in relation to the full SCM spent of R 9 865 898,81 as the non-compliance value in this instance only represents a 7,6% exception rate. Additionally, mindful of the extensive compliance requirements for the full procurement subject matter i.e. 51 SCM Regulations, it is argued that this matter of non-compliance only represent a sub-set of one element. Lastly, as the Municipal management at own accord and prior to financial year-end, concluded a 100% review of the non-compliance to local content requirements, the AGSA was able to place reasonable assurance that the ‘reported information’ and information disclosed was complete.

For the full report – Refer attached memorandum

Management comment on the root cause identified within the audit finding:

Noted.

Management comment on the recommendation:

Noted

Remedial action:



<u>What actions will be taken:</u>	<u>By whom:</u>	<u>By when:</u>
No action will be taken	PAMUN	
If the above findings affect an amount (s) disclosed in the financial statements:		
Please give an indication of whether the correcting journal entry shall be processed:		
If yes, please indicate the accounting entry:		
If no, please provide the reason why such a conclusion: No action needed as we do not agree.		

Auditor's conclusion

Management comment noted. We concur that management has identified the non-compliance prior to the audit commencing and therefore has taken the matter to council and concluded that the value of the non-compliance should be disclosed as irregular expenditure in the financial statements, which we confirm has been disclosed as such. Management has therefore taken the necessary steps and action to ensure that this is transparently disclosed in the financial statements.

The irregular expenditure has therefore been correctly disclosed in the financial statements, however the disclosure of the irregular expenditure does not make the non-compliance matter go away.

Based on the compliance assessment, 100% of the population relating to local content was assessed as not complying to the requirements as per the Preferential Procurement Regulations of 2017, sections 8 (2) and 8 (5). The population is assessed per subject matter. The auditor's determination of materiality is a matter of professional judgement and is affected by the auditor's perception/ understanding of the financial information needs of intended users, i.e. the quantitative and qualitative factors that determine the level at which relevant decisions taken by users would be affected by a misstatement or an instance of non-compliance. The evaluation criteria in determining whether the final outcome for material non-compliance is consistently applied to all auditees. The testing of local content is one of the many focus areas within procurement and contract management that is tested.

The Preferential Procurement Policy Framework Act (PPPFA), Act No.5 of 2000, section 1(i) defines an "acceptable tender" as one that "in all respects complies with the specifications and conditions of tender as set out in the tender document".

Regulation 8 (5) of the preferential procurement regulation states that:

"a tender that fails to meet the minimum stipulated threshold for local production and content is an unacceptable tender"

Quotations that specifies various items to be procured by the entity in one request for quotation should be evaluated as one award (for material non-compliance and irregular expenditure) on the following basis

If the one item in the award that was designated was not invited/ did not meet the minimum threshold, the supplier would be disregarded and if the award was awarded, it would be an invalid tender



If the one item in the award did not meet the minimum threshold, the one item would not comply with the requirements of the PPR and therefore the specifications and condition of the tender would not be met and therefore the whole award will be unacceptable (including non-designated items).

Regulation 8 (5) states that if a tender fail to meet the minimum stipulated threshold for local production and content is an unacceptable tender – therefore if the conditions are not met the whole tender will be unacceptable and therefore full award is irregular and assessed.

The Preferential Procurement Policy Framework Act (PPPFA), Act No.5 of 2000, section 1(i) define an "acceptable tender" as one that "in all respects complies with the specifications and conditions of tender as set out in the tender document".

Regulation 8(2) of the Preferential Procurement Regulations states that "An organ of state must, in the case of a designated sector, advertise the invitation to tender with a specific condition that only locally produced goods or locally manufactured goods, meeting the stipulated minimum threshold for local production and content, will be considered. This would be one of the specifications and conditions of tender; others may be that tenderers must provide proof of their tax compliance.

The population being assessed from a compliance point of view, is all procurement of local content above R30,000. The total population is therefore what the municipality identified and disclosed as irregular expenditure, as from the audit work performed, no other local content bids/quotations were identified. Therefore 100% of the local content procurement were tested and all items had an element of non-compliance. Furthermore the non-compliance is assessed on the number of cases and not on the value of the bids/quotations.

The non-compliance deviation rate is above 10%, i.e. 100%, which in the case of AGSA methodology results in material non-compliance and as a result the paragraphs will be included in the audit report.

Management response to AGSA final finding:

Disagree with finding of 'materiality' related to the matter of non-compliance with regards to local content, due to the following reasons:

- (i) The qualitative and quantitative analysis for 'materiality' must be based on the subject matter of procurement and contract management and not on only one focus area within the subject matter; and
- (ii) By confirming a material finding of non-compliance to one of 119 focus areas in the subject matter of procurement and contract management will reflect a negative and FALSE response to the users of the AFS

The engagement between the Municipality and the AGSA, concluded on 5 September 2018 confirmed that the subject matter to be audited relates to: ***Procurement and Contract Management***. No reference is made to local content. A reasonable expectation is therefore that within the subject matter of Procurement and Contract Management, the AGSA will consider

various focus areas of which 'Local Content' is but one area of an extensive list of compliance focus areas. Not having insight into the 'working papers' of the AGSA but referencing the compliance requirements related to procurement in a municipality as per the SCM TR's and the PPPFA, it is reasonable to assume that there are in excess of 119 – focus areas.

As correctly stated by the AGSA in this audit finding when determining materiality the auditor's discretion is not a blanket and wide interpretation but limited, as follows: "*The auditor's determination of materiality is a matter of professional judgement and is **affected by the auditor's perception/ understanding of the financial information needs of intended users, i.e. the quantitative and qualitative factors that determine the level at which relevant decisions taken by users would be affected by a misstatement or an instance of non-compliance.***"

This means the auditor must base his professional judgement on:

- (i) ***the financial information needs of intended users, and***
- (ii) ***the quantitative and qualitative factors that will influence decisions of the users.***

As per (i) above, it is accepted that the users' attention must be directed to the non-compliance to the focus area of 'local content' and the Municipality does not have an objection if the AGSA refers to this matter under "***Matters to be brought to the attention of users***".

The Municipality however disagrees that considering the 'quantitative and qualitative factors that will influence the users' decisions will result in a '**material finding**' as the non-compliance to one focus area in the subject matter of procurement and contract management represents a mere 7,6%. This is below your stated non-compliance deviation rate of 10%.

Additional Auditor's response:

Management additional response is noted. The materiality considerations remains the professional judgement of the auditor and is an audit and not a legal matter as communicated in our engagement letter. The materiality assessment and the application thereof in terms of the compliance evaluation of the local content requirements has been applied consistently by the AGSA on a national basis. Our assessment of the local content compliance requirement remains as communicated in the first response above and will therefore be included in the audit report as material non-compliance with the requirements of section 8(2) and (5) of the Preferential Procurement Regulations of 2017.

ANNEXURE B: OTHER IMPORTANT MATTERS

Cash flow statements

COMAF 26: Cash flow statement: Differences identified in the cash flow statement

Audit Finding.

Section 122(1) (a) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) states that:

“Every municipality must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.”

Paragraph 18 of Generally Recognised Accounting Practice¹ (GRAP 1) states that:

“Financial statements shall present fairly the financial position, financial performance and cash flows of an entity, Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in the Framework for the Preparation and Presentation of the financial statements, The application of the Standards of GRAP with additional disclosures when necessary is presumed to result in financial statements that achieve a fair presentation,”

Contrary to the above legislation, the cash flow statement in the annual financial statements were recalculated and the following misstatements were identified:

2018:

CASH FLOW FROM OPERATING ACTIVITIES:	Amount per AFS (R):	Auditors recalculation (R):	Differences(R):
Ratepayers and Other	R20 618 918,80	R25 738 016,51	R(5 119 097,71)
Suppliers and Employees	(R48 131 875,08)	R(53 249 531,85)	R5 117 656,77
Net Cash from Operating Activities	R8 470 379,97	R8 471 820,91	R(1 440,94)

2017:

CASH FLOW FROM OPERATING ACTIVITIES:	Amount per AFS (R):	Auditors recalculation (R):	Differences(R):
Ratepayers and Other	R20 337 520,00	R18 066 569,61	R2 270 950,39
Suppliers and Employees	(R43 458 703,00)	R(41 187 752,95)	R(2 270 950,05)
Net Cash from Operating Activities	R8 470 379,97	R8 471 820,91	R0,34

The Impact of the above is:

Cash flow statement figures are incorrectly disclosed.



The above misstatement is material, however this as reclassification within the cashflow statement and is an anomalous incident and therefore will not result in a material non – compliance as per S122 of the MFMA for material adjustments to the annual financial statements.

Internal control deficiency

Financial and Performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls

Management did not review the financial statements to ensure that all amounts disclosed in the cash flow statement was correctly classified.

Recommendation

(a) Management should develop, implement and monitor adequate controls to ensure complete and accurate financial statements are performed.

(b) The annual financial statements should be reviewed and necessary adjustments should be made

Management Response

Name: JD Neethling
 Position: CFO
 Date: 17/10/2018

<u>Management comment on the audit finding:</u>		
Management agrees with the audit finding and will correct the note to the Annual Financial Statements.		
<u>Management comment on the root cause identified within the audit finding:</u>		
Noted.		
<u>Management comment on the recommendation:</u>		
Noted.		
<u>Remedial action:</u>		
<u>What actions will be taken:</u>	<u>By whom:</u>	<u>By when:</u>
Balances of the cashflow will be corrected.	PAMUN	17/10/2018
If the above findings affects an amount (s) disclosed in the financial statements:		
Please give an indication of whether the correcting journal entry shall be processed:		
If yes, please indicate the accounting entry:		
If no, please provide the reason why such a conclusion:		



No journal entry needed based on the fact that the Cashflow note will only be amended.

Auditor's conclusion

Management comment noted. The adjusted financial statements has been received and inspected and it was confirmed that the adjustment has been processed correctly. This finding will remain in the management letter.

Employee costs

COMAF 3: Human Resources Internal control deficiencies

Audit finding

ISSAI 1265 - Communicating Deficiencies in Internal Controls to Those Charged with Governance paragraph 6 state the following:

1. *Deficiency in internal control – This exists when:*
 - i. *A control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements on a timely basis; or*
 - ii. *A control necessary to prevent, or detect and correct, misstatements in the financial statements on a timely basis is missing.*

During the planning of the audit, the following internal control deficiencies were identified:

Human Resources Management.

1. Background and verification checks on the qualification, education and other information are not done in order to determine that information provided by the applicant and a prospective employee is valid.
2. There is no promotion policy that guides the municipality on the processes and procedures aimed at the advancement of qualified personal to higher levels of responsibility.
3. There is no control in place to reward and retain employees who are performing well. There is no retention policy to guide the municipality on the process to be followed on how performing and skilled employees should be retained.
4. There is no control in place to evaluate the skills and competencies of the employees in order to establish whether they are still relevant and adequate to carry out the entity's objectives. The municipality only performs performance evaluation for section 56 and section 57 managers as per MSA.
5. There is no control in place to regularly monitor and evaluate the performance and employees based on predetermined criteria in order to identify areas of improvement and areas where employees are performing well. The municipality only performs performance evaluations for section 56 and section 57 managers as per Municipal Systems Act, 2000 (Act No. 32 of 2000) on quarterly basis.

Management overlooking important issues like the need of having a comprehensive human resource policy and performing qualification verification.

1. Possible authorisation of leave days whilst the employee have no accumulated leave days due to him/her.
2. Loss of performing employees due to no policy that rewards performing and skilled employees.

Internal control deficiency

Leadership

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

Recommendation

- a) Management should ensure that the HR internal control deficiencies addressed above are implemented in order to reduce the inherent and control risk which will result in reduction of a risk of material misstatement in the annual financial statement.
- b) Management should develop and monitor the implementation of actions plans to address internal control deficiencies.

Management's response

Name: Anneleen Vorster
 Position: Manager: Corporate and Community Services
 Date: 19/09/2018

<u>Management comment on the audit finding:</u>		
<p>Management do verify formal qualifications via telephone calls, but will document this more appropriately in future. Management is currently in process of developing a retention policy. Management do not fully agree that excellent performance is not acknowledged – Council and management continuously acknowledge such, though it does not have a monetary value. Management is currently in the process of cascading performance management to the lowest levels. The reporting year pertaining to the audit was used in preparation to update all job descriptions as a precursor to cascading performance management down to the lowest levels.</p> <p>Advancement is done through the normal recruitment processes, combined with skills development as contained in the Workplace Skills Plan. Several employees that showed aptitude in a certain area, are provided with exposure in that area to improve their careers eg the Records Clerk that were provided the opportunity to do a Records Management Course and are currently assisting the Records Manager with tasks in this direction; also, the IDP coordinator assisting the Snr Operational Manager with management operations; the Water Process Controller that is assisting the Municipal Manager, etc.</p>		
<u>Management comment on the root cause identified within the audit finding:</u>		
The HR unit consists of one person assisted by a contract worker – the capacity is limited.		
<u>Management comment on the recommendation:</u>		
Management concur		
<u>Remedial action:</u> Municipality is in the process of cascading performance management down to all levels. A retention policy as well as a formal mentoring policy will be developed. An intern was assigned to the HR department to increase capacity.		
<u>What actions will be taken:</u> Cascading PMS to all levels .Development of retention and mentoring policies	<u>By whom:</u> Corporate Manager	<u>By when:</u> 30 October 2018
If the above findings affects an amount (s) disclosed in the financial statements:	N/A	

Please give an indication of whether the correcting journal entry shall be processed:		
If yes, please indicate the accounting entry:		
If no, please provide the reason why such a conclusion:		

Auditor's conclusion

Management comment noted. Management is in agreement with the finding, therefore the finding remains and will be reported on and will be followed up during the 2018/19 financial year audit.

COMAF 18: Payroll reconciliations not performed on a monthly basis

Audit finding

ISSAI 1265 - Communicating Deficiencies in Internal Controls to Those Charged with Governance paragraph 6 state the following:

1. Deficiency in internal control – This exists when:
 - i. A control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements on a timely basis; or
 - ii. A control necessary to prevent, or detect and correct, misstatements in the financial statements on a timely basis is missing.

Payroll reconciliations are not performed between Payday and Abakus on a monthly basis.

Payroll as per Payday may not merge into Abakus correctly which may lead to the payroll not agreeing to the general ledger.

Internal control deficiency

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Payroll reconciliations are not performed between Payday and Abakus on a monthly basis to ensure that the amounts as per payroll are allocated to the correct ledger accounts.

Recommendation

Management should ensure to perform monthly payroll reconciliations to ensure payroll are allocated to the correct ledger accounts.

Management's response

Name: JD Neethling
 Position: CFO
 Date: 12/10/2018

<p><u>Management comment on the audit finding:</u></p> <p>Management agrees with the audit finding and will implement a monthly salary reconciliation from the 2018-2019 financial year onwards. However, all control accounts are reviewed on a monthly basis to ensure that it is cleared so even though we did not had monthly salary reconciliations, we ensured that there is no outstanding balances in the control accounts.</p>
<p><u>Management comment on the root cause identified within the audit finding:</u></p> <p>Noted.</p>
<p><u>Management comment on the recommendation:</u></p>



Noted.		
<u>Remedial action:</u>		
<u>What actions will be taken:</u>	<u>By whom:</u>	<u>By when:</u>
Implementing of salary reconciliations.		
If the above findings affects an amount (s) disclosed in the financial statements:	N/A	
Please give an indication of whether the correcting journal entry shall be processed:		
If yes, please indicate the accounting entry:		
If no, please provide the reason why such a conclusion:		

Auditor’s conclusion

Management comment noted. Management is in agreement with the finding, therefore the finding remains and will be reported on and will be followed up during the 2018/19 financial year audit.



General IT controls

COMAF 2: IT Internal control deficiencies

Audit finding

ISSAI 1265 - Communicating Deficiencies in Internal Controls to Those Charged with Governance paragraph 6 state the following:

“Deficiency in internal control – This exists when:

- i. *A control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements on a timely basis; or*
- ii. *A control necessary to prevent, or detect and correct, misstatements in the financial statements on a timely basis is missing.”*

During the planning of the audit, the following internal control deficiencies were identified:

Information Technology.

1. There is no control in place such as Information Technology Governance Framework that makes provision for the structures, policies and processes to ensure that IT supports the organisations strategies and objectives
2. Prince Albert Municipality does not have an IT strategic plan in place
3. Prince Albert Municipality does not have an IT committee plan in place
4. No IT risk/control assessment has been performed
5. There is no formal process in place in the SLA with Ubertech for the monitoring of the service delivery
6. No formal documentation is in place for registering users, changing access rights, password resets and termination of access
7. No review of users access and privileges are performed
8. No processes are in place for independent review of activities of the person responsible for granting access to users
9. There is no formally documented backup and retention strategy
10. There is no approved disaster recovery plan in place at Prince Albert Municipality.
11. There is no IT security policy in place at Prince Albert Municipality.
12. There are no security management measures that prevent unauthorised access to the application systems that generate information used to prepare financial statement and performance reports.

Unavailability of a documented Information Technology Governance Framework that will help the management to develop structures and policies.

1. Possible unauthorized changes to the application systems which will result in misstatement of information used to prepare financial statements
2. Possible misstatements on information captured since transaction can be approved by the same person who captured them.

Internal control deficiency

Governance

Implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.

Financial and performance management

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

Leadership

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

Recommendation

Management should ensure that:

- c) Management should ensure that the IT internal control deficiencies addressed above are implemented in order to reduce the inherent and control risk which will result in reduction of a risk of material misstatement in the annual financial statement.
- d) Management should develop and monitor the implementation of actions plans to address internal control deficiencies.

Management's response

Name: JNeethling
Position: CFO
Date: 18 September 2018



<u>Management comment on the audit finding:</u>		
Management concurs with the finding. The previous financial system was archaic. The implementation of the new financial system will address most of the shortcomings. A IT Governance framework will be drafted.		
<u>Management comment on the root cause identified within the audit finding:</u>		
Noted		
<u>Management comment on the recommendation:</u>		
Noted		
<u>Remedial action:</u>		
<u>What actions will be taken:</u>	<u>By whom:</u>	<u>By when:</u>
.Remedial actions will be implemented.	CFO	2018/19
If the above findings affects an amount (s) disclosed in the financial statements:	N/A	
Please give an indication of whether the correcting journal entry shall be processed:		
If yes, please indicate the accounting entry:		
If no, please provide the reason why such a conclusion:		

Auditor’s conclusion

Management comment noted. Management is in agreement with the finding, therefore the finding remains and will be reported on.



Audit Committee

COMAF 1: Audit Committee: Audit Committee not consisting of at least 3 members

Audit finding

Section 166(4)(a) of the Municipal Finance Management Act (MFMA) states that:

“An audit committee must

(a) Consist of at least three persons with appropriate experience, of whom the majority may not be in the employ of the municipality or municipal entity, as the case may be.”

Contrary to the above, it was confirmed by means of enquiry and inspection that the audit committee did not consist of at least three members. The third member resigned on 15 March 2018 and was not replaced.

The audit committee consists of only the following members:

1. A.C. Dippenaar
2. N Van Wyk

Further it was noted that the Audit Committee had the following meetings without having a quorum of at least 3 members:

1. 18 March 2018
2. 08 June 2018

The member of the audit committee who resigned was not replaced to ensure that the audit committee consisted of at least 3 members.

This will result in non-compliance with Section 166(4)(a) of the MFMA.

Internal control deficiency

Governance

It is not ensured that there is an adequately resourced and functioning audit committee unit that identifies internal control deficiencies and recommends corrective action effectively.

Leadership

Management did not exercise oversight responsibility in relation to financial and performance reporting as well as compliance and related internal controls.



Recommendation

Management should ensure that the municipality:
 (a) Complies with Section 166(4)(a) of the MFMA; and
 (b) the member of the audit committee who resigned needs to be replaced.

Management’s response

Name: Anneleen Vorster
 Position: Snr Manager: Corporate and Community Services
 Date: 20 September 2018

Management comment on audit finding		
Management concur that the Audit Committee did not at all times consist of three members.		
Management comment on internal control deficiencies		
There is no internal control deficiency.		
Management comment on recommendation		
The Municipality advertised to fill the vacancies on the Audit Committee in February 2017 but could not attract suitable candidates. The Municipality then resolved to appoint Mr Sammy Delpont on the Audit Committee. Mr Delpont could not attend most meetings. The Municipality tried to accommodate Mr Delpont but could not find times convenient for the latter to attend. After Mr Delpont resigned Council advertised the vacancies again in June 2018 and appointed a qualified third member.		
Remedial action: Filling of vacancy on Audit Committee		
What actions will be taken	By whom	By when
Already filled the vacancy on the Audit Committee	A Vorster	Completed
If the above finding affects an amount(s) disclosed in the financial statements:		
Please give an indication of whether a correcting journal entry shall be processed	YES	NO
If yes, please indicate the accounting entry		
If no, please provide the reason why such a conclusion has been reached		

Auditor’s conclusion

Management comment noted. Management is in agreement that the audit committee did not at all times consist of three members, therefore the finding remains and are included in the management report. Further information was provided that indicate that the quorum is 2 members and therefore that part of the finding has been resolved.



Prior period errors/mSCOA reclassification

COMAF 31: Creditors with debit balances incorrectly classified as a MSCOA Reclassification and not a Prior Period error

Audit finding

Definitions as per GRAP 3 states that:

“Prior are omissions from, and misstatements in, the entity’s financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

1. *was available when financial statements for those periods were authorised for issue; and*
2. *could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.*

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud. “

Paragraph 43 of GRAP 3 states that:

“Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Standards of GRAP if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity’s financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are authorised for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period.”

Paragraph 44 of GRAP 3 states that:

Subject to paragraph .45, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by:

1. *restating the comparative amounts for the prior period(s) presented in which the error occurred; or*
2. *if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets for the earliest prior period presented.*

Paragraph 51 of GRAP 3 states that:

“In applying paragraph .44, an entity shall disclose the following:

1. *the nature of the prior period error;*
2. *for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;*
3. *the amount of the correction at the beginning of the earliest prior period presented;*
and

4. *if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.”*

Contrary to the above legislation, during the audit of the MSCOA Reclassification it was noted that the MSCOA Reclassification of Trade and other payables amounting to **R70 027** relates to creditors with debit balances which was not accounted for in the prior year. The first time recognition of the creditors with debit balances in the prior year results in a prior period error.

The adjustment therefore constitute a prior period error and should be disclosed as such.

Prior period adjustment not accounted for correctly as a prior period error.

The above misstatement is not material.

Internal control deficiency

Financial and Performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls

Management did not review the financial statements to ensure that all prior period adjustments was correctly disclosed.

Recommendation

(a) Management should develop, implement and monitor adequate controls to ensure complete and accurate financial statements are performed.

(b) The annual financial statements should be reviewed and necessary adjustments should be made.

Management's response

Name: JD Neethling
Position: CFO
Date: 24/10/2018

Management comment on the audit finding:

Management agrees with the audit finding. There was an amount within the journal that was incorrectly duplicated and will be reversed.

Management comment on the root cause identified within the audit finding:



Noted.		
<u>Management comment on the recommendation:</u>		
Noted.		
<u>Remedial action:</u>		
<u>What actions will be taken:</u>	<u>By whom:</u>	<u>By when:</u>
Reversal of journal.	PAMUN	24/10/2018
If the above findings affects an amount (s) disclosed in the financial statements:		
Please give an indication of whether the correcting journal entry shall be processed:		
If yes, please indicate the accounting entry:		
Dt. Trade receivables by R 24,770.89 Ct. Trade Payables by R 24,770.89		
If no, please provide the reason why such a conclusion:		

Auditor's conclusion

Inspected the adjusted financial statements it was noted that the journal proposed by management was correctly processed as to remove the duplication as indicated by management. Further inspected the prior year financial statements and noted that creditors with debit balances was previously disclosed under receivables from non-exchange transactions. It was reclassified to exchange transaction in the current year. It can therefore be concluded that the adjustment made to the revised financial statements has been treated correctly.

Irregular expenditure

COMAF 36: Completeness of Irregular expenditure

Audit finding

Paragraph 65 (1) and 65 (2) (a) of the MFMA states that:

“(1) The accounting officer of a municipality is responsible for the management of the expenditure of the municipality. (2)(a) The accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorization, withdrawal and payment of funds.”

Through inspection of note 50 of the annual financial statements it was noted that the Unauthorized, Irregular and Fruitless and Wasteful expenditure was condoned by council however in terms of section 170 of the MFMA, only the National Treasury may condone non-compliance with a regulation issued in terms of the MFMA or a condition imposed by the Act itself. The municipal Council therefore has no power in terms of the MFMA to condone any act of non-compliance in terms of the MFMA or any of its regulations. Condonement should be stated as written off by council

Contrary to the provision above it was that the irregular expenditure of the prior year amounting to R2 433 was not part of the list written off by council and therefore are not written off as disclosed in the AFS.

- (a) Understatement of irregular expenditure in the annual financial statements.

The above misstatement is not material.

Internal control deficiency

Financial and Performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.

Management did ensure that the irregular expenditure register are complete which was used to compile the annual financial statement.

Recommendation

Management should ensure that:



The irregular expenditure register are updated frequently to ensure that the register are complete.

Management’s response

Name: JD Neethling
 Position: CFO
 Date: 26/10/2018

<u>Management comment on the audit finding:</u>		
Management agrees with the audit finding and will correct note 43 accordingly.		
<u>Management comment on the root cause identified within the audit finding:</u>		
Noted.		
<u>Management comment on the recommendation:</u>		
Noted.		
<u>Remedial action:</u>		
<u>What actions will be taken:</u>	<u>By whom:</u>	<u>By when:</u>
Note will be corrected.	PAMUN	26/10/2018
If the above findings affects an amount (s) disclosed in the financial statements:		
Please give an indication of whether the correcting journal entry shall be processed:		
If yes, please indicate the accounting entry:		
If no, please provide the reason why such a conclusion:		
No journal needed as the note only will be amended.		

Auditor’s conclusion

Management comment noted. The adjusted financial statements has been received and inspected and it was confirmed that the adjustment has been processed correctly. This finding will remain in the management letter.



Financial instruments - Disclosure

COMAF 35: Classification - Financial Instruments

Audit finding

Section 62(c) of the Municipal Financial Management states that:

" The accounting officer of a municipality is responsible for managing the financial administration of the municipality and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control; and of internal audit operating in accordance with any prescribed norms and standards."

Contrary to the above, during the execution stage of our audit, debtors with credit balances has been incorrectly disclosed as retentions and retentions has been incorrectly disclosed as accrued interest in note 53.2 Summary of financial liabilities.

The wording in the disclosure of 53.2 is incorrect and does not relate to any misstatement.

Internal control deficiency

Financial and performance management

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

Management did not adequately review the disclosure of note 53.2 financial instruments.

Leadership

Management did not exercise oversight responsibility in relation to financial and performance reporting as well as compliance with the Municipal Financial Management Act.

Management did not review the disclosure properly therefore the wording was incorrect.

Recommendation

Management should implement controls to ensure that there is proper reviewing of the Annual Financial Statements. The Annual Financial Statements should be reviewed by the CFO to ensure that it has been phrased and worded correctly.

Management's response

Name: JD Neethling
Position: CFO
Date: 26/10/2018



Management comment on audit finding		
Management agrees with audit finding and will correct wording.		
Management comment on internal control deficiencies		
Noted.		
Management comment on recommendation		
Noted.		
Remedial action		
What actions will be taken	By whom	By when
Wording of note 53 will be corrected.	PAMUN	26/10/2018
If the above finding affects an amount(s) disclosed in the financial statements:		
Please give an indication of whether a correcting journal entry shall be processed	YES	NO
If yes, please indicate the accounting entry		
If no, please provide the reason why such a conclusion has been reached		
No journal needed as the wording of 53 only will be corrected.		

Auditor’s conclusion

Management comment noted. The adjusted financial statements has been received and inspected and it was confirmed that the adjustment has been processed correctly. This finding will remain in the management letter.



Journals

COMAF 5: Journals – Segregation of duties

Audit finding

Section 62(c) of the Municipal Financial Management states that:

" The accounting officer of a municipality is responsible for managing the financial administration of the municipality and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control; and of internal audit operating in accordance with any prescribed norms and standards."

During the planning stage of our audit, we identified that there was no segregation of duties in relation to the recording, capturing and approval of journal entries. We identified instances where the individual that compiled the journal was also the same individual that approved the journal.

Journal No	Compiled by	Captured by	Approved by
285 Journal relating to depreciation, additions and finance charges.	PW Erasmus	Fernando Idardnick	Mr PW Erasmus
299 Adjustment of depreciation for 17/18 financial year	PW Erasmus	David Leigh Willemse	Mr PW Erasmus

The following journals identified during the execution phase:

Journal No	Compiled by	Approved by
1 Journal relating to recording of electricity large scale purchases.	Jan Neethling	Jan Neethling
231 Revenue for rental income recognised in the incorrect financial year. (Prior Period error)	PW Erasmus	PW Erasmus
260 Service in kind national treasury audit fees	PW Erasmus	PW Erasmus

262	PW Erasmus	PW Erasmus
Long service liability recognised for 2017-2018		
263	PW Erasmus	PW Erasmus
Ex-Gratia Liability recognised for 2017-2018		
264	PW Erasmus	PW Erasmus
PEMA Liability recognised for 2017-2018		
267	Jan Neethling	Jan Neethling
Recording of leave paid during the 2017/18 financial year		
268	Jan Neethling	Jan Neethling
Recording of leave gratification for the 2017/18 financial year.		
272	PW Erasmus	PW Erasmus
The additions of assets		
276	PW Erasmus	PW Erasmus
Provision for debt impairment		
278	PW Erasmus	PW Erasmus
Reversal of prior year recognition and recognition of revenue relating to current financial year		
282	PW Erasmus	PW Erasmus
Expense interest on finance lease taken to incorrect vote		
283	PW Erasmus	PW Erasmus
Depreciation on prior year incorrectly calculated		
284	PW Erasmus	PW Erasmus
Re-shaping of landfill sites as per MIG fund		
286	PW Erasmus	PW Erasmus

Reclassify VAT on Grants for MSCOA		
287 Not capital in nature rather repairs and maintenance	PW Erasmus	PW Erasmus
288 Capitalisation of assets	PW Erasmus	PW Erasmus
289 Not capital in nature rather inventory	PW Erasmus	PW Erasmus
296 Correcting account paid to NT in terms of 2017	PW Erasmus	PW Erasmus
297 Correction of journals	PW Erasmus	PW Erasmus
298 Disposal of community assets, reclassification of journals and correction of journals	PW Erasmus	PW Erasmus
300 First time recognition of investment property, disposal of intangible assets prior year correction	PW Erasmus	PW Erasmus
301 Contribution to CRR for Landfill Site	PW Erasmus	PW Erasmus
302 Adjustment for water inventory	PW Erasmus	PW Erasmus
303 Prior year correction relating to a deposit paid back	PW Erasmus	PW Erasmus

This therefore indicated a lack of management in the financial administration of the municipality to ensure that the municipality has and maintains effective and efficient transparent systems of financial management.

A lack of segregation of duties by management as well as insufficient oversight responsibility by the accounting officer in relation to the processing, capturing and approval of journals.



1. Increased risk of management override of controls via the processing of journal entries.
2. Possible misstatements disclosed in the Annual Financial Statements.

Internal control deficiency

Financial and performance management

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

Management did not adequately review the processing of journals to ensure that segregation of duties is implemented.

Leadership

Management did not exercise oversight responsibility in relation to financial and performance reporting as well as compliance with the Municipal Financial Management Act.

The internal policies and procedures of the municipality did not adequately address the risks related to performance management and segregation of duties therefore the internal controls did not ensure that there is segregation of duties administered within the Municipality.

Recommendation

Management should ensure that the internal control deficiencies addressed above are implemented in order to reduce material misstatements and mitigate the risk of non-compliance with legislation.

Management should implement controls to ensure that there is segregation of duties regarding the compiling, capturing and approval of journal entries.

Management's response

Name: J.Neethling
Position: CFO
Date: 18 October 2018

Management comment on audit finding
Management comment on internal control deficiencies

Management comment on recommendation		
Management concurs with the finding. Take in consideration that it will always be a challenge in our office with the small staff component and the segregation of duties.		
Remedial action		
Noted		
What actions will be taken	By whom	By when
All journals prepared by the senior accountant will be reviewed by the CFO	CFO	1 July 2018
If the above finding affects an amount(s) disclosed in the financial statements:		
Please give an indication of whether a correcting journal entry shall be processed N/A	YES	NO
If yes, please indicate the accounting entry		
If no, please provide the reason why such a conclusion has been reached		

Auditor’s conclusion

Management comment noted. Management agrees with the finding, therefore the finding remains and are included in the management report. This control deficiency will be followed up during the 2018/19 financial year audit.

Employee benefits

COMAF 10: Differences noted between the Actuarial Report on Post-employment Medical Aid subsidy liability and the PAM Post medical Retirement Policy

Audit finding

MFMA par 62 (1)(b) states:

"The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards."

During the audit of the Post Employment Medical Aid Subsidy Liability the following was noted

1. It was noted that the information disclosed in the Actuarial Report and used as a basis to calculate the liability differs from the information as per the municipality's Post Medical Retirement Policy. See table below for details:

Note on the Subsidy Policy as reflected in the Actuarial Report Par 3.3	Municipality's Policy
Provided that they have at least ten years of service by retirement.	Provided that they have at least 20 years of service by retirement.

2. Differences noted during the testing of the financial assumptions as disclosed in A.4.2 in the report:

Liability Average	Weighted	Term of liability	Fixed Interest yield	Index Linked Yield
Client calculation		17.25	9.54%	3.02%
Auditors recalculation		18.85	9.65%	3.05%
Difference		1.60	0.11%	0.03%

3. The following members are not entitled to be included in the list for PEMA as they will not have at least 20 years of service

Unique ID	ID Number	Surname	Initials	Date of Employment	Date of Birth	Gender	Years of service at estimated year of retirement
L38	6103135072086	ARRIES	J	01/09/2007	13/03/1961	M	17
S127	6505195203080	ADOLF	J	12/12/2016	19/05/1965	M	12
S143	7004205227080	KAMMIES	A	11/12/2017	20/04/1970	M	16
S144	7007275231080	FISTER	S	01/01/2018	27/07/1970	M	16

Management did not ensure that the basis of calculating the post-employment medical aid subsidy liability as set out in their policy is in line with the basis in the Actuarial Report. The information provided to the actuarial was not reviewed to ensure the correct information will be used.

This results in the assumptions made by the Actuaries being inaccurate due to the incorrect data which may lead to the post-employment medical liability being misstated. PEMA have been provided for employees not entitled for.

The misstatement of the provision is thus undeterminable and can only be determined on the submission of the updated report.

Internal control deficiency

Financial and Performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Leadership

Exercise oversight responsibility, regarding financial and performance reporting and compliance as well as related internal controls.

Management did not ensure that the basis of calculating the post-employment medical aid subsidy liability as set out in their policy is in line with the basis in the Actuarial Report.

Recommendation

Management should ensure that information submitted and received from the actuaries in relation to post-employment liability does not differ in terms of the basis of calculation applied by the actuaries and the basis as set out in the municipality's policy on post-employment liability. Management should investigate the impact of the above inaccurate assumptions.

Management's response

Name: J.D.Neethling
Position: CFO
Date: 2 October 2018

Management comment on the audit finding:

Management agrees to the error explained in note 1 and 3 as described above and have therefore requested an amended report from the actuaries to inspect the severity of the error. The report indicates a difference of R 86,384 and is considered not material, but management will amend changes to the Annual Financial Statements.

That said, please find attached the revised Prince Albert PEMA subsidy liability report - the minimum service eligibility condition has been revised from 10 years to 20 years, reducing the liability by 1.6% - as a reference point, the sensitivity analyses show that the valuation results could well be different by 20% or more if actual experience is different from the assumptions used in the valuation.

Note 2: We're not sure how you arrived at a liability term of 18.85 years as the Advisory Practice Note (APN 301) issued by the Actuarial Society of South Africa (ASSA) intends that the yields chosen reflect the "duration" (amount-weighted average term) as opposed to "term" of the liability.

Management comment on the root cause identified within the audit finding:



Noted.		
<u>Management comment on the recommendation:</u> Noted.		
<u>Remedial action:</u>		
<u>What actions will be taken:</u>	<u>By whom:</u>	<u>By when:</u>
Correcting Journal to be proposed.	Prince Albert Municipality	
If the above findings affects an amount (s) disclosed in the financial statements:		
Please give an indication of whether the correcting journal entry shall be processed:		
If yes, please indicate the accounting entry:		
BYDRAES NA AFTREDE VOORDELE	011015017024000	-86 384.00
Voortgesette Aftree Voor Bydraes	010101011820002	86 384.00
<u>PEMA incorrectly jnled as per COMAF 10</u>		
If no, please provide the reason why such a conclusion:		

Auditor's conclusion

Management comment noted. The adjusted financial statements has been received and inspected and it was confirmed that the adjustment has been processed correctly. This finding will remain in the management letter.

COMAF 11: Leave Internal Control Deficiency**Audit finding**

ISSAI 1265 - Communicating Deficiencies in Internal Controls to Those Charged with Governance paragraph 6 state the following:

1. *Deficiency in internal control – This exists when:*
 - i. *A control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements on a timely basis; or*
 - ii. *A control necessary to prevent, or detect and correct, misstatements in the financial statements on a timely basis is missing.*

During the audit of the Provision for leave, the following leave forms were approved after the leave was taken.

Employee	Leave form number	From	To	Days	Date approved
S WINDVOOL	1,573	09/10/2017	09/10/2017	1	10/11/2017
S WINDVOOL	1,633	30/11/2017	30/11/2017	1	01/12/2017
P PRINS	1,753	15/01/2018	15/01/2018	1	31/01/2018
P PRINS	1,774	18/06/2018	18/06/2018	1	27/06/2018
P PRINS	1,774	22/06/2018	22/06/2018	1	27/06/2018
B MEINTJIES	1,851	23/02/2018	23/02/2018	1	13/03/2018
B MEINTJIES	1,961	07/05/2018	07/05/2018	1	10/05/2018
C DEELMAN	1,450	24/01/2018	24/01/2018	1	31/01/2018
C DEELMAN	1,450	30/01/2018	30/01/2018	1	31/01/2018
K VAN DER MESCHT	1,862	19/03/2018	19/03/2018	1	20/03/2018
L VOETPAD	1,882	27/03/2018	27/03/2018	1	28/03/2018

Leave forms not timeously submitted to HR from the surrounding areas such as Leeu-Gamka and Klaarstroom for approval.

Employees taken leave without proper authorisation. The finding is thus only a control finding as it was noted that during the audit of leave provision the leave registers was updated frequently to ensure that sufficient leave days are available. Thus the finding is only a control finding and have no financial misstatements.

Internal control deficiency**Leadership**

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

Leave forms not submitted timeously for approval before the leave days can be taken.

Recommendation

Management should ensure to collect all leave forms on a regular basis for approval from Leeu Gamka and Klaarstroom. Management can also consider giving an employee at Leeu Gamka and Klaarstroom the authority to approve the leave days in advance.

Management's response

Name: Anneleen Vorster
 Position: Corporate Manager
 Date: 3/10/2018

<u>Management comment on the audit finding:</u>		
Management concurs that it sometimes happen that leave forms are signed after leave has been taken, but the employee phones or sms a leave request. Permission is then given but only signed afterwards. This is an inherent character of geographic offices. We do not have an electronic leave system.		
<u>Management comment on the root cause identified within the audit finding: this is due to a manual system inherent to geographic offices</u>		
<u>Management comment on the recommendation:</u> Management is investigating an electronic leave system. Leave permission is given telephonically and followed up with HR. Leave books will accompany money collection in future.		
<u>Remedial action:</u>		
<u>What actions will be taken:</u> .procure an electronic leave system subject to budget funding. Leave permission given telephonically for outer offices and confirmed with HR same day.	<u>By whom:</u> A Vorster	<u>By when:</u> Immediate and adjustment budget
If the above findings affects an amount (s) disclosed in the financial statements:		
Please give an indication of whether the correcting journal entry shall be processed:		
If yes, please indicate the accounting entry:		
If no, please provide the reason why such a conclusion:		

Auditor's conclusion

Management comment noted. Management is in agreement with the finding, therefore the finding remains and is included in the management report. This control deficiency will be followed up during the 2018/19 financial year audit.

Local Government Support

COMAF 28: Non-compliance with monthly submission of back to basics dashboard

Audit finding

The Department of Cooperative Governance requires that municipalities submit various performance indicators on a monthly basis on the back to basic (B2B) dashboard. The aim was to identify the interventions required to address the key challenges identified for each municipality.

During the audit it was identified that the Prince Albert Municipality is not reporting on a monthly basis on the B2B to Provincial Department of Cooperative Governance due to capacity constraints of employees. Submissions were only made for the following months in the year under review:

- July 2017
- October 2017
- January 2018

It would significantly benefit the municipality as it serves as a platform for municipalities to address obstacles faced. The support is extensive and assistance is readily available.

Internal control deficiency

Leadership

Management did not adequately implement adequate controls to ensure monthly submission of its performance indicators on the back to basic dashboard.

Recommendation

Management should adopt the back to basics strategy and make submissions monthly as required by the Department of Cooperative Governance.

Management's response

<u>Management comment on the audit finding:</u>		
Management concur with the finding		
<u>Management comment on the root cause identified within the audit finding:</u>		
Capacity constraints		
<u>Management comment on the recommendation:</u>		
Management concur with the finding		
<u>Remedial action:</u>		
<u>What actions will be taken:</u>	<u>By whom:</u>	<u>By when:</u>



An official, C Jafta, was allocated to collate the report and send it off. This has already been implemented in September 2018	A Vorster – C Jafta	Implemented in September 2018
If the above findings affects an amount (s) disclosed in the financial statements:		
Please give an indication of whether the correcting journal entry shall be processed:		
If yes, please indicate the accounting entry:		
If no, please provide the reason why such a conclusion:		

Auditor’s conclusion

Management comment noted. Management is in agreement with the finding, therefore the finding remains and is included in the management report. The submission of the B2B reports is will be followed up during the 2018/19 financial year audit.



Roads, water and sanitation

COMAF 38: Roads, water and sanitation - Municipality does not have an approved policy that addresses routine maintenance of water, sanitation and road infrastructure

Audit finding

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

During the audit of water, sanitation and road infrastructure we have identified that the municipality does not have an approved policy in place that addresses routine maintenance of water, sanitation and road infrastructure.

The non-compliance is due to budget constraints and capacity of personnel to assist and guide the municipality in developing and implementing the policy and procedures for water, sanitation and road infrastructure.

The absence of policies and procedures that addresses the water, sanitation and roads infrastructure could result to inadequate controls and plans inadequate provision of water, sanitation and road infrastructure services to the public.

Internal control deficiency

Financial and Performance management

Review and monitoring of compliance with applicable laws and regulations.

Management did not ensure that the necessary policies and procedures are communicated and established with regards to water, sanitation and road infrastructure to enable and support the execution of internal control objectives within water, sanitation and road infrastructure.

Recommendation

Management should ensure that the implementation of policy and procedures that address routine maintenance of water, sanitation and road infrastructure are in place and in-line with Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

Further, the policy and procedures should be updated regularly to incorporate corrective measures emanating from audit findings and in line with relevant legislations.

Management's response

<p>Management comment on audit finding Management concur with the finding that there is no policy. Maintenance however are undertaken according to monthly departmental planning.</p>		
<p>Management comment on internal control deficiencies Management concur that the root cause is due to capacity shortage in respect of expertise and staff.</p>		
<p>Management comment on recommendation Management concurs with the recommendation.</p>		
<p>Remedial action Management is in the process of developing SOP's as part of their performance cascading that includes Work Procedures. It must however be noted that maintenance is rolled out according to departmental schedules with set routines. It is just not captured in writing.</p>		
<p>What actions will be taken SOP's will be developed on maintenance routines and a broad maintenance will be developed.</p>	<p>By whom A Vorster</p>	<p>By when 30 June 2019</p>
<p>If yes, please indicate the accounting entry</p>		
<p>If no, please provide the reason why such a conclusion has been reached</p>		

Auditor's conclusion

Management comment noted. Management is in agreement with the finding, therefore the finding remains and is included in the management report.

Property, plant and equipment

COMAF 9: Difference in carrying value between fixed asset register and the financial statements

Audit finding

Paragraph 17 of GRAP 1, *Presentation of Financial Statements*, states the following:

“Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in the Framework for the Preparation and Presentation of Financial Statements. The application of Standards of GRAP with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation”.

During the audit of property, plant and equipment the following differences were identified:

Asset category	2018 Trial balance/financial statements	2018 Fixed asset register	Difference
Infrastructure assets	R 94 007 081,66	R 94 005 964,57	(R1 117,09)
Community assets	R 20 566 995,95	R 20 534 211,57	(R32 784,38)
Total	R 114 574 077,61	R114 540 176,14	R (33 901,47)

The infrastructure assets and the community assets amounts recorded in the fixed asset register does not agree with the amounts as disclosed in the statement of financial position recorded under note 2 (*property, plant and equipment*).

The carrying values of infrastructure assets are over stated by R1 117,09 and the Community assets are overstated by R32 784,38. The total misstatement in the carrying value being R33 901,47. The misstatement is not material.

Internal control deficiency

Financial management – Prepare regular, accurate and complete financial statements.

Management did not perform proper review of the financial statements against the fixed asset register to ensure accuracy and completeness of financial statements.

This is due to inadequate reconciliation between the fixed asset register and the trial balance to ensure that the carrying values as per the fixed asset register agrees with the trial balance and the financial statements.

Recommendation

Management should perform a proper reviews of the financial statements to ensure that the financial statements are free from misstatements.

Furthermore, management must reconcile the trial balance against the asset register to ensure that the information pull through correctly from the asset register to the trial balance and the financial statements.

Management's response

Name: J.D.Neethling

Position: CFO

Date 21 September 2018

<u>Management comment on the audit finding:</u>			
Management agrees with the audit finding. The community assets error pertains to the first-time recognition of some community assets. A correcting journal will be processed to correct the balances to ensure that the FAR reconciles to the General Ledger. The infrastructure assets error pertains to the opening balance on Accumulated Depreciation and will also be corrected with the journal.			
<u>Management comment on the root cause identified within the audit finding:</u>			
Noted.			
<u>Management comment on the recommendation:</u>			
Noted.			
<u>Remedial action:</u>			
<u>What actions will be taken:</u>	<u>By whom:</u>	<u>By when:</u>	
Correcting Journals.	Prince Albert Municipality	21/09/2018	
If the above findings affects an amount (s) disclosed in the financial statements:	Yes		
Please give an indication of whether the correcting journal entry shall be processed:	Yes		
If yes, please indicate the accounting entry:			
OPGEOHOOPTE SURPLUS	Regstelling van foute	010101011455003	32 784.52
AFSKRYWINGS		010101013535003	-32 784.52
<u>First time recognition of community asset relating to COMAF 9</u>			
OPGEOHOOPTE SURPLUS	Regstelling van foute	010101011455003	1 117.07
AFSKRYWINGS		010101013530003	-1 117.07
<u>Error on infrastructure assets Accumulated Depreciation relating to COMAF 9</u>			
If no, please provide the reason why such a conclusion:			

Auditor's conclusion

Management comment noted. The adjusted financial statements has been received and inspected and it was confirmed that the adjustment has been processed correctly. This finding will remain in the management letter.



COMAF 33: Negative additions included in impairment - Note 2 to the financial statements**Audit finding**

Paragraph 17 of GRAP 1, *Presentation of Financial Statements*, states the following:

“Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in the Framework for the Preparation and Presentation of Financial Statements. The application of Standards of GRAP with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation”.

During the audit of property, plant and equipment impairment it was identified that under note 2 (*property, plant and equipment*) some of the impairment additions reflect a negative amount of R114 612 for disposed assets. The impairment of disposed assets should be treated as a reversal of impairment and be reflected under reversal of impairment column.

Below are the details of negative impairment as disclosed under note 2:

Extract from note 2 of property, plant and equipment		
Accumulated Impairment		
No	Other assets	Additions
1	Special vehicle	R (65 074.00)
2	Transport asset	R (49 538.00)
		R (114 612.00)

Further to the above it was also identified that landfill site shows a negative impairment opening balance of R43 891, and a reversal of R22 715. The reversal of R22 715 included for landfill sites does not relate to landfill sites as indicated in note 43 to the financial statements.

This misstatement will not have any impact on the balance of impairment as at June 2018 as the net effect is the same. However, it affects the disclosure of property, plant and equipment note 2 presentation as at 30 June 2018.

Internal control deficiency**Financial and performance management**

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Management did not perform proper review of the financial statements to ensure that the impairment is appropriately disclosed and presented.

Recommendation

Management should perform a proper review of the financial statements to ensure that the financial statements are free from misstatements.



Furthermore, management must review the notes to the financial statement to ensure that the presentation and disclosure of the affected balances is appropriate and in-line with GRAP standards.

Management’s response

Name: JD Neethling
 Position: CFO
 Date: 26/10/2018

Management comment on audit finding Management agrees with the audit finding and will correct the PPE note. The amount of R 22 715 does relate to the reversal of impairment on the Landfill site so note 43’s wording will be adjusted accordingly.		
Management comment on internal control deficiencies Noted.		
Management comment on recommendation Noted.		
Remedial action		
<i>What actions will be taken</i>	<i>By whom</i>	<i>By when</i>
Correction of Notes 2 and 43	PAMUN	26/10/2018
<i>If yes, please indicate the accounting entry</i>		
<i>If no, please provide the reason why such a conclusion has been reached:</i> No journal needed as it is only a note disclosure that will be corrected.		

Auditor’s conclusion

Management comment noted. The adjusted financial statements has been received and inspected and it was confirmed that the adjustment has been processed correctly. This finding will remain in the management letter.



COMAF 34: Impairment incorrectly included under depreciation

Audit finding

Paragraph 17 of GRAP 1, *Presentation of Financial Statements*, states the following:

“Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in the Framework for the Preparation and Presentation of Financial Statements. The application of Standards of GRAP with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation”.

During the audit of depreciation and impairment it was noted that the impairment loss of R1 204 877 on property, plant and equipment was incorrectly included under the depreciation and amortisation line in the statement of financial performance for the year ended 30 June 2018.

The above-mentioned misstatement resulted to overstatement of depreciation and amortisation line item by R1 204 877, while the impairment line item is understated by an amount of R1 204 877.

The misstatement is material.

Internal control deficiency

Financial and performance management

Prepare regular, accurate and complete financial statements.

Management did not perform proper review of the financial statements against to ensure that the impairment is appropriately disclosed and presented.

The misstatement is due to misinterpretation of new mSCOA classification between the depreciation and impairment classification and presentation on the statement of financial performance.

Recommendation

Management should perform a proper review of the financial statements to ensure that the financial statements are free from misstatements.

Furthermore, management must review to ensure that mSCOA reclassification is applied and presented correctly in the financial statements.

Management's response

Name: JD Neethling
Position: CFO
Date: 26/10/2018



Management comment on audit finding

Management agrees with the audit finding, but would like to stress the point that we made the classification adjustment based on National Treasury’s mSCOA regulations that speaks to re-classifications on certain expense line items.

The impairment of Property, Plant and Equipment was treated in line with the mSCOA guidelines as provided through the mSCOA charts as well as a document distributed by National Treasury for assistance with the Annual Financial Statements.

The impairment of PPE is on the Gains and Losses chart of mSCOA. On each chart up to Version 6.1 is a guideline on the right-hand side indicating the treatment of each item as per the budget schedules. The GUID’s used on these charts for impairment of PPE are as follows:

GUID	Description	Guideline
5c16ed1e-8b84-40e2-9cab-119aac8aa7f	Gains and Losses: Impairment Loss	N/A
d609e1d3-5fba-4868-8cfc-3f507b75174e	Gains and Losses: Impairment Loss- Biological Assets	Expenditure by Type / Depreciation and Asset Impairment
e35b4f47-ea54-44d8-8f01-b41b6aeed2df	Gains and Losses: Impairment Loss- Heritage Assets	Expenditure by Type / Depreciation and Asset Impairment
517a2f91-b0b5-4848-a679-ac71327f9a23	Gains and Losses: Impairment Loss- Intangible Assets	Expenditure by Type / Depreciation and Asset Impairment
33c341e9-bb05-458e-907f-34dc562ff741	Gains and Losses: Impairment Loss- Investment Property	Expenditure by Type / Depreciation and Asset Impairment
95a53046-11bb-4b7f-9c95-1ac7055c7776	Gains and Losses: Impairment Loss- Property, Plant and Equipment	N/A
de4a6935-70e9-4204-b436-ab38f844d272	Gains and Losses: Impairment Loss- Property, Plant and Equipment- Buildings	Expenditure by Type / Depreciation and Asset Impairment
b4ff4284-706a-41ee-8977-3c5072403825	Gains and Losses: Impairment Loss- Property, Plant and Equipment- Computer Equipment	Expenditure by Type / Depreciation and Asset Impairment
b84fd8b-075f-439c-9056-69f1a97d9104	Gains and Losses: Impairment Loss- Property, Plant and Equipment- Furniture and Office Equipment	Expenditure by Type / Depreciation and Asset Impairment
84de125-0ffb-4965-a8c4-a2e3850f1f8	Gains and Losses: Impairment Loss- Property, Plant and Equipment- Infrastructure Airports	Expenditure by Type / Depreciation and Asset Impairment
309646f2-45a8-418f-888a-677214a6a31	Gains and Losses: Impairment Loss- Property, Plant and Equipment- Infrastructure Electricity	Expenditure by Type / Depreciation and Asset Impairment
d1038719-0931-4718-a75f-c406c71e2b5	Gains and Losses: Impairment Loss- Property, Plant and Equipment- Infrastructure Gas Supplies	Expenditure by Type / Depreciation and Asset Impairment
c781818-8305-4d16-8f36-58c5f184f5be	Gains and Losses: Impairment Loss- Property, Plant and Equipment- Infrastructure Railways	Expenditure by Type / Depreciation and Asset Impairment
82715669-7003-4423-8cc7-d174c26998c3	Gains and Losses: Impairment Loss- Property, Plant and Equipment- Infrastructure Roads, Pavements, Bridges and Storm Water	Expenditure by Type / Depreciation and Asset Impairment
8b14a5f9-a25b-4fe4-8d93-dc9f0aa1862	Gains and Losses: Impairment Loss- Property, Plant and Equipment- Infrastructure Transportation	Expenditure by Type / Depreciation and Asset Impairment
6820c4e-07b6-4e05-88f8-85691d067949	Gains and Losses: Impairment Loss- Property, Plant and Equipment- Infrastructure Waste Management	Expenditure by Type / Depreciation and Asset Impairment
23b4772b-10ec-41e5-8931-a62168bd9f94	Gains and Losses: Impairment Loss- Property, Plant and Equipment- Infrastructure Waste Water Management	Expenditure by Type / Depreciation and Asset Impairment
de0b8f30-3a72-40f9-a74b-cff2ba966cd1	Gains and Losses: Impairment Loss- Property, Plant and Equipment- Infrastructure Water	Expenditure by Type / Depreciation and Asset Impairment
6234524c-216e-4204-bbb1-a1151e9a567d	Gains and Losses: Impairment Loss- Property, Plant and Equipment- Machinery and Equipment	Expenditure by Type / Depreciation and Asset Impairment
fd5ffecd-858b-4380-8c2f-1431a5c14720	Gains and Losses: Impairment Loss- Property, Plant and Equipment- Transport Assets	Expenditure by Type / Depreciation and Asset Impairment
d19073c-10d4-4c31-a10b-d5a8f0a12cbe	Gains and Losses: Impairment Loss- Property, Plant and Equipment- Libraries	Expenditure by Type / Depreciation and Asset Impairment
e504ff47-2b25-463c-9af2-c3b98f054e2b	Gains and Losses: Impairment Loss- Property, Plant and Equipment- Zoo, Marine and Non-biological Assets	Expenditure by Type / Depreciation and Asset Impairment

The guideline issued by National Treasury for assistance with the preparation of Annual Financial Statements has a code for each GUID. These codes were used to prepare the Annual Financial Statements. The codes allocated to the applicable GUID’s are as follows:

GUID	Description	Code	Guideline
d609e1d3-5fba-4868-8cfc-3f507b75174e	Gains and Losses: Impairment Loss: Biological Assets	2300	Expenditure by Type / Depreciation and asset impairment
e35b4f47-ea54-44d8-8f01-b41b6aeed2df	Gains and Losses: Impairment Loss: Heritage Assets	2300	Expenditure by Type / Depreciation and asset impairment
517a2f91-b0b5-4848-a679-ac71327f9a23	Gains and Losses: Impairment Loss: Intangible Assets	2300	Expenditure by Type / Depreciation and asset impairment
33c341e9-bb05-458e-907f-34dc562ff741	Gains and Losses: Impairment Loss: Investment Property	2300	Expenditure by Type / Depreciation and asset impairment
de4a6935-70e9-4204-b436-ab38f844d272	Gains and Losses: Impairment Loss: Property, Plant and Equipment: Buildings	2300	Expenditure by Type / Depreciation and asset impairment
b4ff4284-706a-41ee-8977-3c5072403825	Gains and Losses: Impairment Loss: Property, Plant and Equipment: Computer Equipment	2300	Expenditure by Type / Depreciation and asset impairment
b84fd8b-075f-439c-9056-69f1a97d9104	Gains and Losses: Impairment Loss: Property, Plant and Equipment: Furniture and Office Equipment	2300	Expenditure by Type / Depreciation and asset impairment
84de125-0ffb-4965-a8c4-a2e3850f1f8	Gains and Losses: Impairment Loss: Property, Plant and Equipment: Infrastructure Airports	2300	Expenditure by Type / Depreciation and asset impairment
309646f2-45a8-418f-888a-677214a6a31	Gains and Losses: Impairment Loss: Property, Plant and Equipment: Infrastructure Electricity	2300	Expenditure by Type / Depreciation and asset impairment
d1038719-0931-4718-a75f-c406c71e2b5	Gains and Losses: Impairment Loss: Property, Plant and Equipment: Infrastructure Gas Supplies	2300	Expenditure by Type / Depreciation and asset impairment
c781818-8305-4d16-8f36-58c5f184f5be	Gains and Losses: Impairment Loss: Property, Plant and Equipment: Infrastructure Railways	2300	Expenditure by Type / Depreciation and asset impairment
82715669-7003-4423-8cc7-d174c26998c3	Gains and Losses: Impairment Loss: Property, Plant and Equipment: Infrastructure Roads, Pavements, Bridges and Storm Water	2300	Expenditure by Type / Depreciation and asset impairment
8b14a5f9-a25b-4fe4-8d93-dc9f0aa1862	Gains and Losses: Impairment Loss: Property, Plant and Equipment: Infrastructure Transportation	2300	Expenditure by Type / Depreciation and asset impairment
6820c4e-07b6-4e05-88f8-85691d067949	Gains and Losses: Impairment Loss: Property, Plant and Equipment: Infrastructure Waste Management	2300	Expenditure by Type / Depreciation and asset impairment
23b4772b-10ec-41e5-8931-a62168bd9f94	Gains and Losses: Impairment Loss: Property, Plant and Equipment: Infrastructure Waste Water Management	2300	Expenditure by Type / Depreciation and asset impairment
de0b8f30-3a72-40f9-a74b-cff2ba966cd1	Gains and Losses: Impairment Loss: Property, Plant and Equipment: Infrastructure Water	2300	Expenditure by Type / Depreciation and asset impairment
6234524c-216e-4204-bbb1-a1151e9a567d	Gains and Losses: Impairment Loss: Property, Plant and Equipment: Machinery and Equipment	2300	Expenditure by Type / Depreciation and asset impairment
fd5ffecd-858b-4380-8c2f-1431a5c14720	Gains and Losses: Impairment Loss: Property, Plant and Equipment: Transport Assets	2300	Expenditure by Type / Depreciation and asset impairment
d19073c-10d4-4c31-a10b-d5a8f0a12cbe	Gains and Losses: Impairment Loss: Property, Plant and Equipment: Libraries	2300	Expenditure by Type / Depreciation and asset impairment
e504ff47-2b25-463c-9af2-c3b98f054e2b	Gains and Losses: Impairment Loss: Property, Plant and Equipment: Zoo, Marine and Non-biological Assets	2300	Expenditure by Type / Depreciation and asset impairment

Every item on the trial balance was linked through the applicable GUID to the code as provided by National Treasury. These codes were used to prepare the Annual Financial Statements. This was done in good faith on guidelines provided by mSCOA as well as National Treasury.

We will therefore amend the reclassification on the face of the Statement of Financial Performance so that the amount is not reflected under Deprecation, but rather under impairments. We will also an FAQ, frequently asked question, with National Treasury’s mSCOA division to amend this error in the new version, 6.3, that is due to be released in the latter part of the year as this will affect all South African municipalities that must abide by the mSCOA laws and regulations.

Management comment on internal control deficiencies

Noted.

Management comment on recommendation

Noted.



Remedial action		
<i>What actions will be taken</i>	<i>By whom</i>	<i>By when</i>
Amendment to the Statement of the financial Performance classification of Depreciation and impairments.	PAMUN	26/10/2018
<i>If yes, please indicate the accounting entry</i>		
<i>If no, please provide the reason why such a conclusion has been reached</i>		
No journal needed as the re-classification will be performed between the Depreciation and impairment expense line item.		

Auditor's conclusion

Management comment noted. The revised financial statements have been received and inspected and it has been confirmed that the correction has been made correctly.

Investment property

COMAF 8: Investment property: Correction of Investment property accounted for in the incorrect period

Audit finding

In terms of terms of GRAP 3 paragraph 4 states that:

“Prior period errors are omissions from, and misstatements in, the entity’s financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- 1. was available when financial statements for those periods were authorised for issue; and*
- 2. could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.*

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Retrospective restatement is correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.”

During the audit of Investment Property, it was discovered that the following Investment Properties never belonged to Prince Albert Municipality. This was confirmed through the work performed by Mubesko on Assets however the impairment loss previously recognised was reversed in the current year as well as the loss on write offs of the investment property was accounted for in the current year to remove the properties from the register. This should have been treated as a prior period error and corrected when the initial error occurred.

Property	Original Cost to date (R):	Date of Disposal	Impairment (Date)	Impairment Amount (R):	Disposal Impairment value (R):
ERF 51	R140 000,00	29/05/2018	30/06/2014	R5 000,00	R5 000,00
ERF 271	R133 500,00	29/05/2018	30/06/2014	R133 500,00	R133 500,00
	R273 500,00			R138 500,00	R138 500,00

Errors not corrected retrospectively.

- (a) Impairment loss are understated by R138 500
- (b) Loss on disposal of fixed asset are overstated by R273 500
- (c) The net amount of the income statement amounts to R135 000

The above misstatement is not material.

Internal control deficiency

Financial and Performance management



Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.

Recommendation

Management should ensure that:

Errors must be corrected retrospectively as required by GRAP statement for prior period errors.

Management’s response

Name: J.D.Neethling
 Position: CFO
 Date: 21 September 2018

<u>Management comment on the audit finding:</u>		
Management agrees with the audit finding.		
<u>Management comment on the root cause identified within the audit finding:</u>		
Noted.		
<u>Management comment on the recommendation:</u>		
Noted.		
<u>Remedial action:</u>		
<u>What actions will be taken:</u>	<u>By whom:</u>	<u>By when:</u>
No correcting journal will be performed.		
<u>If the above findings affects an amount (s) disclosed in the financial statements:</u>		
<u>Please give an indication of whether the correcting journal entry shall be processed:</u>		
<u>If yes, please indicate the accounting entry:</u>		
<u>If no, please provide the reason why such a conclusion:</u>		
FAR will not change based on the fact that the full impairment was performed in 2014. The amount is also not material.		



Auditor's conclusion

Management comment noted. Management is in agreement with the finding and no corrections will be made, therefore the finding will remain and be reported on and the misstatement will be included in the summary of unadjusted audit differences.



Operating expenditure

COMAF 7: Bulk Purchases: Purchase of electricity pump was incorrectly included in the bulk purchases accounts.

Audit finding

In terms of terms of GRAP 1.103 – 1.105

“An entity shall present a sub-classification of total revenue, classified in a manner appropriate to the entity’s operations

An entity shall present an analysis of expenses using classification based on either the nature of expenses or their function within the entity, whichever provides information that is reliable and more relevant Entities are encouraged to present the analysis in paragraph 1.104 on the face of the statement of financial performance.”

During the audit of the bulk purchases, it was discovered that the following invoice were included in the bulk purchases when it relates to the maintenance and repair of transformers

Invoice Date	Invoice Number	Supplier Name	Descriptions	Amount (R):
29/06/2018	INV 700	Jan Nel Elektries	Maintenance & Repair of transformers	R34 021,74
11/06/2018	701	Jan Nel Elektries	Maintenance & Repair of transformers	R34 832,00
27/06/2018	714	Jan Nel Elektries	Maintenance & Repair of transformers	R9 582,00
				R78 435,74

Management did not perform a review of transactions captured in the general ledger.

- (a) Bulk purchases are overstated by R78 435,74
- (b) Operations costs are understated by R78 435,74

Internal control deficiency

Financial and Performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.

Transactions were not reviewed by management after processing onto ABAKUS for correct classification of expenses.

Recommendation

Management should ensure that transactions should be reviewed once they have been captured and transaction should be correctly classified within the accounting records of the municipality.

Adjustment to the financial statements and supporting records should be submitted to the auditors.

Management's response

Name: J.D.Neethling

Position: CFO

Date: 21 September 2018

<u>Management comment on the audit finding:</u>		
Management agrees with the finding. A correcting journal will be processed to re-allocate the error to contracted services.		
<u>Management comment on the root cause identified within the audit finding:</u>		
Noted.		
<u>Management comment on the recommendation:</u>		
Noted.		
<u>Remedial action:</u>		
<u>What actions will be taken:</u>	<u>By whom:</u>	<u>By when:</u>
A Correcting journal.	Prince Albert Municipality	21/09/2018
If the above findings affects an amount (s) disclosed in the financial statements:	Yes	
Please give an indication of whether the correcting journal entry shall be processed:	Yes	
If yes, please indicate the accounting entry:		
Vote description	Vote #	Amount
Kontraktuer Jan Nel	011075017361000	78 435.74
Elektrisiteit	011075017351000	-78 435.74
If no, please provide the reason why such a conclusion:		

Auditor's conclusion

Management comment noted. The adjusted financial statements have been received and inspected and it was confirmed that the adjustment has been processed correctly. This finding will remain in the management letter.

COMAF 14: Compliance – Payments not made within 30 days**Audit finding**

Section 65 of Municipal Finance Management Act, 2003 (Act No.56 of 2003) (MFMA) states that: "(2) The accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure— (e) that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure;"

Contrary to the provision above, invoices were not paid within 30 days from the date the invoice was received:

From Creditors testing and expenditure testing:

Supplier:	Invoice Number:	Payment Date:	Date invoice stamped received:	Number of days before payment was made:
Ubertech	14050	25/04/2018	20/03/2018	36 days
Dense Seale (Pty) Ltd	399	22/11/2017	19/10/2017	34 days
Weskaap Labrotorium Dienste	901	31/08/2017	31/07/2017	31 days
Metsi Chem Ikapa	IK11593	08/12/2017	06/11/2017	32 days
Eskom	677293664873	20/08/2018	20/07/2018	31 days

1. Invoices don't get paid on time within the 30 day time frame which is allowed.
2. Non-compliance with section 65 (2) is not material.

Internal control deficiency**Leadership**

The accounting officer does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Invoices received late and they don't get stamped on the date which they are received.

Recommendation

Management should ensure that payments are made within the prescribed period of 30 days to avoid instances of non-compliance.

Management's response

Name: JD Neethling
Position: CFO
Date: 09/10/2018



<u>Management comment on the audit finding:</u>		
Although Management agrees with the audit finding, we would like to stress the point that no interest on late payment was calculated by the service providers.		
<u>Management comment on the root cause identified within the audit finding:</u>		
Noted.		
<u>Management comment on the recommendation:</u>		
Noted.		
<u>Remedial action:</u>		
<u>What actions will be taken:</u>	<u>By whom:</u>	<u>By when:</u>
None.		
If the above findings affect an amount (s) disclosed in the financial statements:		
Please give an indication of whether the correcting journal entry shall be processed:		
If yes, please indicate the accounting entry:		
If no, please provide the reason why such a conclusion:		

Auditor’s conclusion

Management comment noted. Management is in agreement with the finding, therefore the finding remains and is included in the management report.



COMAF 15: Weakness of controls on receipt of goods and services**Audit finding**

Section 65 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) states that:
 “(1) The accounting officer of a municipality is responsible for the management of the expenditure of the municipality.

(2) The accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure –

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

(b) That the municipality has and maintains a management, accounting and information system which –

(i) recognises expenditure when it is incurred;

(ii) accounts for creditors of the municipality;

During the audit of operational expenses, it was noted that there are no adequate controls in place to monitor the quantity and quality of goods and services received. No evidence was noted in the form of goods received vouchers relating to goods received and job cards in relation to services received. During the planning stage it was noted that the invoice signed as proof of goods or services received. No proof of goods or services received as invoice has not been signed.

Payment Number	Invoice Number	Invoice Date	Supplier	Amount excl VAT (R):
6174	Invoice Gamkaland	15-12-2017	Radio Gamkaland	R22 000,00
7820	INV7184	28-06-2018	Die Hoorn	R821,74
				R22 821, 74

The above instances will not be extrapolated as the above instances relates to a control issue. Potential payment for goods or services not received.

Internal control deficiency**Leadership**

The accounting officer does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Management did not ensure that controls are in place to ensure that all goods/services are received.

Recommendation

Management should implement adequate controls in place to monitor and confirm the quality and quantity of goods and services received.

Management's response

Name: JD Neethling
 Position: CFO
 Date: 09/10/2018

<u>Management comment on the audit finding:</u>		
Management agrees with the audit finding and will improve controls over the said error.		
<u>Management comment on the root cause identified within the audit finding:</u>		
Noted.		
<u>Management comment on the recommendation:</u>		
Noted.		
<u>Remedial action:</u>		
<u>What actions will be taken:</u>	<u>By whom:</u>	<u>By when:</u>
No action will be taken.		
If the above findings affect an amount (s) disclosed in the financial statements:		
Please give an indication of whether the correcting journal entry shall be processed:		
If yes, please indicate the accounting entry:		
If no, please provide the reason why such a conclusion:		

Auditor's conclusion

Management comment noted. Management is in agreement with the finding, therefore the finding remains and is included in the management report. This control deficiency will be followed up during the 2018/19 financial year audit.



COMAF 16: Expenses – VAT has been recorded inclusive in the general ledger**Audit finding**

Paragraph 65 (1) and 65 (2) (a) of the MFMA states that:

“(1) The accounting officer of a municipality is responsible for the management of the expenditure of the municipality. (2)(a) The accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds.”

Contrary to the above, during the execution stage of our audit, we identified the following expenses were recorded VAT inclusive:

Invoice:	Description:	Invoice Date:	Amount GL: (R):	Invoice amount EX VAT (R):	Invoice amount INC VAT (R):	Difference (R):
276	Salga Congress Entertainment Cost	12-04-2018	R13 200,00	R11 478,26	R13 200,00	R1 721.74
99453962	Accommodation	20-07-2017	R2 375,00	R2 083,33	R2 375,00	R291.67
93687643-1	Accommodation	30-01-2018	R1 315,00	R1 153,51	R1 315,00	R161.49
			R 16 890,00	R 14 715,10	R 16 890,00	R2 174,90

This represents 0.26% of the sample tested which resulted in extrapolated error amounting to R14 205,00.

1. Increased risk of lack of management overseeing and checking that transactions have been captured correctly.
2. Immaterial overstatement of expenditure and understatement of VAT as disclosed in the Annual Financial Statements.

Internal control deficiency**Financial and performance management**

Management did not implement controls over daily and monthly processing and reconciling of transactions.

Leadership

Management did not exercise oversight responsibility in relation to financial and performance reporting as well as compliance with the Municipal Financial Management Act.

Transactions have not been reviewed and only on receipt of the tax invoice it was found out that VAT should be charged as the company has a valid VAT registration number.



Recommendation

Recording of transactions should be reviewed to ensure transactions have been correctly recorded and accounted for.

Management's response

Name: JD Neethling
 Position: CFO
 Date: 09/10/2018

<u>Management comment on the audit finding:</u>		
Management agrees with the audit finding, but please bear in mind that one cannot claim VAT on a proforma invoice as per the VAT 419 guidance from the receiver.		
<u>Management comment on the root cause identified within the audit finding:</u>		
Noted.		
<u>Management comment on the recommendation:</u>		
Noted.		
<u>Remedial action:</u>		
<u>What actions will be taken:</u>	<u>By whom:</u>	<u>By when:</u>
None.		
<u>If the above findings affects an amount (s) disclosed in the financial statements:</u>		
<u>Please give an indication of whether the correcting journal entry shall be processed:</u>		
<u>If yes, please indicate the accounting entry:</u>		
<u>If no, please provide the reason why such a conclusion:</u>		
Not material.		

Auditor's conclusion

Management comment noted. Management is in agreement with the finding, therefore the finding remains and is included in the management report and the misstatement will be included in the summary of unadjusted audit differences.



COMAF 17: Expenses paid on Pro Forma Invoices**Audit finding**

Paragraph 65 (1) and 65 (2) (a) of the MFMA states that:

“(1) The accounting officer of a municipality is responsible for the management of the expenditure of the municipality. (2)(a) The accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds.”

Contrary to the above, during the execution stage of our audit, we identified the following expenses were paid on Pro Forma Invoices:

Invoice:	Description:	Pro forma Invoice Date:	Invoice Date:	Payment date:	Invoice amount INC VAT (R):
276	Salga Congress Entertainment Cost	11/04/2018	12/04/2018	11/04/2018	R13 200,00
99453962	Accommodation	20/07/2017	15/11/2017	04/08/2017	R2 375,00
					R15 575,00

The above matter does not affect expenditure as disclosed in the Annual Financial Statements and will be treated as an internal control matter.

Information on the pro forma invoice may differ from the valid tax invoice.

Internal control deficiency**Financial and performance management**

Management did not implement controls over daily and monthly processing and reconciling of transactions.

Payments for accommodation are done, in advance, on pro-forma invoices to insure that the bookings are made before the municipal employee books in.

Recommendation

Management should ensure that an original tax invoices from the supplier are received even after the booking was made and paid for in advance.

Management's response

Name: JD Neethling
Position: CFO
Date: 09/10/2018



<u>Management comment on the audit finding:</u>		
Management does not agree with the audit finding. Section 20 of the VAT act states the following: The particulars required on a full tax invoice: A fully compliant tax invoice envisaged in section 20 can now reflect either the words "Tax invoice", "VAT invoice" or "invoice". Also, although the words "Tax invoice" or "VAT invoice" or "invoice" do not have to appear in a prominent place, they must nevertheless appear on the document.		
<u>Management comment on the root cause identified within the audit finding:</u>		
N/A		
<u>Management comment on the recommendation:</u>		
N/A		
<u>Remedial action:</u>		
<u>What actions will be taken:</u>	<u>By whom:</u>	<u>By when:</u>
None.		
If the above findings affects an amount (s) disclosed in the financial statements:		
Please give an indication of whether the correcting journal entry shall be processed:		
If yes, please indicate the accounting entry:		
If no, please provide the reason why such a conclusion:		
Management does not agree with finding.		

Auditor's conclusion

Management comment noted, however the finding will be included in the management report as the finding relates to payments being made on pro forma invoices, which is not a valid tax invoice. The municipality should only make payments on the receipt of a valid tax invoice.

Predetermined objectives

COMAF 22: Inconsistent description of Indicator in the SDBIP and Performance Report

Audit finding

The Municipal Systems Act, 2000(Act No. 32 of 2000) par 41 (a) states:

"A municipality must in terms of its performance management system and in accordance with any regulations and guidelines that may be prescribed set appropriate key performance indicators as a yardstick for measuring performance, including outcomes and impact, with regard to the municipality's development priorities and objectives set out in its integrated development plan"

Chapter 3.2 of the FMPPI issued by the National Treasury states the following:

"Suitable indicators need to be specified to measure performance in relation to inputs, activities, outputs, outcomes and impacts"

"A good performance indicator should be well defined: the indicator needs to have a clear, unambiguous definition so that data will be collected consistently and be easy to understand and use".

The following inconsistency was detected in relation to the name and description of an indicator in planning documents and the performance report as detailed below:

SDBIP / IDP	Performance Report
TL21-Provision of sanitation services to properties which are connected to the municipal waste water (sanitation/sewerage) network & are billed for sewerage service, irrespective of the number of water closets (toilets)	TL21-Provide sanitation services to households that meets sanitation standards
TL34-Limit water losses to not more than 15% {(Number of Kiloliters Water Purchased or Purified - Number of Kiloliters Water Sold) / Number of Kiloliters Water Purchased or Purified × 100}	TL34-Limit water losses to not more than 16% {(Number of Kiloliters Water Purchased or Purified - Number of Kiloliters Water Sold) / Number of Kiloliters Water Purchased or Purified × 100}

The inconsistency with regards to the description of the indicator in the IDP, SDBIP and Performance Report will be misleading to the users of performance information.

Internal control deficiency

Financial and Performance Management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.



There was no adequate review of the performance information to ensure that planned and reported information is consistent throughout the IDP, SDBIP and Performance Report.

Recommendation

Management should in future ensure that adequate reviews of accuracy and consistency of the performance information presented in the IDP, SDBIP and Performance Report.

Management’s response

Name: Anneleen Vorster
 Position: Manager: Corporate and Community Services
 Date: 18/10/2018

<u>Management comment on the audit finding:</u> Management concur with the finding		
<u>Management comment on the root cause identified within the audit finding:</u> Capacity constraints		
<u>Management comment on the recommendation:</u> Management concur with the recommendation		
<u>Remedial action:</u>		
<u>What actions will be taken:</u> .The performance report will be adjusted accordingly before submission to Council and inclusion in the Annual Report. Alignment oversight will be undertaken when compiling the performance report	<u>By whom:</u> A Vorster	<u>By when:</u> 30 October 2018 and August 2019
If the above findings affects an amount (s) disclosed in the financial statements:		
Please give an indication of whether the correcting journal entry shall be processed:		
If yes, please indicate the accounting entry:		
If no, please provide the reason why such a conclusion:		

Auditor’s conclusion

Management comment noted. The adjusted annual performance report has been received and inspected and it was confirmed that the correction has been made. This finding will remain in the management letter.



COMAF 23: Inconsistent disclosures of Indicators in the IDP, SDBIP and Performance Report

Audit finding

The Municipal Systems Act, 2000(Act No. 32 of 2000) par 41 (a) states:

"A municipality must in terms of its performance management system and in accordance with any regulations and guidelines that may be prescribed set appropriate key performance indicators as a yardstick for measuring performance, including outcomes and impact, with regard to the municipality's development priorities and objectives set out in its integrated development plan"

The Municipal Finance Management Act, 2003 (Act No. 56 of 2003) sec 53 (1)(b) and 53(1)(c)(ii) states:

"The mayor of a municipality must co-ordinate the annual revision of the integrated development plan in terms of section 34 of Municipal Systems Act and the preparation of the annual budget, and determine how the integrated development plan is to be taken into account or revised for the purposes of the budget and [(c)(ii)] take all reasonable steps to ensure that the municipality service delivery and budget implementation plan is approved by the mayor within 28 days after approval of the budget".

The following inconsistencies were noted with regard to the planned indicator targets disclosed under the SDBIP and the Draft Performance Report as detailed below:

Indicator	SDBIP –Planned Target	Performance Report-Planned Target
[TL19] Provision of clean piped water to formal residential properties which are connected to the municipal water infrastructure network.	2,554	2,485
[TL21] Provision of sanitation services to properties which are connected to the municipal waste water (sanitation/sewerage) network & are billed for sewerage service, irrespective of the number of water closets (toilets)	2,416	2,370

The inconsistency of the information reported in the SDBIP and Performance Report might be misleading to the users of performance information.

Internal control deficiency

Financial and Performance Management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

There was no adequate review of the performance information to ensure that reported information is consistent throughout the SDBIP and Performance Report.

Recommendation

Management should in future ensure that adequate reviews of accuracy and consistency of the performance information presented in the SDBIP and Performance Report. The performance report should agree to the SDBIP.

Management's response

Name: Anneleen Vorster
 Position: Manager: Corporate and Community Services
 Date: 18/10/2018

<u>Management comment on the audit finding:</u> Management concurs with finding		
<u>Management comment on the root cause identified within the audit finding:</u> This was an administrative oversight in compiling the performance report		
<u>Management comment on the recommendation:</u> Management concurs with the recommendation		
<u>Remedial action:</u>		
<u>What actions will be taken:</u> Necessary changes will be made to the final Annual Report before submission to Council and public participation	<u>By whom:</u> A Vorster	<u>By when:</u> 30 October 2018
If the above findings affects an amount (s) disclosed in the financial statements:		
Please give an indication of whether the correcting journal entry shall be processed:		
If yes, please indicate the accounting entry:		
If no, please provide the reason why such a conclusion:		

Auditor's conclusion

Management comment noted. The adjusted annual performance report has been received and inspected and it was confirmed that the correction has been made. This finding will remain in the management letter.



COMAF 24: Misstatement on Reported Performance

Audit finding

MFMA par 121 (a) states:

“Preparation and adoption of annual reports.—(1) Every municipality and every municipal entity must for each financial year prepare an annual report in accordance with this Chapter. The council of a municipality must within nine months after the end of a financial year deal with the annual report of the municipality and of any municipal entity under the municipality’s sole or shared control in accordance with section 129”

MSA par 45 (1) (b) states:

“Audit of performance measurements.— the results of performance measurements in terms of section 41 (1) (c) must be audited annually by the Auditor-General.”

MSA par 46 (1) (a) states:

“Annual performance reports.—(1) A municipality must prepare for each financial year a performance report reflecting— (a) the performance of the municipality and of each external service provider during that financial year”

The following misstatement was noted during the audit of the predetermined objectives and the reported results in the Performance Report as detailed below:

Indicator	Actual Reported	Auditor's Recalculation	Issue
[TL15]- Number of Residential account holders connected to the municipal electrical infrastructure network (credit and prepaid electrical metering)	2589	2559	Included in the population of residential holders connected to the electrical infrastructure network is prepaid meters and credit meters. Business connections should be excluded from prepaid holder’s population for the purposes of the measurement of performance indicator and were included in the population erroneously.

The incorrect reporting of indicators can result in misleading the users of performance information.

This misstatement is 1.16% of the actual reported and therefore not material.

Internal control deficiency

Financial and Performance Management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.



Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

There was no adequate review of the performance information to ensure that planned and reported information is accurate in the Performance Report.

Recommendation

Management should in future ensure that adequate reviews are done relating to the accuracy and consistency of the performance information disclosed in the Performance Report.

Management's response

Name: Anneleen Vorster
 Position: Manager: Corporate and Community Services
 Date: 18/10/2018

<u>Management comment on the audit finding:</u> Management concurs with finding		
<u>Management comment on the root cause identified within the audit finding:</u> Lack of buy-in in performance management by all departments		
<u>Management comment on the recommendation:</u> Management concurs with recommendation		
<u>Remedial action:</u>		
<u>What actions will be taken:</u> . The SOP and POE will be adjusted and the necessary changes made to the Annual Report tabled to council before public participation	<u>By whom:</u> A Vorster	<u>By when:</u> 30/10/2018
If the above findings affects an amount (s) disclosed in the financial statements:		
Please give an indication of whether the correcting journal entry shall be processed:		
If yes, please indicate the accounting entry:		
If no, please provide the reason why such a conclusion:		

Auditor's conclusion

Management comment noted. The adjusted annual performance report has been received and inspected and it was confirmed that the correction has been made. This finding will remain in the management letter.

COMAF 25: Misstatement on Reported Performance

Audit finding

MFMA par 121 (a) states:

“Preparation and adoption of annual reports.—(1) Every municipality and every municipal entity must for each financial year prepare an annual report in accordance with this Chapter. The council of a municipality must within nine months after the end of a financial year deal with the annual report of the municipality and of any municipal entity under the municipality’s sole or shared control in accordance with section 129”

MSA par 45 (1) (b) states:

“Audit of performance measurements.— the results of performance measurements in terms of section 41 (1) (c) must be audited annually by the Auditor-General.”

MSA par 46 (1) (a) states:

“Annual performance reports.—(1) A municipality must prepare for each financial year a performance report reflecting— (a) the performance of the municipality and of each external service provider during that financial year”

The following misstatement was noted during the audit of the predetermined objectives and the reported results in the Performance Report as detailed below:

Indicator	Actual Reported	Auditor's Recalculation	Issue
[TL21]- Provision of sanitation services to properties which are connected to the municipal waste water (sanitation/sewerage) network & are billed for sewerage service, irrespective of the number of water closets (toilets)	2411	2681	The reported population in the performance report did not agree to the population per the supporting documentation (B480 Report). Please note this is only incorrectly stated on page 79 of the annual performance report.

The incorrect reporting of indicators can result in the misleading of the users of performance information.

Internal control deficiency

Financial and Performance Management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information



Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

There was no adequate review of the performance information to ensure that planned and reported information is accurate in the Performance Report.

Recommendation

Name: Anneleen Vorster
 Position: Manager: Corporate and Community Services
 Date: 18/10/2018

<u>Management comment on the audit finding:</u> Management concurs with the finding		
<u>Management comment on the root cause identified within the audit finding:</u> This was due to an administrative oversight		
<u>Management comment on the recommendation:</u> Management concurs with the recommendation		
<u>Remedial action:</u>		
<u>What actions will be taken:</u> .Management will correct the misstatement on page 79 for inclusion of correct figures in the annual report to be tabled to Council	<u>By whom:</u> A Vorster	<u>By when:</u> 30/10/2018
<u>If the above findings affects an amount (s) disclosed in the financial statements:</u>		
<u>Please give an indication of whether the correcting journal entry shall be processed:</u>		
<u>If yes, please indicate the accounting entry:</u>		
<u>If no, please provide the reason why such a conclusion:</u>		

Auditor's conclusion

Management comment noted. The adjusted annual performance report has been received and inspected and it was confirmed that the correction has been made. This finding will remain in the management letter.

Procurement and Contract Management

COMAF 20: Procurement and contract management: Supplier used which is not on the CSD

Audit finding

In terms of section 16(a) of the supply chain regulations of 30 May 2005 states that:

“that quotations must be obtained from at least three different providers preferably from, but not limited to, providers whose names appear on the list of accredited prospective providers of the municipality or municipal entity, provided that if quotations are obtained from providers who are not listed, such providers must meet the listing criteria in the supply chain management policy required by regulation 14(1)(b) and (c):”

Contrary to the provision above, it was noted that the following supplier was not on the central supplier database, also through inspection of the municipality supply chain management policy that there is no listing requires if the supplier was not on the list:

Date:	Transaction number:	Beneficiary:	Amount (R):
09/04/2018	7445	CUSTOM BLINDS & AWNINGS	R1 490,00
11/05/2018	7599	CUSTOM BLINDS & AWNINGS	R1 490,00
24/04/2018	7514	CUSTOM BLINDS	R1 498,00
23/03/2018	7388	CUSTOM BLINDS & AWNINGS	R1 980,00
15/03/2018	7344	CUSTOM BLINDS	R2 247,00
15/03/2018	7344	CUSTOM BLINDS & AWNINGS	R3 745,00
07/09/2017	5026	Custom Blinds	R4 994,36
			R17 444,36

(a) Non-compliance with Supply Chain Regulation section 16 (a)

(b) Understatement of irregular expenditure in the annual financial statements.

The above misstatement is not material.

Internal control deficiency

Financial and Performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls

The municipality did not check the CSD, if the supplier was listed on the central supplier database before the goods was procured.

Recommendation

Management should ensure that the Central supplier database is inspected before award is accepted from a supplier.

Management's response

Name: JD Neethling
 Position: CFO
 Date: 16/10/2018

<u>Management comment on the audit finding:</u>		
Management agrees with the audit finding. A correction towards the Irregular expenditure disclosure will be performed by management.		
<u>Management comment on the root cause identified within the audit finding:</u>		
Noted.		
<u>Management comment on the recommendation:</u>		
Noted.		
<u>Remedial action:</u>		
<u>What actions will be taken:</u>	<u>By whom:</u>	<u>By when:</u>
Correction on Irregular note	PA Mun	17/10/2018
If the above findings affects an amount (s) disclosed in the financial statements:		
Please give an indication of whether the correcting journal entry shall be processed:		
If yes, please indicate the accounting entry:		
If no, please provide the reason why such a conclusion:		
A correction towards the balance of Irregular expenditure will be performed and will not be necessary for a correcting journal.		

Auditor's conclusion

Management comment noted. The adjusted financial statements have been received and inspected and it was confirmed that the correction has been adequately made in the financial statements. This finding will remain in the management letter.

COMAF 21: Completeness of Irregular expenditure

Audit finding

In terms of section 16 of the supply chain regulations of 30 May 2005 states that:

“(a) that quotations must be obtained from at least three different providers preferably from, but not limited to, providers whose names appear on the list of accredited prospective providers of the municipality or municipal entity, provided that if quotations are obtained from providers who are not listed, such providers must meet the listing criteria in the supply chain management policy required by regulation 14(1)(b) and (c):

(b) that, to the extent feasible, providers must be requested to submit such quotations in writing;

(c) that if it is not possible to obtain at least three quotations, the reasons must be recorded and reported quarterly to the accounting officer or another official designated by the accounting officer.”

Contrary to the provision above it was that during the council meeting held on the 6th June 2018 it was noted that the deviation relating to the SPAR purchases amounting to R4 406.99 (VAT inclusive) payment number 5795 approved by council as irregular expenditure, however not accounted for as Irregular expenditure in the financial statements.

- (a) Non-compliance with Supply Chain Regulation section 16 (a)
- (b) Understatement of irregular expenditure in the annual financial statements.
- (c) Overstatement of deviations as disclosed in the annual financial statements.

The above misstatement is not material.

Internal control deficiency

Financial and Performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.

Management did ensure that the irregular expenditure register are complete which was used to compile the annual financial statement.

Recommendation

Management should ensure that the irregular expenditure register are updated frequently to ensure that the register are complete.

Management's response

Name: JD Neethling
 Position: CFO
 Date: 17/10/2018

<u>Management comment on the audit finding:</u> Management agrees with audit finding.		
<u>Management comment on the root cause identified within the audit finding:</u> Noted.		
<u>Management comment on the recommendation:</u> Noted.		
<u>Remedial action:</u>		
<u>What actions will be taken:</u> Adjustment to the Irregular expenditure note.	<u>By whom:</u> PA Mun	<u>By when:</u> 17/10/2018
If the above findings affects an amount (s) disclosed in the financial statements:		
Please give an indication of whether the correcting journal entry shall be processed:		
If yes, please indicate the accounting entry:		
If no, please provide the reason why such a conclusion: No correction needed.		

Auditor's conclusion

Management comment noted. The adjusted financial statements have been received and inspected and it was confirmed that the correction has been adequately made in the financial statements. This finding will remain in the management letter.



COMAF 29: Deviations identified on local content**Audit finding**

In terms of section 8(2) of the Preferential Procurement Regulations of 2017 states that:

“An organ of state must, in the case of a designated sector, advertise the invitation to tender with a specific condition that only locally produced goods or locally manufactured goods, meeting the stipulated minimum threshold for local production and content will be considered”

Additionally in terms of section 8(5) of the Preferential Procurement Regulations of 2017 states that: *“A tender that fails to meet the minimum stipulated threshold for local production and content is an unacceptable tender”*

Contrary to the provision above, it was noted the following deviations was identified with the tender listed below:

- (a) The municipality did not specify the minimum threshold for local production and content which is not less than the threshold prescribed in the relevant NT Instruction Notes
- (b) The winning provider did not furnished the auditee with the declaration on local production and content.
- (c) Furthermore it could not be confirmed that the winning provider met the minimum threshold for local production and content

No	Item description:	Amount (R):
1	Conlog 143/2017 Prepaid meters	R66 471,63

(a) Possible understatement of irregular expenditure in the annual financial statements.

(b) Non-compliance with section 8(2) and (5) of the Preferential Procurement Regulations of 2017

The above deviations results in material non-compliance as included in COMAF 37.

Internal control deficiency**Financial and Performance management**

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.

The municipality did not insert the minimum threshold for local production and content in the bid specifications and did not ensure that the winning provider furnish the municipality with the declaration on local production and content.

Recommendation

Management should ensure that:

- (a) The municipality specify the minimum threshold for local production and content which is not less than the threshold prescribed in the relevant NT Instruction Notes.
- (b) That the winning provider did not furnish the municipality with the declaration on local production and content.

Management's response

Name: JD Neethling
 Position: CFO
 Date: 23/10/2018

Management comment on the audit finding:

Management does not agree with the audit finding and would like to respond as follows:

In our opinion, COMAF 29 and COMAF 30 relates to the same incident/root cause, and therefore we will give our comments on the two findings in a combined format. If possible, we request that the two findings also be combined in the draft management report, as we believe the two items are not isolated from each other.

Background information:

The AG is correct in stating that the Tender 122/2017, for prepaid meters, were replaced by another tender, tender 143/2017, with a reduced scope, but **still for electricity prepaid meters**.

Management comments:

During the year, as part of management action plans to ensure the control environment with regards to Supply Chain Management is sufficient, management has performed a full review of all quotations and tenders advertised for the year, to ensure compliance to SCM regulations.

As part of this review, it was established that the prepaid meters advertisement did not comply with the local content requirements (as correctly stated by the AG in both COMAFs 29 and COMAF 30).

However, when the irregular expenditure item was prepared for Council, management incorrectly included the details for Tender 122/2017, instead of tender 143/2017. This was clearly only due to human error, because of the fact that both items were for **electricity pre-paid meters**. Consequently, the disclosure on the financial statements (total amount only), refer to the total as per the Council resolution, which incorrectly include the higher amount of the original pre-paid tender.

As stated before, this is clearly an isolated incident (due to the cancellation of the first pre-paid tender). This is in our opinion an anomaly, and was not due to a break down in control. It was more oversight when the Council item was prepared, due to the similar items, as explained above.

We therefore do not agree that the finding as per COMAF 29 should be regarded as a material non-compliance, as we do have an effective internal control environment, and this was in isolated incident, which can be explained if you take the background information into account – clearly this is anomaly and not representative of the whole population.

<u>Management comment on the root cause identified within the audit finding:</u> Noted.		
<u>Management comment on the recommendation:</u> Noted.		
<u>Remedial action:</u>		
<u>What actions will be taken:</u>	<u>By whom:</u>	<u>By when:</u>
Adjustment to the irregular expenditure note. A decrease in Irregular expenditure as per COMAF 30 finding and an increase as per COMAF 29 finding.	PAMUN	24/10/2018
If the above findings affects an amount (s) disclosed in the financial statements:		
Please give an indication of whether the correcting journal entry shall be processed:		
If yes, please indicate the accounting entry:		
If no, please provide the reason why such a conclusion: No journal entry needed as a note only will be amended.		

Auditor's conclusion

Management comment noted. The adjusted financial statements have been received and inspected and it was confirmed that the correction has been adequately made in the financial statements. This finding will remain in the management letter.

The material non-compliance is as a result of the total local content procurement with reference to COMAF 37 in this management report, and therefore will remain as reported.

COMAF 30: Deviations identified on irregular expenditure**Audit finding**

In terms of section 8(2) of the Preferential Procurement Regulations of 2017 states that:

“An organ of state must, in the case of a designated sector, advertise the invitation to tender with a specific condition that only locally produced goods or locally manufactured goods, meeting the stipulated minimum threshold for local production and content will be considered”

Additionally in terms of section 8(5) of the Preferential Procurement Regulations of 2017 states that: *“A tender that fails to meet the minimum stipulated threshold for local production and content is an unacceptable tender”*

Contrary to the provision above, it was noted the following tender was disclosed under the irregular expenditure for not meeting the conditions for local production and content, however the request for quotations was not completed as there was no funds available for the procurement of prepaid meters and should not have been disclosed as irregular expenditure:

No	Item description:	Amount (R):
1	C25 Trading - 122/2017 Prepaid Electricity meters	R199 920,00

Possible overstatement of irregular expenditure in the annual financial statements.

The above misstatement is not material.

Internal control deficiency**Financial and Performance management**

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.

The municipality did not review the schedule for irregular expenditure before it was disclosed in the annual financial statements.

Recommendation

Management should ensure that: that the schedule for irregular expenditure is reviewed before it is disclosed in the annual financial statements.

Management's response

Management comment on the audit finding:

Management does not agree with the audit finding and would like to respond as follows:

In our opinion, COMAF 29 and COMAF 30 relates to the same incident/root cause, and therefore we will give our comments on the two findings in a combined format. If possible, we request that the two findings also be combined in the draft management report, as we believe the two items are not isolated from each other.

Background information:

The AG is correct in stating that the Tender 122/2017, for prepaid meters, were replaced by another tender, tender 143/2017, with a reduced scope, but **still for electricity prepaid meters**.

Management comments:

During the year, as part of management action plans to ensure the control environment with regards to Supply Chain Management is sufficient, management has performed a full review of all quotations and tenders advertised for the year, to ensure compliance to SCM regulations.

As part of this review, it was established that the prepaid meters advertisement did not comply with the local content requirements (as correctly stated by the AG in both COMAFs 29 and COMAF 30).

However, when the irregular expenditure item was prepared for Council, management incorrectly included the details for Tender 122/2017, instead of tender 143/2017. This was clearly only due to human error, because of the fact that both items were for **electricity pre-paid meters**. Consequently, the disclosure on the financial statements (total amount only), refer to the total as per the Council resolution, which incorrectly include the higher amount of the original pre-paid tender.

As stated before, this is clearly an isolated incident (due to the cancellation of the first pre-paid tender). This is in our opinion an anomaly, and was not due to a break down in control. It was more oversight when the Council item was prepared, due to the similar items, as explained above.

We therefore do not agree that the finding as per COMAF 29 should be regarded as a material non-compliance, as we do have an effective internal control environment, and this was in isolated incident, which can be explained if you take the background information into account – clearly this is anomaly and not representative of the whole population.

Management comment on the root cause identified within the audit finding:

Noted

Management comment on the recommendation:

Noted.

Remedial action:

What actions will be taken:

Amendment to the irregular expenditure note.

A decrease in Irregular expenditure as per COMAF 30 finding and an increase as per COMAF 29 finding.

By whom:

PAMUN

By when:

23/10/2018

If the above findings affects an amount (s) disclosed in the financial statements:



Please give an indication of whether the correcting journal entry shall be processed:		
If yes, please indicate the accounting entry:		
If no, please provide the reason why such a conclusion: No journal entry needed as a note only will be amended.		

Auditor’s conclusion

Management comment noted. The adjusted financial statements have been received and inspected and it was confirmed that the correction has been adequately made in the financial statements. This finding will remain in the management letter.

The material non-compliance is as a result of the total local content procurement with reference to COMAF 37 in this management report, and therefore will remain as reported.



Receivables

COMAF 32: Reversal of impairment on fines

Audit finding

62. General financial management functions.—

“(1) The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take

all reasonable steps to ensure—

- 1. that the resources of the municipality are used effectively, efficiently and economically*
- 2. that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards;*
- 3. that the municipality has and maintains effective, efficient and transparent systems—*
 - i. of financial and risk management and internal control; and*
 - ii. of internal audit operating in accordance with any prescribed norms and standards;”*

Contrary to the provision above, during the audit of receivables from non-exchange transactions it was noted that the reversal of impairment was processed against gross debtors and not provision of impairment. The incorrect processing of the reversal of impairment journals resulted in the following:

Description	Note 8 (R):	Note 33 (R):	Difference (R):
Movement in provision of impairment as per Note 8	R6 046 752,00	R5 858 837,00	R187 915,00

Description	Note 8 (R):	Client WP (R):	Difference (R):
Provision of impairment as per Note 8	R25 992 711,00	R25 804 681,00	R188 030,00

The above error does not affect note 33 as after the auditor’s recalculation the correct movement in the provision for impairment was disclosed and processed against statement of financial performance.

The error above results in a misstatement in note 8 between the fines and provision for Debt impairment.

1. Understatement of Gross fines as disclosed in note 8
2. Overstatement of provision for debt impairment relating to fines as per note 8

The above does not affect the total receivables from non-exchange transactions amounting to R1 435 797.

The above misstatement is not material.



Internal control deficiency

Financial and Performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.

Management did not ensure that the journals to be processed are correct are processed against the correct accounts.

Recommendation

Management should ensure that the journals are processed against the correct accounts.

Management's response

Name: JD Neethling
 Position: CFO
 Date: 24/10/2018

<u>Management comment on the audit finding:</u>		
Management agrees with the finding. A correcting journal between the impairment reversed and provided will be performed. It will have no effect on the statement of financial performance as well as the statements of financial position, but only to note 8.		
<u>Management comment on the root cause identified within the audit finding:</u>		
Noted.		
<u>Management comment on the recommendation:</u>		
Noted.		
<u>Remedial action:</u>		
<u>What actions will be taken:</u>	<u>By whom:</u>	<u>By when:</u>
Correcting journal	PAMUN	24/10/2018
If the above findings affects an amount (s) disclosed in the financial statements:		
Please give an indication of whether the correcting journal entry shall be processed:		
If yes, please indicate the accounting entry:		
Opgehoopte VoorS. Verkee rsboetes	010101014465004	188 030.00
Diverse Debiteure Vorige	010101014465002	-188 030.00
<u>Incorrectly classified as per COMAF 32</u>		
If no, please provide the reason why such a conclusion:		

Auditor's conclusion

Management comment noted. The adjusted financial statements have been received and inspected and it was confirmed that the correction has been adequately made in the financial statements. This finding will remain in the management letter.



Related parties

COMAF 27: Related Party- Non-disclosure

Audit finding

Grap 20 paragraph 27 states:

"Subject to exemptions in paragraph .32, if a reporting entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to those in paragraph .35 to disclose remuneration of management. At a minimum, disclosures shall include:

1. *The amount of the transactions;*
2. *The amount of outstanding balances, including commitments; and*
 - i. *Their terms and conditions, including whether they are secured, and the nature of the consideration to be provide in settlement; and*
 - ii. *Details of any guarantees given or received;*
3. *provisions for doubtful debts related to the amount of outstanding balances; and*
4. *the expense recognised during the period in respect of bad or doubtful debts due from related parties."*

Contrary to the above, during the execution stage of our audit, we identified that the below related party transaction was not included and disclosed in the related parties note to the financial statements.

Supplier:	Payment Number:	Amount (R):	Councilor who is a director in the company:
Prince Alert advice and development centre	4114	R1 700,00	Mr G Lottering Mayor
		R1 700,00	

Transactions between related parties have not been identified.

1. Increased risk of lack of management overseeing and checking that transactions have been captured correctly.
2. Disclosure omission in the Annual Financial Statements.

Internal control deficiency

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Leadership

Management did not exercise oversight responsibility in relation to financial and performance reporting as well as compliance with the Municipal Financial Management Act.



Recommendation

Management should ensure that the internal control deficiencies addressed above are implemented in order to ensure that all related party transactions are identified and disclosed as such in the financial statements.

Management's response

Name: JD Neethling
 Position: CFO
 Date: 17/10/2018

<u>Management comment on the audit finding:</u>		
Management agrees with the audit finding. The related party disclosure will be amended.		
<u>Management comment on the root cause identified within the audit finding:</u>		
Noted.		
<u>Management comment on the recommendation:</u>		
Noted.		
<u>Remedial action:</u>		
<u>What actions will be taken:</u>	<u>By whom:</u>	<u>By when:</u>
Correction on the related party disclosure	PA Mun	17/10/2018
If the above findings affects an amount (s) disclosed in the financial statements:		
Please give an indication of whether the correcting journal entry shall be processed:		
If yes, please indicate the accounting entry:		
If no, please provide the reason why such a conclusion: No journal entry needed. Only a disclosure note amendment.		

Auditor's conclusion

Management comment noted. The adjusted financial statements have been received and inspected and it was confirmed that the correction has been adequately made in the financial statements. This finding will remain in the management letter.



Revenue

COMAF 12: Pre-Paid Electricity recorded in the incorrect period

Audit finding

Section 6.3 of the Implementation of Standards of GRAP 12 Jul 2011, Frequently Asked Questions on the Standards of GRAP issued by the Accounting Standards Board states that”

“When should revenue be recognised for the sale of pre-paid electricity?”

The sale of electricity constitutes a sale of goods. GRAP 9.29 states that revenue from the sale of goods should be recognised when:

- 1. the entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;*
- 2. the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;*
- 3. the amount of revenue can be measured reliably;*
- 4. it is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and*
- 5. the costs incurred or to be incurred in respect of the transaction can be measured reliably.*

In the case of prepaid electricity, the significant risks and rewards of ownership only transfer to the consumer at the time of consumption of the electricity. Consequently, the revenue received from prepaid electricity sales should be deferred and recognised as revenue on the consumption basis, commencing on the date of purchase. The consumption of pre-paid electricity is determined by using actual consumption information (if available) or, consumption is measured using a trend analysis and other historical data about electricity usage, including how often an electricity card is purchased or additional units of electricity loaded onto a pre-paid card.

During the audit of Pre-paid electricity it was identified that pre-paid electricity sales from H Peidt and National Garage are only recorded upon the deposit of the daily sales which occurs on a Monday, Wednesday and Friday. Thus it was identified that the revenue from pre-paid electricity sales was not recognized as revenue on the consumption basis, commencing on the date of purchase.

The above resulted in the recognition of revenue from pre-paid electricity in the incorrect accounting period. As commission of 5% are paid to H Peidt and National Garage it resulted in commission expenses also recorded in the incorrect accounting period for the following transactions:

1. Through inspection of the register for H Peidt for the month of July 2017 it was noted that the following transactions relates to the 2016/2017 FY:

Date	Date paid	Amount (R):	Receipt	Commission (R):
30/06/2017	03/07/2017	R7 545,00	01139419	R377,25
		<u>R7 545,00</u>		<u>R377,25</u>

2. Through inspection of the register for National Garage for the month of July 2017 it was noted that the following transactions relates to the 2016/2017 FY:

Date	Date paid	Amount (R):	Receipt	Commission (R):
30/06/2017	03/07/2017	R9 240,00	01139418	R462,00
R9 240,00			R462,00	

3. Through inspection of the register for H Peidt for the month of July 2018 it was noted that the following transactions relates to the 2017/2018 FY:

Date	Date paid	Amount (R):	Receipt	Commission (R):
29/06/2018	02/07/2018	R5 595,00	01161371	R279,75
30/06/2018	02/07/2018	R2 665,00	01161371	R133,25
R8 260,00			R413,00	

4. Through inspection of the register for National garage for the month of July 2018 it was noted that the following transactions relates to the 2017/2018 FY:

Date	Date paid	Amount	Receipt	Commission
29/06/2018	02/07/2018	R22 875,00	01161353	R1 143,75
30/06/2018	02/07/2018	R40 275,00	01161353	R2 013,75
R63 150,00			R3 157,50	

The above instances will not be extrapolated as the full year's pre – paid electricity sales registers were inspected.

1. The impact of the above for transactions recorded in the 2017/2018 FY relating to the 2016/2017 FY is as follows:

- Overstatement of Pre – paid electricity revenue amounting to R16 785,00 and Commission expense amounting to R839,25

2. The impact of the above for transactions recorded in the 2018/2019 FY relating to the 2017/2018 FY is as follows:

- Understatement of Pre – paid electricity revenue amounting to R71 410,00 and Commission expense amounting to R3 570,50

The net effect of the above is understatement of pre – paid electricity revenue amounting to R54 625,00 and understatement of Commission expense amounting to R2 731,25.

The above misstatement is not material however above trivial threshold. The above errors are factual and will not be extrapolated as pre – paid electricity registers were inspected for the whole year which includes the total pre – paid electricity sales.

Internal control deficiency

Financial and Performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.



Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.

Pre – paid electricity are not recognized as revenue on the consumption basis, commencing on the date of purchase.

Management did not familiar themselves with the FAQ’s issued by the Accounting Standards Board.

Recommendation

Management should ensure that Pre – paid electricity are recognized as revenue on the consumption basis, commencing on the date of purchase and commission expense are accrued for at year end for the pre-paid electricity sold at year end however not yet deposited.

Management’s response

Name: JD Neethling
 Position: CFO
 Date: 09/10/2018

<u>Management comment on the audit finding:</u>		
Management agrees with audit finding and will be corrected in the future. No adjustments will be made in the current financial year.		
<u>Management comment on the root cause identified within the audit finding:</u>		
Noted.		
<u>Management comment on the recommendation:</u>		
Noted.		
<u>Remedial action:</u>		
<u>What actions will be taken:</u>	<u>By whom:</u>	<u>By when:</u>
None.		
<u>If the above findings affects an amount (s) disclosed in the financial statements:</u>		
<u>Please give an indication of whether the correcting journal entry shall be processed:</u>		
<u>If yes, please indicate the accounting entry:</u>		
<u>If no, please provide the reason why such a conclusion:</u>		
Finding not material.		



Auditor's conclusion

Management comment noted. Management is in agreement with the finding and no corrections will be made, therefore the finding will remain and be reported on and the misstatement will be included in the summary of unadjusted audit differences.



COMAF 13: Unused used units of pre-paid electricity not deferred at year end**Audit finding**

Section 6.3 of the Implementation of Standards of GRAP 12 Jul 2011, FAQ's on the Standards of GRAP issued by the Accounting Standards Board states that"

"When should revenue be recognised for the sale of pre-paid electricity?

The sale of electricity constitutes a sale of goods. GRAP 9.29 states that revenue from the sale of goods should be recognised when:

- 1. the entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;*
- 2. the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;*
- 3. the amount of revenue can be measured reliably;*
- 4. it is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and*
- 5. the costs incurred or to be incurred in respect of the transaction can be measured reliably.*

In the case of prepaid electricity, the significant risks and rewards of ownership only transfer to the consumer at the time of consumption of the electricity. Consequently, the revenue received from prepaid electricity sales should be deferred and recognized as revenue on the consumption basis, commencing on the date of purchase. The consumption of pre-paid electricity is determined by using actual consumption information (if available) or, consumption is measured using a trend analysis and other historical data about electricity usage, including how often an electricity card is purchased or additional units of electricity loaded onto a pre-paid card.

Revenue from pre-paid electricity can only be recognised on a cash basis if a municipality can demonstrate that it is unable to make a reliable estimate of revenue using the methods described in the preceding paragraph or using other accrual based measures. Municipalities should however be able to demonstrate that they have made every reasonable effort to gather appropriate information to enable the recognition of revenue from pre-paid electricity based on consumption by users."

During the audit of Pre-paid electricity it was identified that revenue received from pre - paid electricity sales should be deferred and recognised as revenue on the consumption basis, commencing on the date of purchase.

The following calculation was performed by the auditors to determine the value of unused units at 30 June 2018 to determine the amount of pre - paid electricity sales to be deferred.

				Units	Unit Val	Cost/ unit
				4,005,827.70	R6 557 859,55	R1,6371
Calculation of average units per month excluding June						
Total units sold for June 2018					393,383.70	
Less: Average use for 11 months = Total units for 11 months / 11 months					(364,166.15)	
Excess units sold deemed not to be used 30/06/18					29,217.55	
Value of unused units at 30/06/2018					R47 831,45	

1. Overstatement of pre - paid electricity revenue amounting to R47 831,45
2. Understatement of Income received in advance creditor amounting to R47 831,45

The above misstatement is not material.

Internal control deficiency

Financial and Performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Leadership

Management did not exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.

Pre – paid electricity are not deferred and recognized as revenue on the consumption basis, commencing on the date of purchase.

Management did not familiar themselves with the FAQ's issued by the Accounting Standards Board.

Recommendation

Management should ensure that Pre – paid electricity are recognized as revenue on the consumption basis, commencing on the date of purchase. The revenue recognized from the unused pre - paid revenue sold at year end should be deferred and accounted for as income received in advance.

Management's response

Name: JD Neethling
 Position: CFO
 Date: 09/10/2018

<p><u>Management comment on the audit finding:</u></p> <p>Management does not agree with the audit finding. Management cannot quantify the calculation used by the auditor.</p>
<p><u>Management comment on the root cause identified within the audit finding:</u></p> <p>Does not agree.</p>
<p><u>Management comment on the recommendation:</u></p> <p>Does not agree.</p>
<p><u>Remedial action:</u></p>



<u>What actions will be taken:</u>	<u>By whom:</u>	<u>By when:</u>
None. Management would like to discuss further with auditor.		
If the above findings affects an amount (s) disclosed in the financial statements:		
Please give an indication of whether the correcting journal entry shall be processed:		
If yes, please indicate the accounting entry:		
If no, please provide the reason why such a conclusion:		

Auditor’s conclusion

Management comment noted. If management does not agree with the auditor’s calculation, management needs to perform the calculation to arrive at the misstatement, therefore the finding will remain and be reported on and the misstatement will be included in the summary of unadjusted audit differences.



ANNEXURE C: ADMINISTRATIVE MATTERS

None



Annexure D: Performance management and reporting framework

The Performance Management and Reporting Framework (PMRF) consists of the following:

- Legislation applicable to performance planning, management and reporting, which includes the following:
 - Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA)
 - Municipal Systems Act (Act No. 32 of 2000)
 - *Regulations for planning and performance management*, 2001, issued in terms of the Municipal Systems Act.
 - *Municipal performance regulations for municipal managers and managers directly accountable to municipal managers*, 2006, issued in terms of the Municipal Systems Act.
- The Framework for Managing Programme Performance Information (FMPPI), issued by the National Treasury. This framework is applicable to all spheres of government, excluding parliament and provincial legislatures.
- Circulars and guidance issued by the National Treasury regarding the planning, management, monitoring and reporting of performance against predetermined objectives.

Annexure D – Criteria developed from the performance management and reporting framework

Criteria	References to PMRF per institution
	Municipalities
<i>Consistency: Objectives, performance indicators and targets are consistent between planning and reporting documents.</i>	
1. Reported strategic or development objectives are consistent or complete when compared to planned objectives.	Section 121(3)(f) of the MFMA Section 41 (a) - (c) & 46 of the MSA
2. Changes to strategic or development objectives are approved	Section 25(2) of the MSA
3. Reported indicators are consistent or complete when compared to planned indicators	Section 121(3)(f) of the MFMA Section 41 (a) - (c) & 46 of the MSA
4. Changes to indicators are approved	Section 25(2) of the MSA
5. Reported targets are consistent or complete compared to planned targets	Section 121(3)(f) of the MFMA Section 41 (a) - (c) & 46 of the MSA
6. Changes to targets are approved	Section 25(2) of the MSA
7. Reported achievements are consistent with the planned and reported indicator and target	Section 121(3)(f) of the MFMA
<i>Measurability: Performance indicators are well defined and verifiable, and targets are specific, measurable and time bound.</i>	



Criteria	References to PMRF per institution
	Municipalities
1. A performance indicator is well defined when it has a clear, unambiguous definition so that data will be collected consistently and is easy to understand and use.	Chapter 3.2 of the FMPPI
2. A performance indicator is verifiable when it is possible to validate or verify the processes and systems that produce the indicator.	Chapter 3.2 of the FMPPI
3. A target is specific when the nature and required level of performance of the target is clearly identifiable.	Chapter 3.3 of the FMPPI
4. A target is measurable when the required performance can be measured.	Chapter 3.3 of the FMPPI
5. A target is time bound when the timeframes for achievement of targets are indicated.	Chapter 3.3 of the FMPPI
Relevance: Performance indicators relate logically and directly to an aspect of the institution's mandate and the realisation of its strategic goals and objectives.	
1. The performance indicator and target relates logically and directly to an aspect of the institution's mandate and the realisation of its strategic goals and objectives.	Chapter 3.2 of the FMPPI
Presentation and disclosure: Performance information in the annual performance report are presented and disclosed in accordance with the requirements contained in the legislation, frameworks, circulars and guidance.	
1. Actual performance compared to planned targets and prior year performance is disclosed in the annual performance report	Section 46 of the MSA
2. Measures taken to improve performance are disclosed in the annual performance report	Section 46 of the MSA
3. Measures taken to improve performance are corroborated with audit evidence	Section 46 of the MSA
Reliability: Recording, measuring, collating, preparing and presenting information on actual performance achievements is valid, accurate and complete.	



Criteria	References to PMRF per institution
	Municipalities
1. Reported performance occurred and pertains to the reporting entity.	Section 45 of the MSA Chapter 5 of the FMPP
2. Amounts, numbers and other data relating to reported performance is recorded and reported correctly.	
3. All actual performance that should have been recorded is included in the reported performance information.	



Annexure E: Auditor-general's responsibility for the audit of the reported performance information

1. As part of my engagement conducted in accordance with ISAE 3000, I exercise professional judgement and maintain professional scepticism throughout my reasonable assurance engagement on reported performance information for selected objectives.
2. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

Quality control relating to assurance engagements

3. In accordance with the International Standard on Quality Control 1, the Auditor-General of South Africa maintains a comprehensive system of quality control that includes documented policies and procedures on compliance with ethical requirements and professional standards.

Reported performance information

4. In addition to my responsibility for the assurance engagement on reported performance information as described in the auditor's report, I also:
 - identify and assess risks of material misstatement of the reported performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. In making those risk assessments, I consider internal control relevant to the management and reporting of performance information per selected objective in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control.
 - evaluate the documentation maintained by the municipality that supports the generation, collation, aggregation, monitoring and reporting of performance indicators/measures and their related targets for the selected objectives.
 - evaluate and test the usefulness of planned and reported performance information, including presentation in the annual performance report, its consistency with the approved performance planning documents of the municipality and whether the indicators and related targets were measurable and relevant.
 - evaluate and test the reliability of information on performance achievement to determine whether it is valid, accurate and complete.

Communication with those charged with governance




5. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, related safeguards.




Annexure F: Assessment of internal controls
















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.

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.

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
Leadership						
Overall movement from previous assessment						
<ul style="list-style-type: none"> 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 						
<ul style="list-style-type: none"> Exercise oversight responsibility regarding financial and performance reporting and 						

	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
compliance as well as related internal controls						
<ul style="list-style-type: none"> Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored 						
<ul style="list-style-type: none"> Establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities 						
<ul style="list-style-type: none"> Develop and monitor the implementation of action plans to address internal control deficiencies 						
<ul style="list-style-type: none"> Establish and implement an information technology governance framework that supports and enables the business, delivers value and improves performance 						
Financial and performance management						
Overall movement from previous assessment						
<ul style="list-style-type: none"> 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 						
<ul style="list-style-type: none"> Implement controls over daily and monthly processing and reconciling transactions 						
<ul style="list-style-type: none"> Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information 						
<ul style="list-style-type: none"> Review and monitor compliance with applicable legislation 						
<ul style="list-style-type: none"> Design and implement formal controls over information technology systems to ensure the reliability of the systems and the availability, accuracy and protection of information 						
Governance						



	Financial statements		Performance reporting		Compliance with legislation	
	Current year	Prior year	Current year	Prior year	Current year	Prior year
Overall movement from previous assessment	↔		↑		↔	
<ul style="list-style-type: none"> 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 						
<ul style="list-style-type: none"> Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively 						
<ul style="list-style-type: none"> 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 						