Part 2

of the

Finance, Governance and Economic Development Committee Meeting

(Agenda)
REPORT FROM THE ACTING MUNICIPAL MANAGER

PURPOSE OF THE REPORT

To request the Municipal Council to consider an application for a lease agreement for the Mayibuye Indebeo Agricultural Co-Operative – Ltd, Sedgefield in terms of the Asset Transfer Regulations, 2008.

BACKGROUND

The applicant Mayibuye Indebeo Agricultural Co-Operative – Ltd applied to lease a portion of the portion 148 of the farm 205 in Sedgefield (Sizamile location) from the Municipality (see Annexure A). The Co-operation is also in contact with various organisations regarding assistance for their venture. A response was sent to the chairperson of Mayibuye Indebeo Agricultural Co-Operative to inform them that the area they are referring to does belong to Knysna Municipality but that their application could not be considered at that time as the Municipality were currently busy with the Integrated Strategic Development Framework (ISDF).

DISCUSSION

The committee of Mayibuye Indebeo Agricultural Co-Operative – Ltd requested a meeting with officials from the Municipality to address their concerns. A meeting was held and the committee indicated the need for agricultural space where they can keep their cattle as they sometimes wander into the streets and cause traffic problems. It was also identified where the members of Mayibuye Indebeo Agricultural Co-Operative – Ltd are keeping their cattle. This is not acceptable as this is causing traffic and other hygiene problems.

Section 34 of the Asset Transfer Regulations 2008, deals with Granting of rights to use, control or manage municipal capital assets and reads as follows:

> Granting of rights to use, control or manage municipal capital assets

34. (1) A municipality may grant a right to use, control or manage a capital asset only after –
   (a) the accounting officer has in terms of regulation 35 conducted a public participation process regarding the proposed granting of the right; and
   (b) The municipal council has approved in principle that the right may be granted.

   (2) Subregulation (1) (a) must be complied with only if –
   (a) the capital asset in respect of which the proposed right is to be granted has a value in excess of R10 million; and
   (b) a long term right is proposed to be granted in respect of the capital asset.

   (3) (a) Only the Municipal council may authorise the public participation process referred to in subregulation (1)(a).
(b) A request to the municipal council for authorisation of a public participation process must be accompanied by an information statement stating –

(i) the reason for the proposal to grant a long term right to use, control or manage the relevant capital asset;
(ii) any expected benefits to the municipality that may result from the granting of the right;
(iii) any expected proceeds to be received by the municipality from the granting of the right; and
(iv) any expected gain or loss that will be realised or incurred by the municipality arising from the granting of the right.”

FINANCIAL IMPLICATIONS

There would be no negative financial impact on Knysna Municipality as the Agricultural Co-operative will be liable for erecting their own area for keeping their cattle. All other incidental costs will be for the account of Agricultural Co-operative.

RELEVANT LEGISLATION

Local Government: Municipal Finance Management Act, 2003;
Asset Transfer Regulations 2008;
Knysna Municipality’s Management of Immovable Property Policy.

RECOMMENDATION OF THE ACTING MUNICIPAL MANAGER

[a] That the report and annexures regarding the request for a lease agreement by Mayibuye Indyebo Agricultural Co-operative, Sedgefield, submitted to the Finance, Governance and Economic Development Committee meeting dated 6 April 2017, be noted;

[b] That the application for a lease agreement between Knysna and Mayibuye Indyebo Agricultural Co-operative be approved in principle;

[c] That the Director Technical Services provide inputs regarding the proposed extension of the current sewerage works plant in Sedgefield on a portion of Portion 148 of the Farm 205;

[d] That the Director Planning and Development provide inputs (from Environmental side) regarding the establishment of an area for the housing of cattle on the proposed site;

[e] That all owners of cattle in Sedgefield be included in the Co-operative mentioned in [a] above;

[f] That the proposed establishing of a farm for the cattle in Smutsville/Sizamile be advertised for comments, objections and representations;

[g] That the Acting Municipal Manager be instructed to conclude the lease agreement mentioned in [b] above.
APPENDIX / ADDENDUM

ANNEXURE A- Application for a lease agreement
ANNEXURE B – Letter from the Municipality to Mayibuye Indyebo Agricultural Co-operative

File Number: 9/1/2/14
Execution: Acting Municipal Manager
Manager: Administration
Date: 17 February 2014

Attention: Municipal Manager

We are a newly formed Agricultural Co-operative that farms with livestock specifically pigs in Sedgefield (Sizamile location). We started informally few years ago and yielded good returns in the form of meat to our friends and families. All members have strong farming upbringings. Most of them watched and learned from their elders as it is part of our culture.

We have now started a formal co-op, legal entity. We are in contact with SEDA which offer us great assistance with regards to the business world. We wait on the Department of Agriculture to provide us with a schedule of workshop. They are going to present to up and coming farmers of which all our farming members will attend. We have the assistance of a qualified Accountant that will oversee all our financial matters.

In brief that is our setup and plans, however we still face a problem in the form of suitable land to farm in the region. We have identified (see attached satellite image) vacant land taken of the behind of the sewerage plant and reason for our letter to you.

If it is municipality ground and no development plans are in the near future, would the municipality consider granting us the right to use the vacant land to further our establishment? We welcome you or any official for a visit of the land, should you want to view it, furthermore we are available at anytime should should you wish to have further talks in this regard.

Yours kindly,

Chairperson
26 August 2014

Chairperson
Mayibuye Indyebo Agricultural Co-operative Ltd
3323 Luthango Street
Sizamile
SEDGEFIELD
6577

Dear Sir,

REQUEST FOR SUITABLE LAND TO FARM - SIZAMILE

I refer to your letter regarding the above mentioned.

I want to wish you all the luck with your Co-operative and also want to thank you for wanting to do things according to all the related legislation. The area you identified, portion 148 of farm 205 does belong to Knysna Municipality.

Currently Council is busy with the Integrated Strategic Development Framework (ISDF), which will determine how Council can use Council land to the best of Council and the community at large. Your needs regarding land to farm in the Sedgefield/Smutsville/Sizamile region will be included in the ISDF.

If there are any queries regarding this matter, please contact Mr. Mario Bonthuys at 044 302 6370 or you can also make contact with Mr. Henie Smit who is the contact person regarding the ISDF on 044 302 1606.

Yours faithfully,

[Signature]
LAUREN WARING
MUNICIPAL MANAGER

Please address all correspondence to the Municipal Manager and quote the above reference
P O Box 21 • Knysna • 6570 • Tel: 044 302 6300 • Fax: 044 302 6333 • E-mail: knysna@knysna.gov.za
7.28

**FG28/04/17 ANTI-FRAUD AND CORRUPTION STRATEGY AND RESPONSE PLAN 2016/2017**

**REPORT FROM THE ACTING MUNICIPAL MANAGER**

**PURPOSE OF THE REPORT**

To table the reviewed Anti-Fraud and Corruption Strategy and Response Plan 2016-2017 for discussion and approval.

**BACKGROUND**


In order to ensure complete inclusion of Financial Misconduct related issues and to act as a central source for the identification and treatment of such instances the scope of the document has been increased to include:

- Anti-Fraud and Corruption Strategy and Fraud Response Plan 2008;
- Whistle Blowing Procedures 2008;
- Anti-Fraud Hotline 2014;
- Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings 2014

**DISCUSSION**

The original Anti-Fraud and Corruption Strategy and Fraud Response Plan was adopted by Council as item 8.3 at its meeting held on 11 December 2008 since then there have been significant changes in the municipality’s maturity and capacity as well as legislation relating to fraud and the prevention thereof. These include the establishment of the Municipal Public Accounts Committee (MPAC), introduction of the Anti-Fraud hot line and the promulgation of the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, therefore requiring a review.

**RELEVANT LEGISLATION**

Legal Framework Acts
- Local Government: Municipal Systems Act, No. 32 of 2000 (MSA)
- Local Government: Municipal Finance Management Act, No. 56 of 2003 (MFMA)
- Prevention and Combating of Corrupt Activities Act No 12 of 2004
- Prevention of Organized Crime Act No, 121 of 1998 (POCA)
- Protected Disclosures Act 26 of 2000 Financial Intelligence Centre Act, 38 of 2001 (FICA) Regulations
- Local Government: Municipal Finance Management Act, 2003;
- Municipal Supply Chain Management Regulations, No 868, 2005
- Municipal Regulations on Minimum Competency Levels, No. 493, 2007
- Municipal Asset Transfer Regulations, No. 878, 2008
Municipal Budget and Reporting Regulations, No. 393, 2009
Local Government: Local Government: Municipal Systems Act, 2000;
Local Government: Municipal Planning and Performance Management Regulations, No. 796, 2001
Municipal Performance Regulations for Municipal Managers and Managers Directly Accountable to Municipal Managers, No. 805, 2006
Regulations on appointment and conditions of employment of senior managers, No. 21, 2014.

RECOMMENDATION OF THE ACTING MUNICIPAL MANAGER

[a] That the Municipal Council resolution dated 11 December 2008, be revoked;

[b] That the amended Anti-Fraud and Corruption Strategy and Response Plan, attached as Annexure A to the item, be adopted.

APPENDIX / ADDENDUM

Anti-Fraud and Corruption Strategy and Response Plan.

File Number: 9/1/2/14
Execution: Acting Municipal Manager
Director: Financial Services
Anti-Fraud and Corruption Strategy and Response Plan

Incorporating previously approved:
Anti-Fraud and Corruption Strategy and Fraud Response Plan 2008;
Whistle Blowing Procedures 2008;
Anti-Fraud Hotline 2014;
Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings 2014

Review 2016/2017

Adopted by Resolution: __________
Dated: _______
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Preamble

As a councillor, employee, service provider or member of public you must at all times, act with honesty and integrity.

This document was previously known and approved as the Anti-Fraud and Corruption Strategy and Fraud Response Plan Council Resolution 8.3, 11 December 2008. In order to ensure complete inclusion of Financial Misconduct related issues and to act as a central source for the identification and treatment of such instances the scope of the document has been increased by including:
- Anti-Fraud and Corruption Strategy and Fraud Response Plan 2008;
- Whistle Blowing Procedures 2008;
- Anti-Fraud Hotline 2014;
- Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings 2014

After reading the Anti-Fraud Strategy and Response Plan an individual should have a working understand the following issues:
- Responsibilities
- Financial Misconduct
- Hot line
- Whistleblower
- Investigation Process
- Red Flags

Corporate Commitment and Fraud Prevention Culture

In furtherance of its strategic aims and objectives, Council strives to provide services which meet the requirements of its stakeholders in accordance with its core values. In conducting its business, it is committed to a zero tolerance towards any form of fraudulent practices ensuring that the opportunity for fraud and corruption is reduced to the lowest possible risk. Where there is a possibility of fraudulent practices, Council will deal with it in a firm and controlled manner.

Knysna municipality is committed to an effective financial misconduct strategy designed to:
- Promote standards of honest and fair conduct
- Prevent fraudulent practices
- Detect and investigate fraudulent practices
- Prosecute offenders
- Recover any losses
- Maintain strong systems of internal control

Suspect fraud or corruption?

As a councillor, employee, contractor, service provider, stakeholder or member of the public if you suspect that any fraudulent practices has taken or is taking place relating to the municipality you have a duty to inform the municipality. You can either do this directly the following platforms or via your manager.

| Ant-Fraud Hotline | 0800 21 47 64 |
**Preamble**

<table>
<thead>
<tr>
<th>KPMG Hotfax</th>
<th>0800 20 07 96</th>
</tr>
</thead>
<tbody>
<tr>
<td>KPMG Hotmail</td>
<td><a href="mailto:fraud@kpmg.co.za">fraud@kpmg.co.za</a></td>
</tr>
<tr>
<td>KPMG Post</td>
<td>KPMG Hotpots, at BNT 371, PO Box 14671, Sinoville 0129</td>
</tr>
</tbody>
</table>
## Definitions

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>All tangible and intangible items belonging to the municipality. Including but not limited to infrastructure, financial, heritage, intangible, equipment, tools, stationary, non-cash-generating, data, intellectual property</td>
</tr>
<tr>
<td>Bribery</td>
<td>Bribery involves the promise, offering or giving of a benefit that improperly affects the actions or decisions of a municipal employee, service provider, consultant, Councillor, committee member or any other individual functioning on behalf of the municipality.</td>
</tr>
<tr>
<td>Code of Conduct</td>
<td>A set of guidelines and expectations that are considered binding on any person who is employed by Knysna Municipality</td>
</tr>
<tr>
<td>Collusion</td>
<td>A conspiracy for fraudulent purposes in order to deceive others.</td>
</tr>
<tr>
<td>Concealment of material facts</td>
<td>Fraudulent failure to reveal information which an individual is aware of and that in good faith they should communicate.</td>
</tr>
<tr>
<td>Conflict of Interest</td>
<td>An undesirable situation in which an individual is in a position to receive personal benefit from actions or decisions made in their official capacity.</td>
</tr>
<tr>
<td>Conspiracy</td>
<td>A secret plan by a group to commit an unlawful act.</td>
</tr>
<tr>
<td>Corruption</td>
<td>Dishonest or fraudulent conduct by individuals in power.</td>
</tr>
<tr>
<td>Council</td>
<td>Knysna Local Municipality</td>
</tr>
<tr>
<td>Deception</td>
<td>An intentional act or statement intended to make people believe something that is not true</td>
</tr>
<tr>
<td>Embezzlement</td>
<td>The fraudulent conversion of assets from the municipality by a person who is in a position of trust.</td>
</tr>
<tr>
<td>Extortion</td>
<td>Obtaining something of value by the abuse of one's office or authority.</td>
</tr>
<tr>
<td>False Representation</td>
<td>An untrue representation willfully made to deceive another to their detriment.</td>
</tr>
<tr>
<td>Favoritism</td>
<td>Practice of giving an unfair preferential treatment to an individual or individuals at the expense of another's.</td>
</tr>
<tr>
<td>Financial Misconduct</td>
<td>Means any act of financial misconduct referred to in-</td>
</tr>
<tr>
<td></td>
<td>(a) section 171 of the Act committed by an official of a municipality;</td>
</tr>
<tr>
<td></td>
<td>(b) section 172 of the Act committed by an official of a municipal entity; (National Treasury, 2014)</td>
</tr>
<tr>
<td>Forgery</td>
<td>Falsifying or making or copying a document in order to deceive people</td>
</tr>
<tr>
<td>Fraud</td>
<td>In South Africa fraud is commonly defined as the unlawful and intentional making of a misrepresentation which causes actual prejudice or which is potentially prejudicial to another (CR Snyman). (National Treasury, 2015)</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
</tr>
<tr>
<td>-----------------------------</td>
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</tr>
<tr>
<td>Fraudulent Practice</td>
<td>The use of deception with the intention of obtaining an advantage, avoiding an obligation, or causing loss to the municipality. This most often occurs in the context of a relationship with a supplier, contractor, consumer, client, or colleague on an individual or organisational basis.</td>
</tr>
<tr>
<td>Fruitless and Wasteful Expenditure</td>
<td>Means expenditure that was made in vain and would have been avoided had reasonable care been exercised (National Treasury, 2003)</td>
</tr>
<tr>
<td>Hot Spot</td>
<td>Areas within the municipality where a high likelihood of potential fraudulent practices taking place exists.</td>
</tr>
<tr>
<td>Investigation Plan</td>
<td>Plan developed to investigate allegations of fraudulent practices either by Internal Audit or the individual appointed by the Municipal Manager.</td>
</tr>
<tr>
<td>Misappropriation</td>
<td>The fraudulent appropriation of funds or property entrusted to your care but actually owned by the municipality.</td>
</tr>
<tr>
<td>Nepotism</td>
<td>Refers to individuals who misuse their influence to unfairly favor a family member in any appointments, tenders or procurement processes relating to the municipality</td>
</tr>
<tr>
<td>Red Flags</td>
<td>A practice or activity that indicates the possible existence of fraud, corruption, unethical practice or some other form of financial mismanagement.</td>
</tr>
<tr>
<td>Theft</td>
<td>A criminal offence in which the property belonging to the municipality is taken without permission.</td>
</tr>
<tr>
<td>Whistleblower(s)</td>
<td>The term &quot;whistleblower&quot; or &quot;whistleblowers&quot; refers to a person or persons who provides information relating to a potential violation of an unlawful or immoral activity in the workplace.</td>
</tr>
</tbody>
</table>
Anti-Fraud and Corruption Strategy and Response Plan

Anti-Fraud and Corruption Strategy

Introduction

It is accepted that the majority of individuals involved with the municipality would not contemplate fraudulent practices, there are those however that will, especially if there is a perception that they can successfully get away with it. This can be addressed by being alert to the weaknesses and possibilities that they present and by implementing policies, procedures and effective controls to act as deterrents, monitoring and development and implementation of reporting tools.

The original Anti-Fraud and Corruption Strategy and Fraud Response Plan was adopted by Council as item 8.3 at its meeting held on 11 December 2008 since then there have been significant changes in the municipalities maturity and capacity as well as legislation relating to fraud and the prevention thereof. These include the establishment of the Municipal Public Accounts Committee (MPAC), introduction of the Anti-Fraud hot line and the promulgation of the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, therefore it has become necessary to review the document.

Knysna municipality is a large institution with the possibility of misconduct leading to financial losses taking place in all of its operational areas. Combined with its diverse range and nature of services and activities, place the municipality at risk of losses from both internal and external role-players.

Review Cycle

Unless required by changes in legislation, structures, frameworks, et cetera the Anti-Fraud and Corruption Strategy and Response Plan and related policy will be formally reviewed on a three year cycle.

Terminology and Definition

For the purposes of this document Fraudulent Practice is defined as the use of deception with the intention of obtaining an advantage, avoiding an obligation, or causing loss to the municipality. This most often occurs in the context of a relationship with a supplier, contractor, consumer, client, or colleague on an individual or organisational basis.

Fraudulent Practice is used as a generic term used to describe unacceptable acts such as;

- Bribery,
- Collusion
- Concealment of material facts,
- Conflict of Interest,
- Conspiracy,
- Corruption,
Anti-Fraud and Corruption Strategy

- Deception,
- Embezzlement,
- Extortion,
- False Representation,
- Favoritism,
- Forgery,
- Fraud,
- Fruitless and Wasteful Expenditure,
- Misappropriation,
- Nepotism,
- Overtime and allowances,
- Theft, resulting in any loss of or damage to finance related assets.

Fraud Enablers

Four basic enablers need to be in place for financial misconduct such as fraud to take place these are people, assets, intent and opportunity. Three of the enabler’s, people, assets and intent are largely outside of Councils continuous control therefore the primary focus to prevent financial misconduct should be around the prevention of opportunity.

Fraud Triangle

The Fraud Triangle is a visual representation of the three factors that need to be in place for fraud to be perpetrated. These are the Opportunity to commit the fraud, the Pressure/ Motive/ Incentive to commit the fraud and the Rationalisation required to motivate the act.

fraud this factor as stated above is within the control of the municipality. This is mainly mitigated by the development and implementation of policies, procedures and controls referred to as SOP (Standard Operation Procedures). The overriding or circumventing of these controls is therefore required for the fraud to be successful.

The other two factors are largely outside the municipalities control and are driven by the individual or groups motivations, circumstances, morals and ethics.

Where all three factors are present there is a significant probability that fraud will take place.

Opportunity

Fraud can only take place if the opportunity is present. Strong internal controls are the municipality’s first line of defense against fraud, internal control areas include:

- Standard operating procedures (SOP's).
- Council approved policies
- Segregation of functions.
- Effective management functions
- Ongoing monitoring
- Declaration of interests
- Verification procedures
- Approved organisational structured supported by appropriate job descriptions
- Security such as access control, passwords (IT)
- etc.
Pressure / Motive / Incentive

There are infinite pressures, motives and incentives that play a role in influencing an individual or group to commit fraud. They can be grouped in three different categories personal, work and external and have both financial and non-financial aspects and include some of the following:

<table>
<thead>
<tr>
<th>Financial</th>
<th>Work</th>
<th>External</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt burden</td>
<td>Perceived unfair compensation structure</td>
<td>National, provincial and regional economic downturns.</td>
</tr>
<tr>
<td>Addictions such as drugs, alcohol and gambling</td>
<td>Week financial structures and controls</td>
<td>Loss of income due to spouse losing employment</td>
</tr>
<tr>
<td>Paying for excessive lifestyle</td>
<td>Non-Financial</td>
<td>Children (University, Marriage, Medical, etc.)</td>
</tr>
<tr>
<td>Greed</td>
<td>Work frustration</td>
<td>Non-Financial</td>
</tr>
<tr>
<td>Non-Financial</td>
<td>Unfair treatment (could be perceived)</td>
<td>Image</td>
</tr>
<tr>
<td>Status</td>
<td>Fear of losing employment</td>
<td>Expectations/entitlement</td>
</tr>
<tr>
<td>Lack of discipline</td>
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</tbody>
</table>

Rationalisation

Rationalisation is the process the party committing the fraudulent act embarks on to persuade themselves that something they would otherwise know to be wrong is acceptable.

Here are some common rationalisations:

- **Borrowing (IOU)**
  I have a pressing financial need so I need to borrow some money till next payday and then I will pay it back.

- **Entitlement**
  I’ve worked hard for the organisation and I deserve it.

- **Blame Transference**
  The system is at fault I wouldn’t do it if the system prevented it.

- **Justification**
  Everybody else is doing it so why can’t I?
  Management gets away with, therefore they will never miss a smaller amount.

- **Public Sector Mentality**
  It’s no/every ones money, assets, time, grants etc. so I am just as entitled to it as everyone else.

- **Dishonest Employer**
  My employer is dishonest towards his/her customers so I am doing a good thing by stealing from him (Robin Hood)

- **Family**
  I had to steal to provide for my family

**Who are affected by Fraudulent Practices?**

As the service delivery sphere of government local government closet to the public and focused on the provision of services and housing to the previously disadvantaged any financial misconduct and resulting loss of resources directly impact on the poorest of the poor. In addition the negativity resulting from fraudulent practices is felt across all sectors and affects the reputation of the municipality in the municipal area, region,
province, country and internationally. This impacts directly on the Council revenue streams and business opportunities not only for itself but for the public at large.

The Association of Certified Fraud Examiners (ACFE) estimates that organisations worldwide lose as much as five percent of revenues to fraud (ACFE, 2015), to place that in a Knysna municipal context this could be as much as R 40 million based on the budget of R 800 million.

Legal Framework

The following legislations, policies, law enforcement role players, amongst others, deal with fraudulent practices.

Acts

Local Government: Municipal Systems Act, No. 32 of 2000 (MSA)
Local Government: Municipal Finance Management Act, No. 56 of 2003 (MFMA)
Local Government: Municipal Structures Act, No. 117 of 1998
Prevention and Combating of Corrupt Activities Act No 12 of 2004
Prevention of Organized Crime Act No, 121 of 1998 (POCA)
Protected Disclosures Act 26 of 2000
Financial Intelligence Centre Act, 38 of 2001 (FICA)

Regulations

Local Government: Municipal Finance Management Act, 2003;
- Municipal Supply Chain Management Regulations, No 868, 2005
- Municipal Regulations on Minimum Competency Levels, No. 493, 2007
- Municipal Asset Transfer Regulations, No. 878, 2008
- Municipal Budget and Reporting Regulations, No. 393, 2009

Local Government: Local Government: Municipal Systems Act, 2000;
- Municipal Performance Regulations for Municipal Managers and Managers Directly Accountable to Municipal Managers, No. 805, 2006
- Regulations on appointment and conditions of employment of senior managers, No. 21, 2014

Policies and Strategies

Nepotism Policy, 2001
Enforcement of the Land Use Planning Ordinance (Ordinance 15 of 1985) Policy, 2010
Records Management Policy, 2010
Telephone Usage Policy, 2010
Grant-in-Aid Policy, 2011
Delegation of Powers Policy, 2012
Risk Management Strategy, 2012
Risk Management Policy, 2012
Private Work Policy, 2012
Roles and Responsibilities Policy, 2012
Travel and Subsistence Policy, 2012
Recruitment and Selection Policy, 2012
Information Technology Policy, 2013
Immovable Property Management Policy, 2013
Overtime Policy, 2014
Budget Policy, 2016
Supply Chain Management Policy, 2016
Indigent Support and Social Rebate Policy, 2016
Asset Management Policy, 2016

Oversight, assurance and Law Enforcement Role Players

Council
Section 80 Committees
Management
Audit Committee
Municipal Public Accounts Committee (MPAC)
Internal Audit
Auditor General of South Africa (AGSA)
South African Revenue Services (SARS);
South African Police Service (SAPS);
Public Protector;
The National Prosecuting Authority (NPA);
Asset Forfeiture Unit;
Directorate for Priority Crime Investigations (DPCI);
National Intelligence Agency;
Special Investigation Unit;
Independent Complaints Directorate;
Various Committees established to conduct anti-corruption investigations

Prevention

Council Rules

A key aim of municipal policies, internal rules and standard operating procedures is to guard the municipality’s assets and interests against loss or damage as a result of fraudulent practices. Compliance with these rules is therefore regarded as a basic prerequisite in our Anti-Fraud and Corruption strategy. In order to remain effective these rules are regularly reviewed and updated where necessary.

Conduct

The municipality expects all individuals and organisations associated with it to conduct themselves in an honest and fair manner when dealing with Council.

Councillors

Councillors are required to operate within the internal rules and regulations of the Council. These include the requirement to declare at meetings and to register with the Municipal Manager potential areas of conflict between their Municipality duties and responsibilities and other areas of their personal and professional lives. Councillors are also required to operate within the various national statutes, including but not limited to the Municipal Systems Act and the Municipal Finance Management Act.
Employees

Council expects its employees to ensure that they are familiar with;
- Relevant legislation and regulations
- Council approved policies
- Council’s Code of Conduct
- Procedural Manuals relevant to their duties

Employees must comply with Council's policy regarding the receipt of any gifts or hospitality. They are recommended to err on the side of caution and if they are unsure as to what course of action they should take in such circumstances they should seek the advice of the Municipal Manager.

Employees should be aware that it is an offence for them to receive or give any gift, loan, fee, reward or advantage for doing, or not doing anything, or showing favor or disfavor, to any person in their official capacity. If any such allegation is made, then it is the responsibility of the employee to demonstrate that any such rewards have not been corruptly gained.

It is the responsibility of all staff to ensure that any password issued to them for use on any Council computer or telephone system is kept secure and confidential. It is the responsibility of the relevant systems administrator to ensure that passwords and access are set to the relevant level for the person involved.

Where employees are members of professional bodies, they are expected to comply with the standards of conduct relevant to that profession.

Council values its employees and considers that they have an important role to play. They are encouraged to report any concerns and provide information if they suspect any fraudulent practices are or did take place.

Where employees become aware of a weakness in the municipalities processes that might lead to fraudulent practices they must bring it to the attention of their manager or inform the Performance, Internal Audit and Risk Management Department.

Identification and Assessment of Vulnerable Areas

Identification
The Risk Management Committee should consider and identify the municipality's exposure to fraud risks considering the incentives, pressures, and opportunities to commit fraud, the risks of control overrides and the quantum of fraud risks. Fraud risks identified should be shared with Council and the Audit Committee.

Assessment
Assessing the likelihood and significance that each potential fraud risk places on the municipality is a subjective process and often leads to contention. All fraud risks are not equally likely, nor will all frauds have a significant impact on every directorate or department. The likelihood of potential frauds occurring for practical purposes can be grouped in one of three categories: remote, reasonably possible, and probable and all fraud related risks should be categorised accordingly.

Identified fraud risks need to be aligned to relevant current controls, certain residual risks will remain. The Risk Management Committee is to evaluate the potential
Anti-Fraud and Corruption Strategy

significance of those residual risks and decide on the nature and extent of the fraud preventive and detective controls and procedures required to address them.

**Vulnerable Areas**
At every level and in every function within the municipality there are vulnerable areas and these can and will change according to changing circumstances. However certain documents and process can be utilised to determine the key fraud prevention focus areas. These are the municipal Integrated Development Plan (IDP), Annual Financial Statements (AFS), Annual Report (AR), Risk Register, the Audit Committee approved Internal Audit Risk Based Audit Plan (RBAP) and the annual management report of the Auditor General. The following are highlighted as areas of focus:
- All financial related transactions with the following being the most noteworthy,
  - Accounting
  - Assets
  - Cash
  - Deposits
  - Expenditure (Orders, Vouchers, Cheques, Electronic Fund Transfers (EFT’s)
  - Insurance claims
  - Loans
  - Payroll
  - Prepaid electricity sales
  - Receipts
  - Revenue, (Billing, Tariffs, Valuations and debt write offs)
  - Taxes
- Asset Management
  - Acquisition
  - Maintenance
  - Replacement
- Contract Management
- Grants and donations, both received and granted,
- Human Resources,
  - Allowances
  - Leave
  - Overtime
  - Standby
- IT (Information Technology),
- Predetermined Objectives (PDO) / Performance,
- Supply Chain Management (SCM) / Procurement,

**Ownership**

Fraud and corruption prevention like any other risk is the responsibility of everyone in the municipality. The Accounting Officer delegates the ownership of fraud risk management to the directors and line managers however ultimate accountability remains with the Accounting Officer.

**Directors and Manager’s responsibilities**

All directors and managers are responsible for the detection, prevention and investigation of fraudulent practices within their area of responsibility.

Directors and managers are expected to ensure that all employees have access to Council’s policies, Code of Conduct and the relevant rules and regulations and operating procedures to ensure that they can execute their functions in the appropriate
and approved manner. Where insufficient capacity exits the relevant and suitable training must be provided.

If anyone breaches Council’s policies, Code of Conduct or the relevant rules and regulations or operating procedure, the Municipality may take formal action against them.

Directors and managers must ensure that suitable levels of internal check are present in working procedures, especially in regards to financial procedures. It is important that duties are organized so that no one person can carry out a complete transaction without some form of checking process being built into the system.

Recruitment

Employees must be appointed in accordance with the Council recruitment and selection policy procedures. Written references should be obtained and should include information regarding the honesty and integrity of potential staff. Actual evidence of key qualifications claimed by prospective employees and work permits (where appropriate) should also be obtained and checked.

Liaison with other organisations

Council will maintain and develop links with other organisations in its efforts to pursue its financial Anti-Fraud and Corruption strategy at regional, local and national level.

Reporting

Employees are obliged to report any suspected cases of fraudulent practices to the appropriate manager, director, or if necessary, directly to the Municipal Manager. Reporting cases in this way is essential to the fraudulent practices strategy as it ensures that;

- suspected cases of fraudulent practices are investigated properly;
- all cases are dealt with by a standard process; and
- the interests of individuals and the Council are safeguarded.

The process for reporting of financial misconduct issues is stipulated in the Financial Misconduct Regulation:\n
- If against Accounting Officer (MM), Chief Financial Officer (Director Financial Services) or senior manager (Directors) the matter must be reported to Council, Provincial and National Treasury.
- If against any other official the matter must be reported to the Municipal Manager
- The allegation must be submitted to the municipal council within seven days or at the next sitting of Council

Council recognises the dilemma faced by individuals who wish to report concerns that may indicate fraudulent practices. In view of this, it has established communication channels to facilitate the process. These are;

- an independently operated Ant-Fraud Hotline 0800 21 47 64
- alternatives provided under the
  - KPMG Hotfax – 0800 20 07 96
  - KPMG Hotmail – fraud@kpmg.co.za

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1 As determined section 171 of the Municipal Finance Management Act (MFMA)
The following diagram represents the various options related to the Anti-Fraud hotline and related facilities. (Eden District Municipality, 2013)

Detection and Investigation

Detection strategies

Detection of fraudulent practices may occur through oversight processes, management processes and general awareness such as;

- vigilance on the part of councillors and employees
- identification of red flags
- compliance monitoring
- risk management processes
- the Audit Committee
- the Municipal Public Accounts Committee (MPAC)
- the Internal Audit function
- ad hoc management reviews
- financial trend analysis
- hot spot analysis
- data mining
- anonymous reports and
- the application of additional detection techniques when and where required.
Red Flags

Red flags are indicators of possible fraudulent activity and related to the structure of the municipality and the manner in which legislation, policies and operating procedures are enforced and implemented and generally indicated a circumvention of the approved processes and acceptable business practices. Red flags can indicate symptoms of fraud which are directly attributable to dishonest or fraudulent activity. The symptom may result from the fraud activity itself or from the attempt to conceal the fraud activity, Red flags can be identified throughout the municipality and can include Personnel, Operational, Financial, Accounting, Performance, etc. examples of these are;

Personnel Red Flags
- Resistance to implementing policies and procedures
- Borrowing money from co-workers and money lenders
- Creditors or collectors appearing at the workplace
- Garnishing orders
- Excessive gambling
- Excessive drinking or other harmful personal habits
- Avoidance of or annoyance at reasonable questioning
- Intimidatory practices
- Refusing vacations or promotions for fear of detection
- New purchases in excess of affordability
- Carrying unusually large sums of cash
- Restating records under the guise of neatness in presentation
- Excessive generosity
- etc.

Operational Red Flags
- Unexplained or unexpected changes in trends
- Increased overtime, stand by and other allowances
- Fuel usage not in line with accepted norms and consumptions
- Proliferation of sub stores
- Good received not be received by Stores but directly by ordering departments
- Unsubstantiated claims
- Hand systems where effective and efficient electronic systems are available
- High staff turnover
- Sharing of passwords
- etc.

Financial Red Flags
- Excessive virements between line items
- Insufficient segregation of duties, for example the same individual/section can capture and approve Electronic Fund Transfers (EFT’s)
- Canceled financial transactions for example cash receipts and cheques cancelled and not reissued.
- Unreconciled votes
- Unusual transaction trends
- Rate payers and Consumers who provide insufficient or suspicious information
- Lost or misplaced financial records such as receipts
- etc.
Anti-Fraud and Corruption Strategy

Accounting Red Flags
- High volume of correcting journals
- Excessive restatements
- Weakness in or lacking internal controls (SOP)
- Weak or outdated accounting policy
- Insufficient segregation of duties, for example the same individual/section can draw up and approve journals
- Excessive transactions below the approved minimum thresholds
- Large write offs for items such as bad debt, inventory, suspense accounts, etc.
- Noncompliance with Generally Recognised Accounting Practice (GRAP) standards
- Lost or misplaced accounting records
- etc.

Performance Red Flags
- Changes in approved performance indicators
- Manipulation of actual outcomes
- “Too good to be true” outcomes
- Non alignment with the municipal Integrated Development Plan (IDP)
- Significant deviations from norms, benchmarks, industry standards and prior year outcomes
- etc.

It is unlikely that a singly red flag would indicate the presence of fraud however where several are present management should take steps to ensure that they are not due to fraudulent activities. It must however be kept in mind that red flags are not proof of fraudulent activity and should only be utilised to assist management in determining if an investigation is required.

Internal Audit

Internal Audit plays a key role in the prevention of fraudulent practices by its systematic examination of the Council’s systems and procedures, geared to maintaining strong systems of internal control.

The scope of each Internal Audit review incorporates fraud awareness and spot checks are performed in between system reviews to test the probity of arrangements. Internal Audit is always available to provide advice regarding the prevention of financial misconduct initiatives.

Full and open cooperation is expected from all Directors and Managers and they are responsible for providing full and timely support and cooperation to the internal audit function in carrying out their approved engagements and preparing and implementing corrective action plans with respect to approved audit recommendations.

Audit Committee

The audit committee is required to take an active role in the prevention and deterrence of fraud throughout the municipality. The audit committee should constantly challenge management and the auditors both internal and external to ensure that the municipality has antifraud programs and controls in place to identify potential areas for fraud and ensure that investigations are undertaken when fraud is detected. The audit committee
Anti-Fraud and Corruption Strategy

should take an interest in ensuring that appropriate action is taken against the perpetrators of fraud.²

Municipal Public Accounts Committee (MPAC)

The MPAC plays an oversight role to ensure accountability and insure that public funds are spent correctly. MPAC will assist council to hold the executive and municipal entities to account, and to ensure the efficient and effective use of municipal resources. (National Treasury, 2011)

Fraud Response Plan

A fraud response plan has been produced to provide a framework for the Council to follow in the event of the discovery of an actual or a suspicion of fraud or irregularity.

Prosecution and recovery of losses

Council will press for the prosecution of offenders and will carry out its own disciplinary procedure if necessary.

Council will aim to recover from offenders any losses that it sustains as a result of fraudulent practices.

Conclusion

Council is committed to tackling fraudulent practices and its response will be organised and effective and will be based on the principles included in this document.

Council shall regularly review its rules and procedures to ensure that its financial misconduct strategy remains effective and compliant with legislation.

² Sections 4.6, 4.10, 4.38 and 4.43 Approved Audit Committee Charter 2013/2014
Fraud Response Plan

Context

The Fraud Response Plan forms part of Council’s overall financial misconduct strategy. It applies to all councillors and personnel be they permanent, freelance, volunteers, casual, contracted, temporary or contractors.

Reporting Suspected Financial Practices

Action by employees

If you become aware of a suspected fraud or irregularity, immediately make a note of all relevant details, such as what was said, the date, the time and the names of anyone involved. Report the matter immediately to either;

- your Line Manager or
- your Director or
- the Internal Auditor or
- the Council Whistleblowing facility

When you report your concerns, arrange to handover your notes and any evidence you have gathered to the appropriate official.

Confidentiality for all parties will be maintained at all times.

A member of staff may choose to report their concerns anonymously and such anonymity will be respected. It should be noted that, if any case is to be pursued by the police, the identity of the person reporting the details will be needed if criminal proceedings are to be pursued effectively.

A staff member must not;

- contact the suspected offender in an effort to determine facts or demand restitution
- discuss any aspects of the case with anyone outside Council (including the Press) unless specifically asked to do so by the Municipal Manager
- discuss the case with anyone within the Council unless specifically asked to do so by the Municipal Manager
- attempt to personally conduct investigations or interviews or interview or question anyone unless asked to do so by the Municipal Manager

Action by Managers

If you have reason to suspect fraud or corruption in your work area, you should;

- Listen to the concerns of your staff and treat every report you receive seriously and sensitively.
- Make sure that all staff concerns are given a fair hearing and reassure staff that they will not suffer because they have told you of their suspicions.
- Get as much information as possible from the member of staff, including any notes and any evidence they have that may support the allegation. Do not interfere with any evidence and make sure it is kept in a safe place.
- Do not try to carry out an investigation yourself. This may damage any other enquiry.
- Report the matter immediately to the Municipal Manager.
Fraud Response Plan

Whistleblower Protection

It is the responsibility of all employees to report all incidents of fraudulent practices that may come to their attention to their supervisor. Alternatively, such reports can be made by way of submitting a report through the prescribed whistle blowing mechanism. The requisite protection for whistle blowers as stipulated in the Protected Disclosure Act, No. 26 of 2000.

All reports received will be treated with the requisite confidentiality and will not be disclosed or discussed with parties other than those charged with investigation into such reports.

Malicious allegations

If an allegation is made frivolously, in bad faith, maliciously or for personal gain, disciplinary action may be taken against the person making the allegation.

Investigation Procedure

Internal Audit, or any individual appointed by the Municipal Manager, is responsible for initiating and overseeing all fraud investigations and for subsequent follow-up work to be completed. Internal Audit will interact via the Investigation Plan to ensure that all investigations conform to the same standard and in accordance with legislation and the Council’s prosecution policy.

Investigation results will not be disclosed to or discussed with anyone other than those who have a legitimate need to know. This is to avoid damaging the reputations of persons suspected, but subsequently found innocent of wrongful conduct, and to protect the Municipality from potential civil liability.

In cases where an individual is suspected of fraud but a subsequent investigation does not substantiate it, it is important that the potential damage to the individual’s reputation is minimised. Whoever originally reported the suspected fraud or irregularity will be informed that the investigation has revealed no wrongdoing.

Any necessary investigative activity will be conducted without regard to any person’s relationship of the Council, position or length of service.

Conduct of Investigation

Internal Audit will conduct a preliminary investigation in accordance with the Investigation Plan and in line with the Financial Misconduct Regulations.

Once the investigation has been completed, a written report will be prepared which states the facts discovered by the investigation. No statement shall be made that cannot be supported by facts.

Forensic Investigation

Where the scope of the investigation requires a specialised forensic approach an appropriately capacitated individual or company will be appointed to take over the investigation from Internal Audit and will report directly to the Municipal Manager or Council if the investigation includes the Municipal Manager.
Fraud Response Plan

Learn From Past Experience

Where a fraud has occurred, management will make any necessary changes to systems and procedures to ensure that similar fraudulent practices will not recur.

Disciplinary Procedure

As for other cases of misconduct, matters of alleged fraud will be dealt with under the procedure laid down in Council’s Disciplinary Procedures3.

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Financial Misconduct Regulation

Context

The key focus areas contained in the regulations are;
1. Alleged financial misconduct (Chapter 2);
2. Reporting of allegations of financial misconduct (Chapter 2);
3. Establishment of a Disciplinary Board and its functioning (Chapter 2);
4. Investigation purpose and process (Chapter 2);
5. Criminal Proceedings (Chapter 3);
6. General (Chapter 4);

Alleged Financial Misconduct

The regulation defines financial misconduct as "any act of financial misconduct referred to in-(a) section 171 of the Act\(^4\) committed by an official of a municipality; or
(b) section 172 of the Act committed by an official of a municipal entity;"

The sections of the MFMA specified in the report are attached as Annexure A.

Relevant Legislation

- The Municipal Finance Management Act (No 56 of 2003).
- The Municipal Systems Act (No 32 of 2000)
- The Protected Disclosures Act 2000 (Act No. 26 of 2000)

Reporting of Allegations of Financial Misconduct

The regulation prescribes to whom a person must report an allegation of financial misconduct:
- If against accounting officer (MM), Chief Financial Officer (Director Financial Services) or senior manager\(^5\) (Directors) the matter must be reported to Council, Provincial and National Treasury.
- If against any other official the matter must be reported to the Municipal Manager
- The allegation must be submitted to the municipal council within seven days or at the next sitting of Council

Allegations of financial misconduct must be treated in a confidential manner.

The regulation does not prevent individuals from laying a criminal charge with the South African Police Service against any councilor/s or official/s of the municipality or in relation to any conduct that may constitute an offence in terms of Part 2 of Chapter 16 of the MFMA.

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\(^4\) Local Government: Municipal Finance Management Act No 56, 2003 (MFMA)

\(^5\) Section 56 of the Municipal Systems Act determines a Senior Manager as “a manager directly accountable to the municipal manager.”
An official against whom an allegation of financial misconduct is made must receive an opportunity to make representations as to why he/she should not be suspended within seven days of being notified of the allegation.

**Establishment of a Disciplinary Board and Its Functioning**

Council *must* establish a disciplinary board to investigate allegations of financial misconduct in the municipality. The following is important:

- A disciplinary board is an independent advisory body
- It has a maximum of five members
- Members must be South African citizens of good standing
- The disciplinary board may consist of:
  - The head of the internal audit unit within the municipality (*Manager: Performance, Internal Audit and Risk Management*);
  - representative of an organisation performing internal audit functions for the municipality if the internal audit function is outsourced;
  - one member of the Audit Committee of the municipality;
  - a senior manager from the legal division in the municipality (*Manager: Legal Services*);
  - a representative of the National Treasury or the Western Cape Provincial Treasury; and
  - any other person as may be determined by the municipal council.

The Disciplinary Board is made up of the following Knysna Municipal employees and committee members:

- Manager: Performance, Internal Audit and Risk Management (PIARM),
- Manager: Legal Services,
- Manager: Human Resources, and
- Chairperson of Audit Committee.

External member(s) will be provided or acquired as and when needed.

**Investigation Purpose and Process**

*Preliminary Investigation*

If there is reasonable indication of financial misconduct Council must refer the matter within seven days to a disciplinary board to conduct a preliminary investigation.

The disciplinary board must determine whether allegation is founded and make recommendation whether grounds exist to warrant a full investigation.

The preliminary investigation terminates if the disciplinary board determines the allegation is frivolous, vexations, speculative or unfounded.

If the allegation is founded a full investigation must be conducted.

If Council does not act on recommendations by the disciplinary board, the disciplinary board may request the Western Cape Provincial Treasury or the National Treasury for assistance and a possible intervention.
Full Investigation

This must be undertaken by the disciplinary board, or could be undertaken by Western Cape Provincial Treasury or the National Treasury, but only if a municipality or the designated official fails to investigate an allegation of financial misconduct or financial offence.

If the cost, seniority of the alleged transgressor and the seriousness or sensitivity of investigating the alleged financial misconduct, warrants such a step the investigation can be undertaken by;

- an individual with appropriate specialist expertise and who is not an official of the municipality; or
- an independent team of investigators appointed by Council in accordance with the applicable supply chain management prescripts.

An independent team of investigators appointed may include;

- a person, other than an official of the municipality with the appropriate specialist expertise designated by Council; or
- an official of the department responsible for local government in the relevant province, designated by the department; or
- an official of the Western Cape Provincial or National Treasury, designated by the relevant treasury.

Investigation of allegation of financial misconduct and submission of reports

Terms of reference for the investigation must be developed and submit to Council within seven days

After completing a full investigation, the investigator must –

- Compile a report on the investigation;
- Submit the report within 30 days\(^6\)
- Submit its report to the Executive Mayor and the Municipal Manager together with its findings and recommendations, if applicable, regarding disciplinary steps that should be taken against the alleged transgressor; and
- Immediately inform the Speaker of the submission of the report
- Submit a copy of the report to the Western Cape Provincial and the National Treasury.

The report of the investigator must be submitted (tabled) to Council at the first sitting after the report is completed.

If the report is amended and/or if the finding or recommendations are rejected reasons must be provided to the investigator within five days.

The investigator must inform Western Cape Provincial and National Treasury if the recommended disciplinary against the transgressor is not implemented. Western Cape Provincial and National Treasury may possibly intervene.

\(^6\) Regulation 5(6)
If disciplinary proceedings are recommended, Council must by resolution institute disciplinary proceedings:

- in the case of a Municipal Manager or senior manager, in accordance with the Disciplinary Codes and Procedures for Senior Managers Regulations made in terms of the Municipal Systems Act; or
- in the case of an official who is not a MM or senior manager, in accordance with the applicable collective bargaining agreement concluded in the bargaining council established for municipalities.

If found guilty the transgressor may not be re-employed for ten years in any municipality.

**Criminal Proceedings**

Any person may report an allegation of financial offence against;

(a) a councillor of a municipality, to the designated official, the Minister of Finance and the MEC for finance;

(b) the speaker of a municipality, to the mayor of the municipality;

An allegation referred to in must be dealt with in terms of the Code of Conduct for Councillors.

**Reporting of alleged financial offence to South African Police Service**

A financial offence referred in section 173 of the MFMA must be reported to SAPS. If likelihood of continued financial loss the due to the financial offence it must be reported without delay and before completion of the investigation. Where an offence is successfully prosecuted the details must be reported to National Treasury.

**Allegations of financial offences not amounting to breaches of Code of Conduct for Councillors**

Alleged financial offence by a councillor.

The designated official on receipt of a report of alleged financial offence by a councillor must authorise an investigation of the facts and circumstances of the alleged financial offence and give the councillor an opportunity to make, within five days, a written submission with regard to the alleged financial offence. The designated official must submit a report, within five days of completing the investigation, on the outcome of the investigation to the municipal council. The public must have access to the report.

Within five days of submitting the report to council the report must be submitted to-

(a) the MEC for finance in the province;

(b) the MEC for local government in the province;

(c) Minister of Finance; and

(d) Minister responsible for local government.

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7 Disciplinary code in collective agreement has a three month time limit to institute disciplinary action there is a risk that regulations timeframes could be exceeded and cause problems with disciplinary action under the disciplinary code.

8 Section 57A(3) of the Municipal Systems Act 32 of 2000
General

Preparation of information document on alleged financial misconduct and financial offences

The minimum information to be captured for any alleged financial offence is regulated and should be captured in an “information document”. The information obtained must be added to the investigation report and submitted to the relevant individuals and bodies within the regulated timeframes.

Such “minimum information” includes:

- the name and position of the person against whom the allegation was made;
- a summary of the facts and circumstances of the alleged financial misconduct or financial offence, including the monetary value involved;
- any disciplinary steps taken or to be taken against the person concerned, or if no disciplinary steps have been or are to be taken, the reasons for that decision;
- in the case of a financial offence, the case number issued by the South African Police Service; and
- any steps taken or to be taken to recover any unauthorised, irregular or fruitless and wasteful expenditure incurred as a result of the alleged financial misconduct or financial offence in terms of section 32 of the Act.

Tabling of information document in municipal council

A special meeting of council must be requested to discuss the recovery of funds in terms of section 32 of the MFMA if the financial misconduct or offence may have a significant impact on the municipality.

Reports on disciplinary proceedings and criminal charges

A municipality must report decisions to institute disciplinary (or not), reasons for the decision, outcome of disciplinary actions and whether charges were laid with SAPS to the relevant institutions.

Suspension and disciplinary or criminal proceedings instituted in cases of financial misconduct must be reported in annual reports.

Procedures for confidential reporting financial misconduct and financial offence

Compels municipality to establish procedures for persons to report allegations of financial misconduct and financial offences. Such procedure must be made public in terms of S21(1)(a) of the MSA.

Protection

Protection of officials reporting allegations of financial misconduct and financial offence

The Protected Disclosures Act 2000 (Act No. 26 of 2000) applies to an official who makes a report or disclosure against a political office-bearer, a member of the board or an official who is alleged to have committed financial misconduct or a financial offence. Section 3 “Employee making protected disclosure not to be subjected to occupational detriment
Financial Misconduct Regulation

No employee may be subjected to any occupational detriment by his or her employer on account, or partly on account, of having made a protected disclosure."

NOTE:
The regulation took effect on 1 July 2014 but there are a few disparities with existing legislation and Codes. These include:

- Section 14.2 of the Disciplinary Code requires that an enquiry be held within 48 hours where a suspension is intended. Regulation 3(5) provides that for 7 days to make representations on why suspension should not be done.
- The Regulations move responsibility for investigating financial misconduct away from management to the disciplinary board. It is not clear what the outcome of this will be on disciplinary procedures, including arbitration and conciliation.
- Financial Misconduct is reflected under Sections, 171, 172 and 173 of MFMA is very broad and the Regulations do not clarify what will fall under financial misconduct.
- Council must identify a "designated official" who will be "the official identified in a municipality or municipal entity to receive reports of allegations of financial offences against councillors …;"
- Allegations of misconduct are elevated to Council without any due process being followed. This immediately heightens the tension surrounding such matters.

It is recommended that the first Board is set up using internal resources to limit costs and to ensure that the strict time frames can be met. Should this not prove satisfactory Council may consider appointing additional or alternative members.
Annexure A: MFMA Extract

CHAPTER 15
FINANCIAL MISCONDUCT

Part 1: Disciplinary proceedings

Financial misconduct by municipal officials

171. (1) The accounting officer of a municipality commits an act of financial misconduct if that accounting officer deliberately or negligently—
   (a) contravenes a provision of this Act;
   (b) fails to comply with a duty imposed by a provision of this Act on the accounting officer of a municipality;
   (c) makes or permits, or instructs another official of the municipality to make, an unauthorised, irregular or fruitless and wasteful expenditure; or
   (d) provides incorrect or misleading information in any document which in terms of a requirement of this Act must be—
      (i) submitted to the mayor or the council of the municipality, or to the Auditor-General, the National Treasury or other organ of state; or
      (ii) made public.

(2) The chief financial officer of a municipality commits an act of financial misconduct if that officer deliberately or negligently—
   (a) fails to carry out a duty delegated to that officer in terms of section 79 or 81(1)(e);
   (b) contravenes or fails to comply with a condition of any delegation of a power or duty in terms of section 79 or 81(1)(e);
   (c) makes or permits, or instructs another official of the municipality to make, an unauthorised, irregular or fruitless and wasteful expenditure; or
   (d) provides incorrect or misleading information to the accounting officer for the purposes of a document referred to in subsection (1)(d).

(3) A senior manager or other official of a municipality exercising financial management responsibilities and to whom a power or duty was delegated in terms of section 79, commits an act of financial misconduct if that senior manager or official deliberately or negligently—
   (a) fails to carry out the delegated duty;
   (b) contravenes or fails to comply with a condition of the delegated power or duty;
   (c) makes an unauthorised, irregular or fruitless and wasteful expenditure; or
   (d) provides incorrect or misleading information to the accounting officer for the purposes of a document referred to in subsection (1)(d).

(4) A municipality must—
   (a) investigate allegations of financial misconduct against the accounting officer, the chief financial officer, a senior manager or other official of the municipality unless those allegations are frivolous, vexatious, speculative or obviously unfounded; and
   (b) if the investigation warrants such a step, institute disciplinary proceedings against the accounting officer, chief financial officer or that senior manager or other official in accordance with systems and procedures referred to in section 67 of the Municipal Systems Act, read with Schedule 2 of that Act.

Financial misconduct by officials of municipal entities

171. (1) The accounting officer of a municipal entity commits an act of financial misconduct if that accounting officer deliberately or negligently—
   (a) contravenes a provision of this Act;
   (b) fails to comply with a duty imposed by a provision of this Act on the accounting officer of a municipal entity;
Financial Misconduct Regulation

(c) makes or permits, or instructs another official of the municipal entity to make, an irregular or fruitless and wasteful expenditure; or
(d) provides incorrect or misleading information in any document which in terms of this Act must be—
(i) submitted to the entity’s board of directors or parent municipality or to the Auditor-General; or
(ii) made public.

(2) A senior manager or other official of a municipal entity exercising financial management responsibilities and to whom a power or duty was delegated in terms of section 106, commits an act of financial misconduct if that senior manager or official deliberately or negligently—
(a) fails to carry out the delegated duty;
(b) contravenes or fails to comply with a condition of the delegated power or duty;
(c) makes an irregular or fruitless and wasteful expenditure; or
(d) provides incorrect or misleading information to the accounting officer for the purposes of a document referred to in subsection (1)(d).

(3) A municipal entity must—
(a) investigate allegations of financial misconduct against the accounting officer, a senior manager or other official of the entity unless those allegations are frivolous, vexatious, speculative or obviously unfounded; and
(b) if the investigation warrants such a step, institute disciplinary proceedings against the accounting officer, senior manager or official in terms of Schedule 3 of the Municipal Systems Act.

Part 2: Criminal proceedings

173. (1) The accounting officer of a municipality is guilty of an offence if that accounting officer—
(a) deliberately or in a grossly negligent way—
(i) contravenes or fails to comply with a provision of section 61(2)(b), 62(1), 63(2)(a) or (c), 64(2)(a) or (d) or 65(2)(a), (b), (c), (d), (f) or (l);
(ii) fails to take reasonable steps to implement the municipality’s supply chain management policy referred to in section 111;
(iii) fails to take all reasonable steps to prevent unauthorised, irregular or fruitless and wasteful expenditure; or
(iv) fails to take all reasonable steps to prevent corruptive practices—
(aa) in the management of the municipality’s assets or receipt of money; or
(bb) in the implementation of the municipality’s supply chain management policy;
(b) deliberately misleads or withholds information from the Auditor-General on any bank accounts of the municipality or on money received or spent by the municipality; or
(c) deliberately provides false or misleading information in any document which in terms of a requirement of this Act must be—
(aa) submitted to the Auditor-General, the National Treasury or any other organ of state; or
(bb) made public.

(2) The accounting officer of a municipal entity is guilty of an offence if that accounting officer—
(a) deliberately or in a grossly negligent way—
(i) contravenes or fails to comply with a provision of section 94(2)(b), 95(1), 96(2), 97(a) or 99(2)(a), (c) or (e);
(ii) fails to take all reasonable steps to prevent irregular or fruitless and wasteful expenditure; or
(iii) fails to take all reasonable steps to prevent corruptive practices in the management of the entity’s assets, receipt of money or supply chain management system;
(b) deliberately misleads or withholds information from the Auditor-General or the entity’s parent municipality on any bank accounts of the municipal entity or on money received or spent by the entity; or
(c) deliberately provides false or misleading information in any document which in terms of a requirement of this Act must be—
Financial Misconduct Regulation

(aa) submitted to the entity’s parent municipality, the Auditor-General, the National Treasury or any other organ of state; or

(bb) made public.

(3) A senior manager or other official of a municipality or municipal entity exercising financial management responsibilities and to whom a power or duty was delegated in terms of section 79 or 106, is guilty of an offence if that senior manager or official deliberately or in a grossly negligent way contravenes or fails to comply with a condition of the delegation.

(4) A councillor of a municipality is guilty of an offence if that councillor—

(a) deliberately influences or attempts to influence the accounting officer, the chief financial officer, a senior manager or any other official of the municipality to contravene a provision of this Act or to refrain from complying with a requirement of this Act;

(b) interferes in the financial management responsibilities or functions assigned in terms of this Act to the accounting officer of the municipality or delegated to the chief financial officer of the municipality in terms of this Act;

(c) interferes in the financial management responsibilities or functions assigned in terms of this Act to the accounting officer of a municipal entity under the sole or shared control of the municipality; or

(d) interferes in the management or operational activities of a municipal entity under the sole or shared control of the municipality.

(5) A councillor, an official of a municipality or municipal entity, a member of the board of directors of a municipal entity or any other person is guilty of an offence if that person deliberately or in a grossly negligent way—

(a) impedes an accounting officer from complying with a provision of this Act;

(b) gives incorrect, untrue or misleading information material to an investment decision relating to borrowing by a municipality or municipal entity;

(c) makes a withdrawal in contravention of section 11;

(d) fails to comply with section 49;

(e) contravenes a provision of section 115(2), 118 or 128(5); or

(f) provides false or misleading information for the purposes of any document which must in terms of a requirement of this Act be—

(i) submitted to the council, mayor or accounting officer of a municipality or to the Auditor-General or the National Treasury; or

(ii) made public.

Penalties

174. A person is liable on conviction of an offence in terms of section 173 to imprisonment for a period not exceeding five years or to an appropriate fine determined in terms of applicable legislation.
Preamble

Annexure B: Financial Misconduct Regulation

NATIONAL TREASURY
CORRECTION NOTICE

In Ordinary (National) Government Gazette No. 37682, of 30 May 2014, Government Notice No. 425 is hereby withdrawn and replaced with the following:

No. R. 430

LOCAL GOVERNMENT: MUNICIPAL FINANCE MANAGEMENT ACT, 2003
MUNICIPAL REGULATIONS ON FINANCIAL MISCONDUCT PROCEDURES AND CRIMINAL PROCEEDINGS

The Minister of Finance has, in terms of sections 168 and 175, of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003), and acting with the concurrence of the Minister of Cooperative Governance and Traditional Affairs, made the regulations as set out in the Schedule.

SCHEDULE

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CHAPTER 1
INTERPRETATION

Definitions

1. In these Regulations, a word or expression to which a meaning has been assigned in the Act has the same meaning as in the Act, unless the context indicates otherwise, and-

"Act" means the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003);

designated official means the official identified in a municipality or municipal entity to receive reports of allegations of financial offences against councillors or members of the board of directors of municipal entities;

disciplinary board means a disciplinary board established in terms of regulation 4(1) or a disciplinary board of a district municipality or provincial structure referred to in regulation 4(8);

financial misconduct means any act of financial misconduct referred to in-(a) section 171 of the Act committed by an official of a municipality; or
(b) section 172 of the Act committed by an official of a municipal entity;

financial offence means any offence referred to in section 173 of the Act committed by-(a) an official of a municipality or municipal entity;
(b) a councillor of a municipality;
(c) a member of the board of directors of a municipal entity; or
(d) any other person;

investigator means the board, treasury, person or team conducting a full investigation in terms of regulation 5(4).

CHAPTER 2
FINANCIAL MISCONDUCT PROCEDURES

Application of Chapter

2. This Chapter applies to alleged financial misconduct.

Reporting of allegations of financial misconduct

3. (1) Any person must report an allegation of financial misconduct against-(a) the accounting officer, a senior manager or the chief financial officer of a municipality, to the municipal council of the municipality, the provincial treasury and the national treasury;
(b) an official of a municipality other than its accounting officer, to that accounting officer;
(c) the accounting officer of a municipal entity, to the chairperson of the board of directors, the mayor and the accounting officer of the entity’s parent municipality;
(d) an official of a municipal entity other than its accounting officer, to that accounting officer.

(2) The mayor, the accounting officer or chairperson of the board of directors, as the case may be, must table an allegation referred to in subregulation (1) before the municipal council or, board of directors in the case of municipal entities, not later than seven days after receipt thereof or at the next sitting of the council or the board of directors.

(3) The person to whom an allegation of financial misconduct has been reported in terms of sub-regulation (1) must ensure that the report is treated in a confidential manner.

(4) This regulation must not be read as preventing a person from laying a

(g) criminal charge with the South African Police Service against any councillor,
Financial Misconduct Regulation

(h) member of the board of directors of a municipal entity, or official of a
(i) municipality or municipal entity in relation to any conduct that may constitute
(j) an offence in terms of Part 2 of Chapter 15 of the Act.
(k) (5) An official against whom an allegation of financial misconduct is made
(l) must be given an opportunity to make written representation to the
(m) municipality or municipal entity as to why he or she should not be suspended,
(n) within seven days of being notified of the allegation
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REPORT FROM THE ACTING MUNICIPAL MANAGER

PURPOSE OF THE REPORT

To present to the Committee the progress made in regards to external audit queries as contained in the Auditor General’s Management Report for 2015/2016.

BACKGROUND

Operation Clean Audit Report (OPCAR) was an initiative by National Government aiming to obtain clean audits, improve governance and enhanced service delivery within local government across the country by 2014. Although the targeted deadline has come and gone the majority of municipalities still fail to obtain a clean audit status. Overall for 2014/2015 only 54 of 278 municipalities obtained a clean audit outcome. The initiative was and is aimed at the overall improvement of management in financial, compliance to legislation, performance (predetermined objectives) and IT management.

DISCUSSION

Directors and or managers will respond to their own departmental issues as they pertain to ComAF’s received by them during the external audit process.

RECOMMENDATION OF THE ACTING MUNICIPAL MANAGER

That the progress made on the OPCAR as at the end of February 2017, be noted.

APPENDIX / ADDENDUM


File Number: 9/1/2/14
Execution: Acting Municipal Manager
Manager : PIARM
Audit Auction Plan

Operation Clean Audit Report (OPCAR)

2015/2016 Financial Year

27 February 2017

(All information in this report is as at the date of the report stated above)
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Executive Summary

2. Overview

Operation Clean Audit Report (OPCAR) was an initiative by National Government aiming to obtain clean audits, improve governance and enhanced service delivery within local government across the country by 2014. Although the targeted deadline has come and gone the majority of municipalities still fail to obtain a clean audit status. Overall for 2014/2015* only 54 of 278 municipalities obtained a clean audit outcome. The initiative was and is aimed at the overall improvement of management in financial, compliance to legislation, performance (predetermined objectives) and IT management. In 2012/2013 Knysna Municipality obtained its first “Clean Audit” which despite significant capacity constraints and ever changing requirements was able to retain for the 2013/2014, 2014/2015 and 2015/2016 financial years. Risks to the clean audit status for the next few years is the implementation of mSCOA (municipal Standard Chart of Accounts), increased capacity constraints, lack of and decline in internal controls, changing legislation and continuous changes in GRAP standards.

The Auditor General defines a clean audit as “The financial statements are free from material misstatements (in other words, a financially unqualified audit opinion) and there are no material findings on reporting on performance objectives or non-compliance with legislation.”

Initial focus by Knysna Municipality has been on financial management such as the Annual Financial Statements, MFMA section 71 and 72 reports, SCM, asset management, etc. Standard operating procedures (SOP’s) will have to be developed and implemented to ensure the proper implementation of Council policy, GRAP, record-keeping and the availability of supporting documentation (portfolio of evidence) must become standard practice. Emphasis is placed on timeous submission of monthly and quarterly reports to Council, Western Cape Provincial Treasury, National Treasury and the Auditor General when required. A preparation audit file (PAF) has been implemented and has been moderately successful. These processes will only be achievable and sustainable if adequate human resource capacity to perform financial management is capacity is acquired, developed and maintained.

The next focus area that received attention was to strengthen good governance within the municipality. This will only be achievable if there are effective governance arrangements in place, which includes a fully functional audit committee, internal audit, risk management, legislative compliance, performance management, political and administrative leadership, etc. Mechanisms have been put in place to implement plans and to remedy audit queries and findings raised in external (AG) and internal audit reports. However, to comply with all the elements of good corporate governance, the commitment and participation of Council and all levels of management is essential. With additional governance requirements being rolled out by national and provincial role-players such as of the Municipal Governance Review and Outlook (MGRO) [Western Cape Provincial Government], Financial Management Capability Maturity Model (FMCMM) [National Treasury], and the Auditor General quarterly Dashboard Report – Drivers of Internal Control to Achieve Clean Administration the expansion of governance structures within the municipality has become a necessity.

An additional and very important focus area relates to information technology IT and the subsequent audit. Currently audits take place sporadically and seem to be problematic for the AG to execute on a regular basis and in an in-depth manner.

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Council has a dedicated IT section, committee, policies and systems in place and endeavors to carry out its IT functions in a secure, cost effective manner. Consideration will be given to amending internal audit plans over the next few years to include IT audits.

The fourth and final section and the primary driver of the overall audit process is the audit of compliance to legislation, frameworks, adopted circulars etc. The importance of compliance to the Auditor General can be seen in their quarterly dashboard report which contains three assessment areas financial, performance and compliance.

3. Auditor General

As the institution responsible for issuing the audit outcome the Auditor General provided the focus areas against which the clean audit was measured for the 2015/2016 audit as set out below. ²

Annual Financial Statements

“The audit of the financial statements is conducted to provide reasonable assurance that the financial statements present fairly in all material respects the auditee’s financial position, financial performance and cash flows in accordance with the financial reporting framework applied.”

Predetermined Objectives

“The following strategic objectives have been selected for auditing:”

“SO1: To promote access for all citizens to equitable, appropriate and sustainable infrastructure and services within a safe environment.

SO2: To ensure ecological integrity through sustainable practices of municipal governance”

Compliance

“During the course of the audit the compliance areas listed below will be subject to auditing. This is considered to be an integral part of the audit.”

- Strategic planning and performance management
- Budgets
- Financial statements, performance and annual reports
- Audit committees
- Internal audit
- Procurement and contract management
- Human resource management and compensation
- Expenditure management
- Transfer of funds

Conditional grants received
Revenue management
Asset management
Liability management
Consequence management
Other matters which, in the auditor’s professional judgement, are of sufficient importance to merit inclusion in the auditor’s report for communication to those charged with governance.”

² Audit strategy for the year ended 30 June 2016 (Auditor General South Africa)
Focus Areas

"During the course of the audit the following areas will be focused on:"

Financial indicator reporting  Water and sanitation management
Use of consultants  Roads and infrastructure
Human Resource (HR) management  Procurement and contract management
Audit of Predetermined Objectives (AOPO)

Information Technology

"During the course of the audit the financial and performance management information systems listed below will be subject to audit. This is considered to be an integral part of the audit.

<table>
<thead>
<tr>
<th>Application system</th>
<th>Type of audit</th>
<th>To be audited by</th>
<th>Timing of audit</th>
</tr>
</thead>
</table>
| PROMUN IGNITE       | • Assessment of the information technology (IT) environment and application systems  
• Review of the General Computer Controls with specific focus on the following areas:  
  o IT Governance  
  o Information Security Management  
  o Change Management  
  o IT Continuity  
• Computer Aided Audit Techniques (CAATS) to support the Regularity Audit | Information Systems Audit team | Jul – Oct 2016 |
| PROMUN IGNITE       | Updating the understanding the IT environment and applications (completion of the CIS Checklist) | Information Systems Audit team | 1 July 2016 – 15 October 2016 |
| Cash and Bank Process Review | Assessment of automated controls in place for the cash and bank process | Information Systems Audit team | 1 July 2016 – 15 October 2016 |
| mSCOA               | • Readiness assessment of municipalities for the implementation of MSCOA.  
• High level post implementation review | Information Systems Audit team | 1 July 2016 – 15 October 2016 |

4. Report Envisioned Use

There are various users each with their own requirements regarding information contained in this report. In order to address the various needs of the organisational users such as Executive Management, Audit Committee, Municipal Public Accounts Committee and Council as well as external users such as the Western Cape Province Treasury, National Treasury, Auditor General, etc. the report is arranged into three levels of detail which aims to address the various requirements. The high level summary included as part of the Executive Summary, the Audit Action Plan/OPCAR report and detailed annexures.

Primarily the report is of a technical nature and, at its core, it has been developed to aid oversight and assurance providers such as the Governance and Economic Development Committee, Mayoral Committee, Council, Audit Committee and the Municipal Public Accounts Committee (MPAC) in identifying issues reported on by the Auditor General and progress made in this regard.
5. High Level Summary

Since the implementation of the OPCAR process the Auditor General raised three hundred and seventy seven issues for the 2010/2011(83), 2011/2012(87), 2012/2013(74), 2013/2014(69), 2014/2015(34) and 2015/2016(30) financial years. All issues have been sufficiently addressed to obtain a Clean Audit for 2012/2013, 2013/2014, 2014/2015 and 2015/2016. Of concern is that many of the issues have resulted in restatements which could have been prevented if the municipality had the required capacity and systems, implemented sustainable in year processes and implemented in year reporting. The upcoming implementation of municipal Standard Chart of Accounts (mSCOA) by National Treasury is of great concern and the probable negative impact on the audit outcome should not be underestimated.

Comparing the previous financial year to the year under review there has been a slight decrease in issues raised down to 30 from the previous year’s 34 made up as follows Procurement and Contract Management (9), Audit on Predetermined Performance Outcomes (AOPO) (7), Information Technology (5), Receivables/Revenue (4), Compliance (3) and Payables/VAT (2) this indicates both the AG’ focus as well as areas where additional resources and capacity may be required.

The Auditor General has eleven repeat issues from previous years all “In progress” this is down from sixteen for the 2014/2015 audit.

6. Risks

The AG raised four risks areas these being quality of submitted financial statements, quality of submitted performance information, supply chain management and information technology. Most of these issues are as a result of insufficient, outdated or lacking internal controls.

There has been a general decline in “Financial and performance management” this can be attributed to a severe capacity constraint created by a lack of internal controls, deficient or nonexistent standard operating procedures (SoP), non-transfer of skills, changing legislative environment, non-integration of systems and procedures.

7. Acknowledgement

The personnel accomplished a remarkable outcome especially when considered against the challenges faced due to the instability in management especially in the Municipal Managers Office and Finance Directorate in addition the AG and his staff are thanked for their guidance and assistance during the audit process.
Report

The OPCAR relates to the queries or ComAF’s (Communication of Audit Finding) issued by the Auditor General during the audit of the annual financial statements (financial), the predetermined objective (strategy, planning, performance and governance) and the IT audits.

8. Progress

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.3

The table on the next page lists the queries received by directorate for the 2015/2016 financial year audit and the overall progress to date. Classifications have been assigned to each issue in line with the possible impact as determined by the AG that it could have future audit outcomes.

A. There are no matters of urgency (no Annexure A)
B. There are 29 other important matters (1-29 Annexure B)
C. There is 1 administrative matter (30 Annexure C)

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3 AG Management report 2015/2016
<table>
<thead>
<tr>
<th>No</th>
<th>Subject/Type</th>
<th>Directorate</th>
<th>Finding</th>
<th>Number of times reported in previous three years</th>
<th>Previous Internal Status</th>
<th>Current Internal Status</th>
<th>Deadline</th>
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<tbody>
<tr>
<td>1</td>
<td>ADOPO</td>
<td>Finance/ Income</td>
<td>APOD – Reported Indicator not accurate - COMAF 22</td>
<td>-</td>
<td>Completed</td>
<td>Completed</td>
<td>November 2016</td>
</tr>
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<td>2</td>
<td>ADOPO</td>
<td>Technical/ Water Purification</td>
<td>APOD: Misstatement of Reported Indicator TL 42 - COMAF 39</td>
<td>-</td>
<td>In progress</td>
<td>In progress</td>
<td>To be determined</td>
</tr>
<tr>
<td>3</td>
<td>ADOPO</td>
<td>MM/ Performance</td>
<td>APOD: KPI (TL 31 and 32) not well defined - COMAF 28</td>
<td>-</td>
<td>Responded</td>
<td>Responded</td>
<td>February 2017</td>
</tr>
<tr>
<td>4</td>
<td>ADOPO</td>
<td>MM/ Performance</td>
<td>APOD: Reported indicators TL 43, 45 and 39 misstated - COMAF 31</td>
<td>-</td>
<td>Responded</td>
<td>Responded</td>
<td>February 2017</td>
</tr>
<tr>
<td>5</td>
<td>ADOPO</td>
<td>Finance/ Income</td>
<td>APOD: Reported Indicators TL 6 and 7 misstated - COMAF 23</td>
<td>-</td>
<td>Responded</td>
<td>Responded</td>
<td>To be determined</td>
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<tr>
<td>6</td>
<td>ADOPO</td>
<td>Finance/ Income</td>
<td>APOD: Reported Indicator TL 5 misstated - COMAF 33</td>
<td>-</td>
<td>Completed</td>
<td>Completed</td>
<td>November 2016</td>
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<tr>
<td>7</td>
<td>ADOPO</td>
<td>MM/ Performance</td>
<td>APOD: Inconsistency between SDBIP and APR - COMAF 21</td>
<td>-</td>
<td>In progress</td>
<td>Responded</td>
<td>August 2017</td>
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<td>8</td>
<td>Procurement and contract management</td>
<td>Preliminary SCM will be sent to those involved once identified</td>
<td>Contract management: Monitoring performance of contracts - COMAF 18</td>
<td>-</td>
<td>In progress</td>
<td>Responded</td>
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<td>9</td>
<td>Procurement and contract management</td>
<td>Preliminary SCM will be sent to those involved once identified</td>
<td>Contract management: Monitoring performance of contracts - COMAF 24</td>
<td>-</td>
<td>In progress</td>
<td>Responded</td>
<td>To be determined</td>
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<td>Procurement and contract management</td>
<td>Finance/ Procurement</td>
<td>Procurement and contract management: incorrect preference point system used - COMAF 4</td>
<td>-</td>
<td>In progress</td>
<td>Completed</td>
<td>To be determined</td>
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<td>Procurement and contract management</td>
<td>Finance/ Procurement</td>
<td>Procurement and contract management: Three quotations not obtained - COMAF 19</td>
<td>-</td>
<td>In progress</td>
<td>Completed</td>
<td>To be determined</td>
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<td>Procurement and contract management</td>
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<td>Contract management: Non-Compliance - COMAF 25</td>
<td>-</td>
<td>In progress</td>
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<tr>
<td>13</td>
<td>Procurement and contract management</td>
<td>Finance/ Procurement</td>
<td>Procurement and contract management: Non-compliance with the Municipal Supply Chain Regulations - COMAF 2</td>
<td>-</td>
<td>In progress</td>
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<td>14</td>
<td>Procurement and contract management</td>
<td>Finance/ Procurement</td>
<td>Procurement and contract management: SCM- No bid specification committee and incorrect composition of the bid committee – COMAF 7</td>
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<td>In progress</td>
<td>Responded</td>
<td>To be determined</td>
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<tr>
<td>15</td>
<td>Procurement and contract management</td>
<td>Finance/ Procurement</td>
<td>Procurement and contract management: Deviations not disclosed in Annual Financial Statement - COMAF 5</td>
<td>1</td>
<td>In progress</td>
<td>Responded</td>
<td>To be determined</td>
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<tr>
<td>16</td>
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<td>Finance/ Procurement</td>
<td>Procurement and contract management: Deviations not disclosed - COMAF 20</td>
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<td>In progress</td>
<td>Responded</td>
<td>To be determined</td>
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<tr>
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<td>Receivables</td>
<td>Finance/ Budget Office (Accounting)</td>
<td>Receivables from exchange and non-exchange and payables misstated - COMAF 3</td>
<td>-</td>
<td>In progress</td>
<td>In progress</td>
<td>To be determined</td>
</tr>
<tr>
<td>18</td>
<td>Receivables</td>
<td>Finance/ Budget Office (Accounting)</td>
<td>Receivables from exchange-disclosure misstated - COMAF 29</td>
<td>-</td>
<td>Completed</td>
<td>Completed</td>
<td>December 2016</td>
</tr>
<tr>
<td>No.</td>
<td>Subject/Type</td>
<td>Directorate</td>
<td>Finding</td>
<td>Number of times reported in previous three years</td>
<td>Previous Internal Status</td>
<td>Current Internal Status</td>
<td>Deadline</td>
</tr>
<tr>
<td>-----</td>
<td>---------------------</td>
<td>---------------------------------------</td>
<td>-----------------------------------------------------</td>
<td>-------------------------------------------------</td>
<td>--------------------------</td>
<td>------------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>19</td>
<td>Revenue</td>
<td>Finance/ Income</td>
<td>Property rates misstated - COMAF 12</td>
<td>-</td>
<td>In progress</td>
<td>In progress</td>
<td>To be determined</td>
</tr>
<tr>
<td>20</td>
<td>Revenue</td>
<td>Finance/ Income</td>
<td>Refuse removal misstated - COMAF 14</td>
<td>-</td>
<td>In progress</td>
<td>In progress</td>
<td>To be determined</td>
</tr>
<tr>
<td>21</td>
<td>VAT</td>
<td>Finance/ Budget Office (Accounting)</td>
<td>VAT and Debt Impairment Misstated - COMAF 8</td>
<td>-</td>
<td>In progress</td>
<td>Responded</td>
<td>To be determined</td>
</tr>
<tr>
<td>22</td>
<td>Payables</td>
<td>Finance/ Income</td>
<td>Income received in advance: Duplicate Journal entries - COMAF 17</td>
<td>-</td>
<td>In progress</td>
<td>Responded</td>
<td>To be determined</td>
</tr>
<tr>
<td>23</td>
<td>Compliance</td>
<td>Corporate/ HR</td>
<td>Human Resource Management: Minimum Competency Levels - COMAF 36</td>
<td>1</td>
<td>Responded</td>
<td>Responded</td>
<td>Feb and June 2017</td>
</tr>
<tr>
<td>24</td>
<td>Compliance</td>
<td>Corporate/ Administration</td>
<td>Transfer of funds - COMAF 13</td>
<td>1</td>
<td>In progress</td>
<td>In progress</td>
<td>To be determined</td>
</tr>
<tr>
<td>25</td>
<td>Information Technology</td>
<td>Finance/ IT</td>
<td>INFORMATION TECHNOLOGY GOVERNANCE - ISA COMAF 1</td>
<td>2</td>
<td>Responded</td>
<td>Responded</td>
<td>June 2017</td>
</tr>
<tr>
<td>26</td>
<td>Information Technology</td>
<td>Finance/ IT</td>
<td>SECURITY MANAGEMENT – ISA COMAF 2</td>
<td>2</td>
<td>Responded</td>
<td>Responded</td>
<td>June 2017</td>
</tr>
<tr>
<td>27</td>
<td>Information Technology</td>
<td>Finance/ IT</td>
<td>USER ACCOUNT MANAGEMENT – ISA COMAF 3</td>
<td>2</td>
<td>Responded</td>
<td>Responded</td>
<td>June 2017</td>
</tr>
<tr>
<td>28</td>
<td>Information Technology</td>
<td>Finance/ IT</td>
<td>IT SERVICE CONTINUITY – ISA COMAF 4</td>
<td>2</td>
<td>Responded</td>
<td>Responded</td>
<td>June 2017</td>
</tr>
<tr>
<td>29</td>
<td>Information Technology</td>
<td>Finance/ IT</td>
<td>CHANGE MANAGEMENT – ISA COMAF 5</td>
<td>2</td>
<td>Responded</td>
<td>Responded</td>
<td>June 2017</td>
</tr>
<tr>
<td>30</td>
<td>Compliance</td>
<td>Technical/ Director</td>
<td>Roads and Infrastructure performance - COMAF 38</td>
<td>1</td>
<td>In progress</td>
<td>In progress</td>
<td>To be determined</td>
</tr>
</tbody>
</table>

**Annexure C**

Table 1: Progress per query
Annexure B

1. AOPO - Reported Indicator not accurate - COMAF 22

Audit Finding

According to the national treasury medium term expenditure framework: Section 3 paragraph 2 of the National Treasury Framework for managing programme performance information (FMPPI) requires that a good performance indicator should be verifiable. It must be possible to validate the processes and systems that produce the indicator.

During the audit of key performance indicator (KPI) TL 1- The number of single residential properties with access to basic level electricity we have identified the following:

The number of single residential properties that have access to electricity as per the evidence submitted did not equal to the number that is reported in the Annual Performance Report (APR).

Below is the illustration of the differences identified:

<table>
<thead>
<tr>
<th>KPI</th>
<th>Figures per APR</th>
<th>Figures per evidence received by auditor according to Itron report at June 2016</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>The number of single residential properties with access to basic level electricity</td>
<td>18 988</td>
<td>19 017</td>
<td>29</td>
</tr>
</tbody>
</table>

Consequently KPI TL 1 has been understated by the above-mentioned figure.

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 have adequate reviews in place to ensure that the number recorded for TL 1 is complete and accurate.

Recommendation

Management should have adequate reviews in place to ensure that all information recorded as per the APR is accurate and complete. Furthermore it is recommended that management should amend the figures reported in the APR for TL 1.
Management response

Annexure B

Management comment on the audit finding:
Management disagrees with the finding as stated.
Management is unsure how the AG arrived at the actual of 19 017 as no supporting information is included in the ComAF. The 18 988 is based on both Itron and RData year-end reports as supplied and made up as follows, Itron Domestic = 14 666, RData Domestic = 4 322. See table below for a summary as well as the detailed listing is resubmitted in Excel format.

<table>
<thead>
<tr>
<th>Prepaid Code</th>
<th>Count</th>
<th>Credit Code</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>ALL INCLUSIVE</td>
<td>62</td>
<td>ELEC-RESIDENT. BULK</td>
<td>17</td>
</tr>
<tr>
<td>DOMESTIC 20 AMP</td>
<td>216</td>
<td>EL-0A RES</td>
<td>5</td>
</tr>
<tr>
<td>DOMESTIC 3 PHASE 30</td>
<td>14</td>
<td>EL-5A RES</td>
<td>3</td>
</tr>
<tr>
<td>DOMESTIC 3 PHASE 40</td>
<td>5</td>
<td>EL-15A RES</td>
<td>41</td>
</tr>
<tr>
<td>DOMESTIC 3 PHASE 60</td>
<td>209</td>
<td>EL-20A RES</td>
<td>216</td>
</tr>
<tr>
<td>DOMESTIC 30 AMP</td>
<td>1 271</td>
<td>EL-25A RES</td>
<td>65</td>
</tr>
<tr>
<td>DOMESTIC 40 AMP</td>
<td>501</td>
<td>EL-30A RES</td>
<td>870</td>
</tr>
<tr>
<td>DOMESTIC 40 AMP SPECIAL</td>
<td>1</td>
<td>EL-35A RES</td>
<td>84</td>
</tr>
<tr>
<td>DOMESTIC 60 AMP</td>
<td>2 349</td>
<td>EL-40A RES</td>
<td>695</td>
</tr>
<tr>
<td>ELECTRIFICATION SCHEME 01</td>
<td>772</td>
<td>EL-45A RES</td>
<td>82</td>
</tr>
<tr>
<td>ELECTRIFICATION SCHEME 19</td>
<td>468</td>
<td>EL-50A RES</td>
<td>40</td>
</tr>
<tr>
<td>ELECTRIFICATION SCHEME 21</td>
<td>901</td>
<td>EL-55A RES</td>
<td>2</td>
</tr>
<tr>
<td>ELECTRIFICATION SCHEME 22</td>
<td>5 661</td>
<td>EL-60A RES</td>
<td>1 735</td>
</tr>
<tr>
<td>HOUSING ( PREV 474 )</td>
<td>356</td>
<td>EL-80A RES (AT BUS RATE)</td>
<td>6</td>
</tr>
<tr>
<td>HOUSING INCR AMPS 30</td>
<td>3</td>
<td>EL-20A 3P RES</td>
<td>7</td>
</tr>
<tr>
<td>SF BEHUIISING</td>
<td>617</td>
<td>EL-30A 3P RES</td>
<td>41</td>
</tr>
<tr>
<td>SF DOMESTIC 20 AMP</td>
<td>8</td>
<td>EL-35A 3P RES</td>
<td>1</td>
</tr>
<tr>
<td>SF DOMESTIC 30 AMP</td>
<td>315</td>
<td>EL-40A 3P RES</td>
<td>35</td>
</tr>
<tr>
<td>SF DOMESTIC 40 AMP</td>
<td>158</td>
<td>EL-60A 3P RES</td>
<td>375</td>
</tr>
<tr>
<td>SF DOMESTIC 60 AMP</td>
<td>779</td>
<td>EL-10A 3P RES</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subtotal (Prepaid) Itron</td>
<td>14 666</td>
<td>Subtotal (Credit Meters) RData</td>
<td>4 322</td>
</tr>
</tbody>
</table>

Even if the ComAF where correct it does raise some concern when the supposed difference of 29 only amounts to 0.15% what value would it add and how materiality is applied to AOPO.

Management comment on the root cause identified within the audit finding:
Management does not support the finding and therefore requests that the ComAF as is be withdrawn.

Management comment on the recommendation:
No amendments will be made at this stage.

Remedial action:

<table>
<thead>
<tr>
<th>What actions will be taken:</th>
<th>By whom:</th>
<th>By when:</th>
</tr>
</thead>
<tbody>
<tr>
<td>N/A</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Annexure B

<table>
<thead>
<tr>
<th>Financial Statement Impact</th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Correcting Journal Entry</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounting Entry</td>
<td>N/A</td>
<td></td>
</tr>
</tbody>
</table>

Auditor's conclusion

Management's response is noted. Management subsequently agreed to correct the reported figure; however the figure that was indicated on the COMAF incorrectly included the commercial properties. Management corrected the figure and excluded the commercial properties. The auditors have inspected the annual performance report for the corrections processed. The matter will remain under other important matters in the management report.

Management Response for Audit Plan Purposes (OPCAR)

Responsible Directorate/Department: (Finance/Income)

Deadline: November 2016

Action: After additional investigation the error of 29 resulted from the prepaid service provider drawing the Management report on 30 June and the data "detailed spreadsheet" a few days earlier.

The service provider have committed themselves to ensure that both the report and data are generated on the same day. Successful implementation was verified as working in November 2016 for the October 2016 period and will be monitored on an ongoing basis. The issue is therefore considered resolved.

Verified by: Manager Performance, Internal Audit and Risk Management.
Annexure B

2. AOPO: Misstatement of Reported Indicator TL 42 - COMAF 39

Audit Finding

According to the national treasury medium term expenditure framework:

Section 3 paragraph 2 of the National Treasury Framework for managing programme performance information (FMPPi) requires that a good performance indicator should be verifiable. It must be possible to validate the processes and systems that produce the indicator.

During the audit of TL 42-Limit water unaccounted for by maintaining the water loss below 20%, the following misstatements were identified:

a) Differences were identified during the recalculation of the unaccounted water losses for the following areas:

<table>
<thead>
<tr>
<th>Areas</th>
<th>Figures submitted per calculation from the auditee.</th>
<th>Recalculation by auditor using the reports provided as supporting documentation</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knysna</td>
<td>691 546</td>
<td>482 014</td>
<td>209 532</td>
</tr>
<tr>
<td>Sedgefield</td>
<td>134 109</td>
<td>1 001 97</td>
<td>33 912</td>
</tr>
<tr>
<td>Brenton</td>
<td>51 961</td>
<td>613 61</td>
<td>9 400</td>
</tr>
<tr>
<td>BELVIDERE</td>
<td>9 347</td>
<td>7 982</td>
<td>1 365</td>
</tr>
<tr>
<td>Total difference</td>
<td></td>
<td></td>
<td>254 209</td>
</tr>
</tbody>
</table>

b) There were missing supporting evidence for the calculations that were submitted as evidence for the key indicator. Below are the affected areas:

- Rheenendal
- Buffalo Bay
- Karatara

c) The following areas were not included in the calculation that was submitted as evidence for the key performance indicator, however it was included in the reports that were submitted as supporting evidence for the calculation:

<table>
<thead>
<tr>
<th>Area</th>
<th>Water consumption per calculation</th>
<th>Water consumption per evidence.</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kotze</td>
<td>0</td>
<td>2 035</td>
<td>2 035</td>
</tr>
<tr>
<td>Rural</td>
<td>0</td>
<td>18 848</td>
<td>18 848</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>20 883</td>
</tr>
</tbody>
</table>

Consequently this results in the unaccounted water reported in the APR being inaccurate as the above mentioned misstatement has an impact on the calculation of the 20.8% unaccounted losses reported. However the auditor could not determine the actual amount of misstatement as there was missing evidence.
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 ensure that adequate review controls were in place for the unaccounted losses calculation performed.

Recommendation

Management should put appropriate controls in place to ensure that the information that is used to calculate the unaccounted losses and the calculation is appropriately reviewed to ensure that the percentage reported in the APR and the financial statement is accurate. Furthermore, management should revisit the calculation and amend it.

Management response

Management comment on the audit finding:
Management agreed after discussions that the final schedule submitted is correct and that the Annual Performance Report as well as the Annual Financial Statements will be amended accordingly.

NOTE: Auditor-General to ensure that the figures mentioned in the COMAF are in accordance with the final schedule.

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

Management comment on the recommendation:

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

Auditor’s conclusion

Management’s response is noted. Subsequently the information was received and audited. The correction has been inspected and the annual financial statements and the annual performance
The report have been correctly amended. The matter will remain in the management report as an "other important matter".

### Management Response for Audit Plan Purposes (OPCAR)

**Responsible Directorate/Department:** (Technical/Water Purification)

**Deadline** – To be determined

**Action:** Please state what you are putting in place to prevent a repeat finding during the 2016/2017 audit.

**Verified by:** In Progress
Annexure B

3. AOPO: KPI (TL 31 and 32) not well defined - COMAF 28

Audit Finding

In terms of Chapter 3 par. 3.2 of the Framework for Managing Programme Performance Information issued by the National Treasury in May 2007:

“Suitable indicators need to be specified to measure performance in relation to inputs, activities, outputs, outcomes and impacts. A good performance indicator should be:

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

Section 3.3 further indicates that a useful set of criteria for selecting performance targets is the “SMART” criteria:

• Specific: the nature and the required level of performance can be clearly identified
• Measurable: the required performance can be measured
• Achievable: the target is realistic given existing capacity
• Relevant: the required performance is linked to the achievement of a goal
• Time-bound: the time period or deadline for delivery is specified.

During the assessment of planned and reported performance information, we identified that the indicators listed below are not specific and not well defined in terms of the required level of performance that must be achieved.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Definition</th>
<th>Evidence obtained from the audittee</th>
<th>Reason for not being well defined</th>
</tr>
</thead>
</table>
| TL31: Human settlement Plan | Provide housing opportunities through servicing sites and building top structures | • Expenditure/Budget calculation.  
• List of expenditure incurred for the KPI to support the calculation of the percentage reported in the APR. | • It is not clear whether this should be the total number of houses or the total expenditure on houses to be provided.  
• The definition of the indicator does not make it clear that it is the percentage of budget spent on housing. |
| TL32: Hornlee Toilets    | Provide access to proper sanitation through constructing toilets attached to houses in Hornlee | • Expenditure/Budget calculation.  
• List of expenditure incurred for the KPI to support the calculation of the percentage reported in the APR. | • It is not clear whether the indicator is referring to the number of toilets constructed.  
• The definition of the indicator does not make it clear that it is the percentage of budget spent on toilets. |

Performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPi.
Annexure B

Consequently the municipality did not comply with Chapter 3 of the Framework for Managing Programme Performance Information issued by the National Treasury.

Furthermore this has a negative impact on service delivery as data may not be collected consistently in order to achieve the above indicators and targets

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 SDBIP to ensure that the key performance indicators were clear and unambiguous thereby making it easier to monitor the performance and thus ensuring useful information is included in the SDBIP and annual report.

Recommendation

Management should ensure that an adequate review of the key performance indicators is performed to ensure that they are well defined and useful to collate data and monitor performance.

Management response

<table>
<thead>
<tr>
<th>No.</th>
<th>Key Performance Indicator</th>
<th>Indicator Definition</th>
<th>Original Annual Target</th>
<th>Amendments Annual Target</th>
<th>Multi - Year 2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>Motivation for Amendment</th>
</tr>
</thead>
<tbody>
<tr>
<td>19</td>
<td>Human Settlement Plan</td>
<td>Provide housing opportunities through servicing sites and building top structures. Number of opportunities provided. Expenditure of operational and capital funding provided.</td>
<td>500 [five hundred] (Number)</td>
<td>100% [one hundred] (Percentage)</td>
<td>Y</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>Due to our dependency on grant funding and unknowns at the time of the PI development such as final cost per unit and access to properties the actuals can vary significantly due to the factors outside of the municipality's control. In addition the verification of actuals both for internal and external audit require extensive and expensive verification process.</td>
</tr>
</tbody>
</table>

TL 31
Due to the heavy reliance on human controls and limited capacity on occasion information is omitted or updated incorrectly to the various documents and systems.

Management comment on the root cause identified within the audit finding:
Disagree the root cause relates to controls on the APR review process.

Management comment on the recommendation:
Disagree as the root relates to the APR review process however Management will investigate and implement additional review process prior to submission of the Draft APR to the AG.

Remedial action:
<table>
<thead>
<tr>
<th>What actions will be taken:</th>
<th>By whom:</th>
<th>By when:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Misstatements in the APR will be corrected and submitted to the AG</td>
<td>Manager PIARM</td>
<td>15 October 2016</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
</table>

Please give an indication of whether the correcting journal entry shall be processed:

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
<th>N/A</th>
</tr>
</thead>
</table>

If yes, please indicate the accounting entry:

If no, please provide the reason why such a conclusion:

Remedial action:
<table>
<thead>
<tr>
<th>What actions will be taken:</th>
<th>By whom:</th>
<th>By when:</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
</table>

Please give an indication of whether the correcting journal entry shall be processed:

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
<th>N/A</th>
</tr>
</thead>
</table>

If yes, please indicate the accounting entry:

If no, please provide the reason why such a conclusion:
Annexure B

Auditor’s conclusion

Management’s response is noted. Management subsequently agreed to include a note in the annual performance report to explain to make it clear that they are using actual expenditure over budgeted amounts to compile the indicator. The matter will remain in the management report as an “other important matter”.

<table>
<thead>
<tr>
<th>Management Response for Audit Plan Purposes (OPCAR)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Responsible Directorate/Department:</strong> (MM/Performance)</td>
</tr>
<tr>
<td><strong>Deadline:</strong> February 2017</td>
</tr>
<tr>
<td><strong>Action:</strong> To prevent a repeat of the finding the top level SDBIP has been reviewed and all indicators identified with similar issues have been amended and will be submitted to Council as part of the adjustment budget process for approval.</td>
</tr>
<tr>
<td><strong>Verified by:</strong> In Progress</td>
</tr>
</tbody>
</table>
## Annexure B

4. AOPO: Reported indicators TL 43, 45 and 39 misstated - COMAF 31

### Audit Finding

During the audit of Strategic Objective number one (To promote access for all citizens to equitable, appropriate and sustainable infrastructure and services within a safe environment) we were unable to obtain the completion certificates for projects said to be completed for TL43 and TL 45.

Furthermore we also identified that projects per TL 39 which were said to be completed before year end were only completed after year end as per the completion certificates.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Audit evidence</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TL 43</strong></td>
<td>Both indicators relate to the completion of all master plan projects within available budget. Completion certificates or other proof that the projects were completed were not provided as part of audit evidence.</td>
</tr>
<tr>
<td>Water Master Plan [Complete all Master plans projects programmed for the financial year within the available budget]</td>
<td></td>
</tr>
<tr>
<td><strong>TL 45</strong></td>
<td></td>
</tr>
<tr>
<td>Waste Water Master Plan [Complete all Master plans projects programmed for the financial year within the available budget]</td>
<td></td>
</tr>
<tr>
<td><strong>TL 39</strong></td>
<td>Inspected the Completion certificates and confirmed that the following projects were completed after year end (30 June 2016)</td>
</tr>
<tr>
<td>Electrical Master Plan [Complete all Master plans projects programmed for the financial year within the available budget]</td>
<td></td>
</tr>
<tr>
<td>- Knysna municipality: contract no. 43/2015: high mast floodlighting at the northern areas (phase 2d): (Competed, 12 Aug 2016)</td>
<td></td>
</tr>
</tbody>
</table>

Consequently the above indicators are misstated.
Internal control deficiency

Financial and Performance Management- Prepare accurate financial and performance reports that are supported and evidenced by reliable information

Management did not adequately review the supporting documents for the above indicators to ensure that the indicators have been accurately recorded per the annual performance report.

Recommendation

Management should properly review and reconcile the information submitted as evidence to ensure accuracy of the indicators that are reported on the annual performance report.

Management response

Management comment on the audit finding:

Management disagrees with the finding based on the following;
All three PI clearly state “Complete all Master plans projects programmed for the financial year” and not in the financial year.

TL43 and TL 45 are not met and are not claimed as met therefore management fails to see what the “restated” outcome would be, obviously the projects were not completed we state as follows in the APR

TL43 “The majority of the projects have been completed and awaiting for submission of claims for payment. They are grant funded projects and submissions for approval of rollover of funds to the new financial year have been submitted.”

TL45 “Sedgefield WWTW project is currently in construction phase. There were deviations on the project, which caused delays. Estimated closing date is end October 2016. Grant funds have been fully utilised, the R 3 million own funds still available will be used to complete the project.” No statement was made that all were done, therefore submitting proof that they were done seems to be a waste value employees time and effort better spent on achieving performance in the current financial year.

Therefore the finding repeats what we are already declaring in the APR.

In addition the Engineer Water and Sewer Services stated “We disagree with the findings. The water & sewer master plans had to be completed and the measurement on KPI’s should have been plan for each services and not project complete. The project are measured in percentage budget spend”. Therefore we could not produce completion certificates for all projects.” In addition he will setup meeting with Auditors and give them the Water & Sewer Master plans.

TL39 we are claiming 90.1% obviously this would infer that not all projects are completed within the final year.
**Annexure B**

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

Disagree with the root cause as management provided the AG with significant documentation at the beginning of the audit process, as in most audit process there are often requests for additional information and is near impossible to know in advance what the AG would require or consider sufficient. It is a blatant waste of ratepayer’s money to duplicate information already available on a system of Council onto another. In addition if the AG audited the AOPO from when they were given the information the PIARM section would have had sufficient time to trace and provide all the documentation required.

Management comment on the recommendation:

Management is of the opinion that they have reviewed and reconciled the information as it does not stand on its own and is directly derived from the asset reconciliation as contained in the AFS and as there are no findings affecting the assets including those generated by TL39, TL43 and TL49 we would assume that the system and process were found adequate by the AG and therefore acceptable for PMS as well. Even if the AG were correct in their finding management fails to see how this would affect the APR as the only way would be to amend the PI by removing “Complete all Master plans projects programmed for the financial year” which can only be done as part of a budget process and would further dilute the aim of performance.

Remedial action:

<table>
<thead>
<tr>
<th>What actions will be taken:</th>
<th>By whom:</th>
<th>By when:</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
</table>

Please give an indication of whether the correcting journal entry shall be processed:  

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
<th>N/A</th>
</tr>
</thead>
</table>

If yes, please indicate the accounting entry:  

If no, please provide the reason why such a conclusion:

**Auditor’s Conclusion**

Management’s response is noted. Subsequently management agreed to include a note in the annual performance report to explain that the indicator refers to actual expenditure over budget. This was adequate as it makes it clear to the users the type of information used to compile the indicator. However this matter will remain as an “other important matter” in the management report.

**Management Response for Audit Plan Purposes (OPCAR)**

**Responsible Directorate/Department:** (MM/Performance)

**Deadline:** February 2017
## Annexure B

**Action:** To prevent a repeat of the finding the top level SDBIP has been reviewed and all indicators identified with similar issues have been amended and will be submitted to Council as part of the adjustment budget process for approval.

**Verified by:** In Progress
5. AOPO: Reported Indicators TL 6 and 7 misstated - COMAF 23

Audit Finding

During the audit of Key Performance Indicator (KPI) TL 6 & 7: The number of formalised single properties with access to free basic service: Water and Sanitation we identified the following

The below approved indigent applicant was not included in the number of formalised single properties with access to free basic service: Water and Sanitation as per the annual performance report.

<table>
<thead>
<tr>
<th>ACCOUNT NO</th>
<th>SURNAME</th>
<th>INITIALS</th>
<th>ERF</th>
<th>AREA</th>
</tr>
</thead>
<tbody>
<tr>
<td>202664000014</td>
<td>BENSON</td>
<td>R</td>
<td>2664</td>
<td>SEDGEFIELD</td>
</tr>
</tbody>
</table>

Consequently indicators TL 6 and 7 were understated.

The above misstatement was identified from a sample of approved applications tested and therefore we were unable to confirm the full extent of the 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 perform an adequate review of all applications received to ensure that TL 6 and 7 as recorded in the annual performance report (APR) is complete.

Recommendation

Management should properly review and reconcile the information submitted as evidence to ensure completeness of the indicators that are reported on the APR.

Furthermore, management should inspect the full population of applications received and amend the APR accordingly.

Management response

Management comment on the audit finding:
Management is in agreement with finding of Auditor-General.

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

The indigent application in question was however a late application (signed 12 March 2015) and processed and approved by our office on 5 April 2016 and administering official inadvertently regard it as an application for 2016/2017 financial year.

Management comment on the recommendation:

A proper review process is in place to ensure that the number of application forms for free basis services (indigent support) does correspond with the indigent Register and Promun (Financial System) where the actual rebates is processed on the application account.

Remedial action:

<table>
<thead>
<tr>
<th>What actions will be taken:</th>
<th>By whom:</th>
<th>By when:</th>
</tr>
</thead>
<tbody>
<tr>
<td>The misstatement will be corrected in the APR to reflect 1399</td>
<td>Manager PIARM</td>
<td>15 November 2016</td>
</tr>
</tbody>
</table>

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

| YES | NO | N/A |

Please give an indication of whether the correcting journal entry shall be processed:

| YES | NO | N/A |

If yes, please indicate the accounting entry:

N/A

If no, please provide the reason why such a conclusion:

N/A

Auditor’s conclusion

Management’s comments noted. Inspected the updated annual performance report and confirmed that TL6 and 7 has been corrected. This finding will however be reported in the management report under other important matters.

Management Response for Audit Plan Purposes (OPCAR)

**Responsible Directorate/Department:** (Finance/Income)

**Deadline** – To be determined

**Action:** Please state what you are putting in place to prevent a repeat finding during the 2016/2017 audit.

**Verified by:** In Progress
Annexure B

6. AOPO: Reported Indicator TL 5 misstated - COMAF 33

Audit Finding

During the audit of Key Performance Indicator (KPI) TL 5 (The number of formalised single properties with access to free basic service: Electricity), we identified that the actual number properties with access to free basic electricity as reported per the annual report of 8 999 does not agree to the listing provided as audit evidence.

The listing shows a total amount of 6 774 properties that are on 20AMP and therefore qualify for the free 50KWH on their 1st purchase for each month.

The above indicator is misstated by 2 225 properties.

Internal control deficiency

Financial and Performance Management- Prepare accurate financial and performance reports that are supported and evidenced by reliable information

Management did not have adequate reviews in place to ensure that the number recorded for TL 5 is valid and accurate.

Recommendation

Management should properly review and reconcile the information submitted as evidence to ensure accuracy of the indicators that are reported on the annual performance report (APR).

Furthermore, management should investigate the entire population and amend TL 5 per the APR.

Management Response

| Management comment on the audit finding: | Management agrees with the finding |
| Management comment on the root cause identified within the audit finding: | Management agrees with the root cause |
| Management comment on the recommendation: | Management will implement the recommendation as provided by the AG. |

| Remedial action: | By whom: | By when: |
| What actions will be taken: | Manager PIARM | 15 November 2016 |
| The actual for TL 5 will be restated to reflect the correct figure of 6 774. | | |
### Annexure B

<table>
<thead>
<tr>
<th>If the above findings affects an amount (s) disclosed in the financial statements:</th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Please give an indication of whether the correcting journal entry shall be processed:</td>
<td>YES</td>
<td>NO</td>
</tr>
<tr>
<td>If yes, please indicate the accounting entry:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>If no, please provide the reason why such a conclusion:</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Auditor's Conclusion

Management's comments noted. Inspected the corrected annual performance report and confirmed that the adjustment has been made. This item will still however be included under other important matters in the management report.

### Management Response for Audit Plan Purposes (OPCAR)

**Responsible Directorate/Department:** (Finance/Income)

**Deadline:** November 2016

**Action:** After additional investigation the error resulted from a reporting difference between the Management report on 30 June and the data “detailed spreadsheet” leading to an interpretation error leading to an overstatement of individuals with 20amp circuit breakers.

To prevent a repeat of the finding the top level SDBIP the indicator has been amended and will be submitted to Council as part of the adjustment budget process for approval.

**Verified by:** Manager Performance, Internal Audit and Risk Management
7. AOPO: Inconsistency between SDBIP and APR - COMAF 21

### Audit Finding

In terms of Chapter 3 par. 3.2 of the Framework for Managing Programme Performance Information issued by the National Treasury in May 2007:

“Suitable indicators need to be specified to measure performance in relation to inputs, activities, outputs, outcomes and impacts. A good performance indicator should be:

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

During the assessment of the plan and reported information, the following was noted:

1. The definitions for the indicators listed in the Service Delivery Budget Implementation Plan (SDBIP) are not consistent with the objective listed in the Annual Performance Report (APR) submitted for audit.

<table>
<thead>
<tr>
<th>No.</th>
<th>Key performance indicator per SDBIP</th>
<th>Key performance indicator per APR</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>TL7</td>
<td>The number of formalized single properties with access to free basic service: SANITATION / SEWERAGE</td>
<td>The number of formalized single properties with access to free basic service: SANITATION / SEWERAGE</td>
<td>The indicator in the SDBIP speaks to sanitation/sewerage and in the APR it speaks to water, therefore the indicator is inconsistent.</td>
</tr>
<tr>
<td></td>
<td>This indicator reflects the 100% social rebate granted in respect to the annual sanitation fee charged to qualifying home owners of single residential properties.</td>
<td>The indicator reflects the 100% social rebate granted in respect to the annual water availability fee charged to qualifying home owners of single residential properties</td>
<td></td>
</tr>
<tr>
<td>TL31</td>
<td>Human settlement Plan</td>
<td>Human settlement Plan</td>
<td>The indicator in the SDBIP defines unit of measurement as expenditure for funding provided and the APR only speaks to housing opportunities. This indicator is not well defined and is not reported consistently.</td>
</tr>
<tr>
<td></td>
<td>Expenditure of operational and capital funding provided</td>
<td>Provide housing opportunities through servicing sites and building top structures</td>
<td></td>
</tr>
<tr>
<td>TL3</td>
<td>The number of single residential properties with access to basic level of sanitation</td>
<td>The number of single residential properties with access to basic level of sanitation</td>
<td>The indicator is reported under Strategic objective one in the SDBIP (Final) and reported under strategic objective two in the APR. This indicator is not reported consistently.</td>
</tr>
<tr>
<td></td>
<td>The indicator reflects the number of residential properties that the Municipality is aware of connected to the municipal waste water (sanitation/sewerage) network irrespective of the number of water closets/toilets.</td>
<td>The indicator reflects the number of residential properties that the Municipality is aware of connected to the municipal waste water (sanitation/sewerage) network irrespective of the number of water closets/toilets.</td>
<td></td>
</tr>
</tbody>
</table>
Consequently the municipality did not comply with Chapter 3 of the Framework for Managing Programme Performance Information issued by the National Treasury.

Furthermore this has a negative impact on service delivery as data may not be collected consistently in order to achieve the above indicators and targets

**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 APR to ensure that it is consistent with the SDBIP before the APR is submitted for audit.

**Recommendation**

Management should ensure that they do an adequate review of the APR for consistency before they submit the APR for audit.

**Management response**

<table>
<thead>
<tr>
<th>Management comment on the audit finding:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management agrees with the finding in regards to TL7 and TL31</td>
</tr>
</tbody>
</table>

| Management disagrees with the finding in regards to TL3 |

<table>
<thead>
<tr>
<th>Management comment on the root cause identified within the audit finding:</th>
</tr>
</thead>
<tbody>
<tr>
<td>TL7 and TL31, the errors originally originated from the midyear review and adjustment processes. The APR is a manual document and is generated with significant reliance on manual processes which by nature and with limited time, resources and capacity will result in a certain percentage of errors. Management is continually striving to improve the quality and accuracy of the APR and will continue to do so. It should also be kept in mind that the APR forms the backbone of the Annual Report which receives the legislated review process by the public, MPAC and Council. Consideration should possible be given by the AG at a national level to realigning there AOPO processes to after the Public, MPAC and Council Processes thereby reducing the possibilities of errors resulting in quicker audits and freeing up funds desperately needed for service delivery to needy communities.</td>
</tr>
</tbody>
</table>

| TL3 Strategic Objective 1 begins on page 68 of the APR, TL3 is on page 69 and Strategic Objective 2 only begins on page 72 therefor TL3 is correctly listed under Strategic Objective 1. |

| Management comment on the recommendation: |
Annexure B

Management continually strives to improve the accuracy of the information in the APR however with limited time and staff as well as the volume of work relating to the APR.

Remedial action:

<table>
<thead>
<tr>
<th>What actions will be taken:</th>
<th>By whom:</th>
<th>By when:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amendments will be made to errors relating to TL7 and TL31</td>
<td>Manager PIARM</td>
<td>On completion of the ComAF and Draft Management Report process</td>
</tr>
</tbody>
</table>

If the above findings affects an amount (s) disclosed in the financial statements: | YES | NO |
If yes, please indicate the accounting entry: | YES | NO | N/A |
If no, please provide the reason why such a conclusion:

Auditor’s conclusion

Management’s comments noted. The finding will however remain in the management report under other important matters. Auditors’ have inspected the amendments made and ensured that they are correct.

Management Response for Audit Plan Purposes (OPCAR)

Responsible Directorate/Department: (MM/Performance)

Deadline: August 2017

Action: The approach to address the issue is twofold, the long term ideal solution is for a system driven report/export directly to the Annual Performance Report. This could take a few years depending on issues such as the role out of mSCOA and the resulting systems integrations. Secondly for the upcoming year additional pre submission reviews will be undertaken within the PAIRM section with assistance from Internal Audit.

Verified by: In Progress
Annexure B

8. Contract management: Monitoring performance of contracts - COMAF 18

Audit Finding

Section 116 of the Municipal Finance Management Act No.56 of 2003 (MFMA) states:

“(2) The accounting officer of a municipality or municipal entity must—

(b) monitor on a monthly basis the performance of the contractor under the contract or agreement;

(c) establish capacity in the administration of the municipality or municipal entity—

(i) to assist the accounting officer in carrying out the duties set out in paragraphs (a) and (b); and

(ii) to oversee the day-to-day management of the contract or agreement;”

During the audit of Contract management we could not obtain proof that performance monitoring of contracts took place for the following tenders:

<table>
<thead>
<tr>
<th>No.</th>
<th>Tender number</th>
<th>Supplier name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>T09/2015</td>
<td>Autumn Skies Trading</td>
</tr>
<tr>
<td>2.</td>
<td>T18/2014</td>
<td>Konica Minolta</td>
</tr>
<tr>
<td>3.</td>
<td>T23/2013</td>
<td>Gijimi Telephone</td>
</tr>
<tr>
<td>4.</td>
<td>T39/2014</td>
<td>XP Construction</td>
</tr>
<tr>
<td>5.</td>
<td>T04/2015</td>
<td>Curogyn Construction</td>
</tr>
</tbody>
</table>

Consequently the municipality did not comply with Section 116 of the Municipal Finance Management Act.

Internal control deficiency

Leadership: Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls

The accounting officer did not exercise sufficient oversight responsibility to ensure that there is monitoring controls in place for contract management

Recommendation

The accounting officer should ensure that effective monitoring controls are implemented over the monitoring of contracts.
**Annexure B**

**Management response**

**Management comment on the audit finding:**
- T09/2015 Management is in agreement with the finding.
- T18/2014 Management is in agreement with the finding.
- T23/2015 Management is in agreement with the finding.
- T39/2014 Management is in agreement with the finding.
- T04/2015 Management Disagrees with the Finding.

**Management comment on the root cause identified within the audit finding:**
- T09/2015 We in constant communication with the Consultants who supervises the contractors, we meet often, management also visit the sites but do not take minutes of meetings held.
- T18/2014 - We are regularly in contact with Konica Minolta, and have informal meetings with regards to services rendered.
- T23/2013 - We are regularly in contact with Gijima with regards to the telephone system, and have informal meetings.
- T39/2014 We in constant communication with the Consultants who supervises the contractors, we meet often, management also visit the sites but do not take minutes of meetings held.
- T04/2015 We in constant communication with the Consultants who supervises the contractors, we meet often, management also visit the sites, minutes and attendance register of meetings held attached.

**Management comment on the recommendation:**
- T09/2015 Management agrees to the recommendation and will ensure that it monitors the contract and its implementation.
- T18/2014 - Will have formal meetings with Konica Minolta.
- T23/2013 Management agrees on the recommendation to document meetings to monitor the contract.
- T04/2015 Agree to monitor contracts at all times.

**Remedial action:**

<table>
<thead>
<tr>
<th>What actions will be taken:</th>
<th>By whom:</th>
<th>By when:</th>
</tr>
</thead>
<tbody>
<tr>
<td>T09/2015 Formalise all meetings held with consultants and contractors.</td>
<td>IT Manager</td>
<td>Immediately</td>
</tr>
<tr>
<td>T18/014 - Documented meetings with Konica Minolta, to ensure monitoring of contracts.</td>
<td>Manager Housing Mawethu Penxa</td>
<td></td>
</tr>
<tr>
<td>T23/2013 To formulise the meetings held with Gijima.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>T39/2014 Formalise all meetings held with consultants and contractors.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>T04/2015 Portfolio of evidence for site seeing and meetings with consultants or contractors.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

If the above findings affects an amount (s) disclosed in the financial statements: YES NO

Please give an indication of whether the correcting journal entry shall be processed: YES NO N/A

If yes, please indicate the accounting entry:

If no, please provide the reason why such a conclusion:
Annexure B

Auditor's conclusion
Management's response is noted. The matter will remain in the management report as an “other important matter”. The auditor assessed and evaluated the supporting documentation and concluded the following:

- T 09/2015 and T23/2015: still remains as a non-compliance.

*This matter will be followed up during the quarterly key control visits.*

Management Response for Audit Plan Purposes (OPCAR)
**Responsible Directorate/Department:** (Finance/Procurement)

**Deadline** – To be determined

**Action:** This is dependent on the organogram and SCM will at this point not take responsibility for it. I do not have staff and get 0% support from user department on this. I have highlighted this to Council in SCM reports from 2 year ago already. Still no support or alternative resolution.

**Verified by:** In Progress
Annexure B


Audit Finding

Section 116 of the Municipal Finance Management Act No.56 of 2003 (MFMA) states:

“(2) The accounting officer of a municipality or municipal entity must—

(b) monitor on a monthly basis the performance of the contractor under the contract or agreement;

(c) establish capacity in the administration of the municipality or municipal entity—

(i) to assist the accounting officer in carrying out the duties set out in paragraphs (a) and (b); and

(ii) to oversee the day-to-day management of the contract or agreement;”

During the audit of Contract management we identified the following:

We were unable to obtain proof that performance monitoring of contracts took place for the following tenders:

<table>
<thead>
<tr>
<th>No</th>
<th>Tender number</th>
<th>Supplier name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>T18/2015</td>
<td>Entsha Henra CC</td>
</tr>
<tr>
<td>2</td>
<td>T16/2015</td>
<td>Gau Flora CC</td>
</tr>
<tr>
<td>3</td>
<td>T35/2015</td>
<td>Benver Civils and Plant Hire</td>
</tr>
<tr>
<td>4</td>
<td>T12/2011</td>
<td>TMT Services and Supplies</td>
</tr>
<tr>
<td>5</td>
<td>T61/2015</td>
<td>Artcon Construction</td>
</tr>
</tbody>
</table>

For the following contracts we received responses from management as to what measures are in place with regards to performance management of contracts but we could not obtain any proof of these measures implemented:

<table>
<thead>
<tr>
<th>No</th>
<th>Tender number</th>
<th>Supplier name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>T35/2014</td>
<td>B&amp;V Contracts (PTY) Ltd</td>
</tr>
<tr>
<td>2</td>
<td>T24/2015</td>
<td>Urwehebo E Transend Willvest (PTY) Ltd</td>
</tr>
<tr>
<td>3</td>
<td>T7/2015</td>
<td>Spectrum Communications (PTY) Ltd</td>
</tr>
<tr>
<td>4</td>
<td>T48/2015</td>
<td>Benver Civils and Plant Hire</td>
</tr>
<tr>
<td>5</td>
<td>T30/2015</td>
<td>Prentec (PTY) Ltd</td>
</tr>
<tr>
<td>6</td>
<td>T52/2015</td>
<td>Briden Engineering CC</td>
</tr>
<tr>
<td>7</td>
<td>T44/2013</td>
<td>Metsi Chem iKapa</td>
</tr>
<tr>
<td>8</td>
<td>T22/2015</td>
<td>New Morning Construction</td>
</tr>
</tbody>
</table>

Consequently the municipality did not comply with Section 116 of the Municipal Finance Management Act.
Internal control deficiency

Leadership: Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls

The accounting officer did not exercise sufficient oversight responsibility to ensure that there is monitoring controls in place for contract management

Recommendation

The accounting officer should ensure that effective controls are implemented over the monitoring of contracts.

Management response

Management comment on the audit finding:
T18/2015 – Management disagrees with the finding due to the fact management do have constant communication with consultants and the appointed contractor on a monthly basis progress reports received every month in each meeting with regards to the performance of the contract and management regularly visit sites for verification.
T16/2015 - Management disagrees with the finding due to the fact management do have constant communication with consultants and the appointed contractor on a monthly basis progress reports received every month in each meeting with regards to the performance of the contract and management regularly visit sites for verification
T35/2015 - Management disagrees with the finding due to the fact management do have constant communication with consultants and the appointed contractor on a monthly basis progress reports received every month in each meeting with regards to the performance of the contract and management regularly visit sites for verification
T61/2015 Tender has been cancelled due to non-performance.
T35/2014 – Management agrees with the findings
T12/2011 Management Disagrees with the finding as it does hold meetings with the contractor with regards to the performance of the contract and deliverance, see minutes attached, the meetings are held upon request of either of the parties.
T24/2015; T07/2015; T48/2015; T30/2015; T52/2015; T44/2013; T22/2015 From a Technical Services point of view, there is performance management of all contracts. Generally our large contracts are managed by consultants and regular meetings are held with the stakeholders involved in the contract. The project managers also meet weekly at a project management meeting to monitor ALL projects in the municipality. The weekly monitoring sheet and minutes of meetings is available. I suggest the AG make contact with the relevant responsible manager to view or request such documents. (See excel spreadsheet attached as a summary)

Management comment on the root cause identified within the audit finding:
T18/2015 – not applicable as management visits sites regularly
T16/2015 - not applicable as management visits sites regularly
T35/2015 - not applicable as management visits sites regularly
T61/2015 Tender has been cancelled due to non-performance
Annexure B

| T35/2014 – Management have informal meetings with Contractor, will now formalise all meetings |
| T12/2011 - We have regular contact and communications with the contractor but not all meetings are formalise therefore management will make sure all meetings held with the contractor are formalise |
| T24/2015; T07/2015; T48/2015; T30/2015; T52/2015; T44/2013; T22/2015 - The accounting officer does ensure this as he/she gets feedback from the weekly project meeting held on a Monday |

Management comment on the recommendation:
- T18/2015; T16/2015; T35/2014 - Management agrees to the recommendations and will ensure that proper controls exist and are adhered to as agreed.
- T61/2015 - Tender has been cancelled due to non-performance
- T35/2015 – Management agrees with the recommendation and will implement proper control and monitor the contract.
- T12/2011 - Management agrees to the recommendations and will ensure that proper controls exist and are adhered to.
- T24/2015; T07/2015; T48/2015; T30/2015; T52/2015; T44/2013; T22/2015 - This is being done. (see example of monitoring sheet as well as some site minutes attached)

Remedial action:

| What actions will be taken: |
| By whom: |
| By when: |
| T18/2015; T35/2015; T61/2015; T35/2014; T18/2015 – Management will make sure all controls are adhered to and implemented correctly and improve where possible. |
| Manager Housing: Mawethu Penxa |
| Tender has been cancelled due to non-performance |
| Financial year. |
| T12/2011 - Management will document all meetings and make sure that contracts specs are achieved. |
| Richard Meyer |
| T24/2015; T07/2015; T48/2015; T30/2015; T52/2015; T44/2013; T22/2015 - We will see if there is room for further improvement and implement same. |
| Director Technical Services: Micheal Rhode |
| Manager Roads and Public Works: Shaun Maree |
| Manager Water and Sewer: Rhoydon Parry |

If the above findings affects an amount (s) disclosed in the financial statements: YES NO

Please give an indication of whether the correcting journal entry shall be processed: YES NO N/A

If yes, please indicate the accounting entry:
If no, please provide the reason why such a conclusion:

Auditor’s conclusion
Management’s response is noted. The matter will remain in the management report as an “other important matter”. The auditor assessed and evaluated the supporting documentation and concluded that the findings for the following tenders still remain:

- T61/2015
- T48/2014
- T30/2015

This matter will be followed up during the quarterly key control visits.
Annexure B

Management Response for Audit Plan Purposes (OPCAR)

**Responsible Directorate/Department:** (Finance/Procurement)

**Deadline** – To be determined

**Action:** This is dependent on the organogram and SCM will at this point not take responsibility for it. I do not have staff and get 0% support from user department on this. I have highlighted this to Council in SCM reports from 2 year ago already. Still no support or alternative resolution.

**Verified by:** In Progress
Annexure B

10. Procurement and contract management: incorrect preference point system used - COMAF 4

Audit finding

Section 8(1)(a) of the Preferential Procurement Policy Framework Act, 2000: Preferential Procurement Regulations, 2011 states that:

“In the event that, in the application of the 80/20 preference point system as stipulated in the tender documents, all tenders received exceed the estimated Rand value of R 1 000 000, the tender must be cancelled.”

Section 8(2)(a) of the Preferential Procurement policy Framework Act, 2000: Preferential Procurement Regulations, 2011 states that:

“In the event that, in the application of the 90/10 preference point system as stipulated in the tender documents, all tenders received are equal to, or below R 1 000 000, the tender must be cancelled.”

Section 62(1) of the Municipal Finance Management Act 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-

(d) that unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented”

During the audit of procurement and contract management, we identified the following two issues:

1. Tender 19/2014 was advertised as a 90/10 preference point system. However the value of all bids received was below the prescribed threshold of R 1 million. The municipality continued with the tender process and evaluated bids based on the 90/10 preference point system, regardless of the fact that the value of bids received was below R 1 million.

The following suppliers submitted bids for tender T 19/2014

<table>
<thead>
<tr>
<th>Bidders</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jocastro (PTY) Ltd</td>
<td>R274 341.00</td>
</tr>
<tr>
<td>Voltex Knysna</td>
<td>R333 729.30</td>
</tr>
<tr>
<td>Powertech ABB</td>
<td>R314 982.00</td>
</tr>
<tr>
<td>Powertech Schneider</td>
<td>R320 112.00</td>
</tr>
<tr>
<td>Valley Distributer</td>
<td>R333 335.40</td>
</tr>
<tr>
<td>MDL Electrical ABB</td>
<td>R342 771.78</td>
</tr>
<tr>
<td>MDL Electrical Scheinder</td>
<td>R337 245.06</td>
</tr>
<tr>
<td>Actom</td>
<td>R318 672.18</td>
</tr>
<tr>
<td>Lerumo Mashaba</td>
<td>R501 693.99</td>
</tr>
</tbody>
</table>
The municipality did not comply with the Preferential Procurement Regulation and incurred irregular expenditure of R274 341 which also results in non-compliance with section 62 of the MFMA.

2. Tender 69/2015, was advertised as an 80/20 preference point system. However the value of the bids received exceeded the estimated rand value of R 1 million. The municipality continued with the tender process and evaluated bids based on the 80/20 preference point system, regardless of the fact that the valued of bids received exceeded the rand value of a million.

The following suppliers submitted bids for tender T 69/2015

<table>
<thead>
<tr>
<th>Bids</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acknowledge Advertising</td>
<td>R1 244 851.00</td>
</tr>
<tr>
<td>Meropa Communications</td>
<td>R1 255 372.00</td>
</tr>
<tr>
<td>Redflag</td>
<td>R2 355 75.12</td>
</tr>
<tr>
<td>Aayanda Mbanga</td>
<td>R2 598 658.22</td>
</tr>
<tr>
<td>ZA Media</td>
<td>R3 384 292.92</td>
</tr>
<tr>
<td>Luxluxe</td>
<td>R3 873 400.00</td>
</tr>
<tr>
<td>Matrix</td>
<td>R3 900 131.74</td>
</tr>
</tbody>
</table>

Consequently the municipality did not comply with the Preferential Procurement Regulation and incurred irregular expenditure of R852 322 which also results in non-compliance with section 62 of the MFMA.

**Internal control deficiency**


Management did not ensure that a needs analysis and specification research was done before going out on tender.

Management also did not ensure that adequate monitoring controls were in place to ensure compliance with the Municipal Supply Chain Regulations.

**Recommendation**

Management responsible for procurement should ensure that the user department conducts a proper needs analysis and specifications research before going out on tender.

An investigation of the population should take place to identify where the proper procurement process was not followed and an amendment to the financial statements should be made to recognise the irregular expenditure incurred.
Annexure B

Management Response

<table>
<thead>
<tr>
<th>Management comment on the audit finding:</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Audit findings are not supported by Management. The expenditure cannot be regarded as irregular as the SCM procedures were followed. The fact that the evaluation was done on the 90/10 and not the 80/20 calculation do not have an effect on the awarding of the tender as the outcome remain the same.</td>
</tr>
</tbody>
</table>

T19/2014: On page 4 of the evaluation report the KM legal department was asked for clarity on the evaluation of the tender. The evaluation therefore was done in accordance with the advice from the KM legal department. It was also not clear at the time of going out on tender if all the items as specified will be used or the quantities of each of the items as this is a tender for as and when required. If the tender was cancelled to follow a new tender process the bidders might have objected due to the prices being read out and the process not being fair, equitable, cost effective, transparent and competitive. The municipality would have incurred additional cost to advertise the tender again.

T69/2015: On this matter legal advice was also obtained. If the tender was evaluated on a 90/10 basis the outcome would have been the same. If the tender was advertised again the bidders might have objected due to the prices being read out and the process not being fair, equitable, cost effective, transparent and competitive. It was also not clear at the time of going out on tender if all the items as specified will be used or the quantities of each of the items as this tender was for as and when required need. The BAC did therefore limit the award to the R1 million in the approved budget. The municipality would have incurred additional cost to advertise the tender again.

<table>
<thead>
<tr>
<th>Management comment on the root cause identified within the audit finding:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proper needs analysis should be made and submitted by the user departments before submitting specifications to the BSC. The SCM Manager will consult with the Legal department and BEC Chairperson before evaluations takes place to ensure full compliance. Tenders based on an item list over a period of three must also be considered when the 90/10 and 80/20 principles are applied. If a tender will run over 3 years should the 90/10 calculation be used or must all tenders be evaluated on a transactional basis irrespective of the total cost that will be incurred over the contract period.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Management comment on the recommendation:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management do not support the irregular expenditure finding.</td>
</tr>
</tbody>
</table>
Management will implement the recommendation from the AG by instructing the user department to conduct a proper needs analysis and specifications research before submitting specifications to the BSC.

Remedial action:

<table>
<thead>
<tr>
<th>What actions will be taken:</th>
<th>By whom:</th>
<th>By when:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Memorandum to be sent to all user departments with instruction</td>
<td>Manager SCM</td>
<td>31 October 2016</td>
</tr>
</tbody>
</table>

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

YES | NO

Please give an indication of whether the correcting journal entry shall be processed:

YES | NO | N/A

If yes, please indicate the accounting entry:

If no, please provide the reason why such a conclusion:

Auditors’ conclusion

Management’s response noted, however we do not agree as management did not comply with the applicable legislation and therefore could have excluded suppliers from bidding. Inspected updated annual financial statements and confirmed that the adjustments to irregular expenditure have been processed. This matter will be followed up during the next key control visit.

Management Response for Audit Plan Purposes (OPCAR)

Responsible Directorate/Department: (Finance/Procurement)

Deadline – February 2017

Action: User department to submit estimate for each tender to the SCM Manager to determine preference points. Exact quantities must also be provided and not just a list of items required. User department will have to plan and budget better. Tenders will be cancelled if it does not comply with PPP, no more legal opinions will be asked on this.

Verified by: In Progress
Annexure B

11. Procurement and contract management: Three quotations not obtained - COMAF 19

Audit finding

The Supply Chain Management regulation section 16 states that:

“A supply chain management policy must stipulate the conditions for the procurement of goods or service through written or verbal quotations, which must include conditions stating-

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

The Supply Chain Management regulation 36(1) on Deviations from, and ratification of minor breaches of, procurement process states:

“(1) A supply chain management policy may allow the accounting officer-

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

(i) In an emergency;

(ii) If such goods or services are produced or available from a single provider only;

(iii) For the acquisition of special works of art or historical objects where specifications are difficult to compile;

(iv) Acquisition of animals for zoos, or

(v) In any other exceptional case where it is impractical or impossible to allow the official procurement process”

During the audit of procurement and contract management we identified the following two issues:

1. Three written quotations were not obtained for order C5004658 (George Lawnmowers and Chainsaw).

The reason provided for the deviation is that George Lawnmowers and Chainsaws is the only agent of the Falcon bush cutter. Management in charge of supply chain management provided us with a letter from Prodist (Pty) Ltd, dated 22 September 2016, stating that they are the only suppliers of authentic Falcon parts to George Lawnmowers and Chainsaws in the Eden District.

However, upon inspection of the list of Falcon dealers on the Falcon website (www.falconequipment.co.za), we identified that there is more than one supplier in the Eden District and the greater Western Cape.
2. Three written or verbal quotations were not obtained for order C5004656 (Forms Media Independent). The reason provided for the deviation was as follows:

- Forms Media Independent is the only company in South Africa that provides the traffic department with the S56 Summons books.
- The books were ordered on a minor deviation from Forms Media Independent as the Law Enforcement office began to run out of the S56 summons books. Forms Media Independent was therefore the only supplier that could provide the books at short notice.

However, from inquiries made from other audit teams within the area the following suppliers submitted quotes for the S56 traffic summons books:

- Forms Media Independent
- TC Online
- Lithotech
- Rand data forms

This is an indication that Forms Media Independent is not the sole provider for the service.

Consequently the municipality did not comply with the supply chain management regulation sections 16 (a) and 36 (1) and incurred irregular expenditure as follows:

<table>
<thead>
<tr>
<th>Supplier</th>
<th>Order number</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Forms Media Independent</td>
<td>C5004656</td>
<td>R2 579.00</td>
</tr>
<tr>
<td>George Lawnmowers and Chainsaw</td>
<td>C5004658</td>
<td>R19 308.69</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>R21 887.69</strong></td>
</tr>
</tbody>
</table>

**Internal control deficiency**

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

The supply chain manager did not ensure that the correct Supply Chain Management process was followed and thus ensure compliance with the Supply Chain Management regulations.

**Recommendation**

The supply chain manager should ensure that appropriate measures are in place to investigate instances where it was identified that only one supplier is able to provide the service or goods and therefore should ensure that the correct supply chain management process is followed.

Management should investigate the population to identify where the appropriate procurement process was not followed and amend the annual financial statements to recognise the irregular expenditure incurred.
Annexure B

Management response

Management comment on the audit finding:

Management acknowledge the audit findings and recommendations.

Supply chain manager will draft a SOP and going forward all such instances will be investigated and proof requested from the suppliers before the deviation memorandum is recommended by the SCM Manager and CFO.

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

Management comment on the recommendation:

Management will investigate the population to identify where the appropriate procurement process was not followed and amend the annual financial statements to recognise the irregular expenditure incurred.

Remedial action:

<table>
<thead>
<tr>
<th>What actions will be taken</th>
<th>By whom</th>
<th>By when</th>
</tr>
</thead>
<tbody>
<tr>
<td>Draft SOP and communicate with user departments</td>
<td>Manager SCM</td>
<td>November</td>
</tr>
</tbody>
</table>

If the above findings affects an amount(s) disclosed in the financial statements: YES NO

Please give an indication of whether the correcting journal entry shall be processed: YES NO N/A

If yes, please indicate the accounting entry:

Auditor’s response

Management responses noted. This matter will however remain as an “other important matter” in the management report. The auditors inspected the annual financial statements and confirmed that the irregular expenditure has been disclosed correctly.

Management Response for Audit Plan Purposes (OPCAR)

Responsible Directorate/Department: (Finance/Procurement)

Deadline – February 2017

Action: Deviations to be better motivated or not to occur at all. MM to instruct that tenders must be done for all requirements.

Verified by: In Progress
Annexure B


Audit Finding

Section 5 of the Municipal Supply Chain Management Regulations states:

“An accounting officer may in terms of section 79 or 106 of the Act subdelegation any supply chain management powers and duties, including those delegated to the accounting officer in terms of regulation 4 (1), but any such subdelegation must be consistent with subregulation (2) and regulation 4.

(2) The power to make a final award-

(b) Above R2 million (VAT included), but not exceeding R10 million (VAT included), may be subdelegated but only to-

(i) The chief financial officer;
(ii) A senior manager; or
(iii) A bid adjudication committee of which the chief financial officer or a senior manager is a member of; or

(c) not exceeding R2 million (VAT included) may subdelegated but only to –

(i) the chief financial officer
(ii) a senior manager;
(iii) a manager directly accountable to the chief financial officer or senior manager; or
(iv) a bid adjudication committee”

Section 116 of the Municipal Finance Management Act No.56 of 2003 (MFMA) states:

“(1) A contract or agreement procured through the supply chain management system of the municipality or municipal entity must-

(a) be in writing;

(b) stipulate the terms and conditions of the contract or agreement, which must include

Provisions providing for-

(i) the termination of the contract or agreement in the case of non- or under performance;

(ii) dispute resolution mechanisms to settle disputes between the parties;”
Annexure B

Section 21 of the Municipal Supply Chain Management Regulations of 2005 states:

“A supply chain management policy must determine the criteria to which bid documentation for a competitive bidding process must comply, and state that in addition to regulation 13 the bid documentation must-

(a) take into account-

(i) the general conditions of contract
(ii) any treasury guidelines on bid documentation; and;
(iii) the requirements of the Construction industry Development Board, in the case of a bid relating to construction, upgrading or refurbishment of buildings or infrastructure”

Clause 17.1 of the General conditions of a Contract states:

“Prices charged by the supplier for goods delivered and services performed under the contract shall not vary from the prices quoted by the supplier in his/her bid, with the exception of any price adjustments authorized in SCC or in the purchase’s request for bid validity extension, as the case may be.”

Section 19 of the Municipal Supply Chain Management Regulations of 2005 states:

“A supply chain management policy must specify-

(a) that goods or services above a transaction value of R200 000 (VAT included) and long term contracts may be procured by the municipality or municipal entity only through a competitive bidding process, subject to regulation 11 (2)”

During the audit of Contract Management we identified the following three issues:

1. During the audit of Contract Management we identified the following contracts on which the total expenditure to date exceeds the contract price:

<table>
<thead>
<tr>
<th>Tender</th>
<th>Total expenditure to date 2015/2016</th>
<th>Contract Price</th>
<th>Amount exceeding</th>
</tr>
</thead>
<tbody>
<tr>
<td>T18/2015:Entsha Henra</td>
<td>R23 627 583.00</td>
<td>R23 319 130.11</td>
<td>R308 452.89</td>
</tr>
<tr>
<td>T44/2013:Metsi Chem iKAPA</td>
<td>R11 934 221.00</td>
<td>R9 783 657.06</td>
<td>R2 150 563.94</td>
</tr>
<tr>
<td>T22/2015:New Morning Construction</td>
<td>R5 701 198.00</td>
<td>R 5 100 409.88</td>
<td>R600 780.12</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>R3 693 804.95</td>
</tr>
</tbody>
</table>

We were unable to establish from the supporting documentation provided whether or not the additional expenditure per the above contracts have been approved by a delegated authority as set out per section 5 of the municipal supply chain regulations.
Annexure B

Consequently the municipality did not comply with Section 5 of the municipal supply chain management regulations and as a result the total amount of expenditure that exceeded the contract should be recognized as irregular expenditure.

Therefore irregular expenditure is understated by R3 059 804.95

2. Tender T52/2015: Briden Engineering

Upon inspection of the contract between Briden Engineering and the municipality, we noted that the contract has not been signed by either party. We therefore could not determine the validity of this contract.

Furthermore we identified that Briden Engineering quoted an hourly rate per their tender documentation but upon inspection of the batch of invoices received from creditors we noted that a rate for labour and parts were actually charged to the municipality.

It was therefore difficult to establish whether the expenditure incurred to date is still within budget and whether irregular expenditure has been incurred.

The municipality has therefore not complied with Clause 17.1 of the General conditions of a Contract.

3. Tender T61/2015: Artcon Construction

During the audit of Contract Management, we noted that the contract was originally awarded to Bright and Bold Contractors. However, due to non-performance, Bright and Bold’s contract has been cancelled.

Subsequently the contract has been awarded to Artcon Construction without going through a new procurement process. We could also not obtain proof that a valid contract exist between Artcon construction and the municipality.

Consequently the municipality did not comply with section 19 of the supply chain management regulation and has therefore incurred irregular expenditure of R1 313 890.60

Internal control deficiency

Leadership: Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls

The accounting officer did not exercise sufficient oversight responsibility to ensure that there are adequate monitoring controls in place to management contracts
### Management response

<table>
<thead>
<tr>
<th>Management comment on the audit finding:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management acknowledge the audit finding and recommendation and wish to comment as follows:</td>
</tr>
<tr>
<td><strong>T18/2015:</strong> Management do not support the finding. The over expenditure to the tender was a result of a variation order which was approved by the relevant committee see variation order attached.</td>
</tr>
<tr>
<td><strong>T44/2013:</strong> When contracts are awarded by the BAC, the contract value is loaded on the financial system against the project. It would be impossible for the financial system to allow any over expenditure on the project unless it was approved by an authorised authority. When a user department intends to over expend a project, it would have to be properly motivated and it also serves at the BAC.</td>
</tr>
<tr>
<td><strong>T22/2015:</strong> When contracts are awarded by the BAC, the contract value is loaded on the financial system against the project. It would be impossible for the financial system to allow any over expenditure on the project unless it was approved by an authorised authority. When a user department intends to over expend a project, it would have to be properly motivated and it also serves at the BAC.</td>
</tr>
<tr>
<td><strong>T52/2015:</strong> There was no contract with Briden Engineering since this is a vehicle repair agent. The conditions in the tender and the price would constitute the contract. This contract was only based on a labour rate without a cap. Parts would’ve been additional and would have been purchased as required.</td>
</tr>
<tr>
<td><strong>T61/2015—</strong> Management do not support the finding due to the fact that Artcon appointment did follow the SCM/Procurement process it was processed as a Deviation two reasons: emergency and an exceptional case. See deviation memo attached.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Management comment on the root cause identified within the audit finding:</th>
</tr>
</thead>
<tbody>
<tr>
<td>T18/2015 T61/2015 - The was a need for erection of temporary wendy houses to accommodate those being relocated from illegal shacks in order to build houses.</td>
</tr>
<tr>
<td>T44/2013: This is a misunderstanding. There is sufficient monitoring of contracts in place and sufficient control to handle over expenditure within the allowed frameworks.</td>
</tr>
<tr>
<td>T22/2015: This is a misunderstanding. There is sufficient monitoring of contracts in place and sufficient control to handle over expenditure within the allowed frameworks.</td>
</tr>
<tr>
<td>T52/2015: This is a misunderstanding. There is sufficient monitoring of contracts in place and sufficient control to handle over expenditure within the allowed frameworks.</td>
</tr>
<tr>
<td>T61/2015— The cause was of emergency and unforeseeable as Bright and Bold was supposed to build 40 Wendy houses for relocating families and there was nowhere to move those families and contractor appointed to build houses was to charge on standing time which could have also resulted in an unauthorised expenditure to that tender.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Management comment on the recommendation:</th>
</tr>
</thead>
<tbody>
<tr>
<td>T18/2015 Management agrees with the recommendation and will ensure proper budgeting in future considering all costs involved in building houses including relocation costs and building of houses.</td>
</tr>
</tbody>
</table>
Annexure B

T44/2013 There is always room for improvement and if through this process a deficiency is highlighted, then a control measure should be put in place.
T22/2015 There is always room for improvement and if through this process a deficiency is highlighted, then a control measure should be put in place.
T52/2015: There is always room for improvement and if through this process a deficiency is highlighted, then a control measure should be put in place.
T61/2015 – Management Agree on recommendation, though this situation was beyond management control.

Remedial action:

<table>
<thead>
<tr>
<th>What actions will be taken:</th>
<th>By whom:</th>
<th>By when:</th>
</tr>
</thead>
<tbody>
<tr>
<td>T18/2015 Proper forecasting/budgeting for tender amount include all costs involved in projects of building houses.</td>
<td>Manager Housing: Mawethu Penxa Manager Water and Sewer: Rhoydon Parry Manager Roads and Public works: Shaun Maree Director Technical Services: Micheal Rhode</td>
<td>Immediately</td>
</tr>
<tr>
<td>T61/2015 – n/a</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

If the above findings affects an amount (s) disclosed in the financial statements: YES NO

Please give an indication of whether the correcting journal entry shall be processed: YES NO N/A

If yes, please indicate the accounting entry:

If no, please provide the reason why such a conclusion:

Auditor’s conclusion

Management’s response is noted. The matter will remain in the management report as an “other important matter”. The auditor assessed and evaluated the supporting documentation and concluded the following:

- T44/2013- still remains with irregular expenditure of R 2 150 564

The adjustment has been agreed to the amended annual financial statements submitted. This matter will be followed up during the quarterly key control visits.

Management Response for Audit Plan Purposes (OPCAR)

Responsible Directorate/Department: (Finance/Procurement)

Deadline – To be determined

Action: This is dependent on the organogram and SCM will at this point not take responsibility for it. I do not have staff and get 0% support from user department on this. I have highlighted this to Council in SCM reports from 2 year ago already. Still no support or alternative resolution. User department were asked to submit information to BAC but requests were ignored.

Verified by: In Progress
Annexure B

Procurement and contract management: Non-compliance with the Municipal Supply Chain Regulations - COMAF 2

Audit Finding

Municipal supply chain management regulation 6(2) (a) (i) and 6 (3) states:

“6 (2) For the purpose of such oversight the accounting officer must-

   (a) (i) in the case of a municipality, within 30 days of the end of each financial year, submit a report on the implementation of the supply chain management policy of the municipality and of any municipal entity under its sole or shared control, to the council of the municipality

   (3) The accounting officer must, within 10 days of the end of each quarter, submit a report on the implementation of the supply chain management policy to the mayor of the municipality or the board of directors of the municipality, as the case may be. ”

We identified that the reports submitted to council on the implementation of the Supply Chain Management policy was not submitted within the stipulated timeframe as set out in the Municipal supply chain management regulations. Below is the date of submission:

<table>
<thead>
<tr>
<th>Year end</th>
<th>30 June 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Submission date</td>
<td>16 August 2016</td>
</tr>
<tr>
<td>Days between year-end and submission date</td>
<td>34 days</td>
</tr>
<tr>
<td>Days required for submission</td>
<td>30 days</td>
</tr>
<tr>
<td>Days overdue</td>
<td>4 days overdue</td>
</tr>
</tbody>
</table>

In addition to the above we have also identified that the accounting officer did not at the end of each quarter submit a report on the implementation of the supply chain management policy to the mayor of the municipality. Below is the date of submission:

<table>
<thead>
<tr>
<th>Quarter 1</th>
<th>Quarter 2</th>
<th>Quarter 3</th>
<th>Quarter 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quarter end date</td>
<td>30 September 2015</td>
<td>31 December 2015</td>
<td>30 March 2016</td>
</tr>
<tr>
<td>Submission date</td>
<td>22 October 2015</td>
<td>18 April 2016</td>
<td>18 April 2016</td>
</tr>
<tr>
<td>Days between quarter end date and submission date</td>
<td>17 days</td>
<td>78 days</td>
<td>14 days</td>
</tr>
<tr>
<td>Days required for submission</td>
<td>10 days</td>
<td>10 days</td>
<td>10 days</td>
</tr>
<tr>
<td>Days overdue</td>
<td>7 days overdue</td>
<td>68 days overdue</td>
<td>4 days overdue</td>
</tr>
</tbody>
</table>

Consequently this results in non-compliance with the municipal supply chain management regulation.

Internal control deficiency

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

Management did not review and monitor compliance with supply chain management regulation 6(2)(a)(i) and 6(3) by ensuring that the annual report on the implementation of the supply chain management policy was submitted to council within 30 days after financial year end as well as the submission of the quarterly reports on the implementation of the supply chain management policy to the mayor within 10 days of the end of each quarter.

Recommendation

The accounting officer should implement effective and efficient controls to ensure compliance with the SCM regulation; in this regard management must monitor the date of submissions to ensure that the reports are submitted within the prescribed timeframe.

Management response

Management comment on the audit finding:
Please note that the report for quarter 1 was submitted on 22 October and not 23 October. Management see quarter 4 and the annual report as 1 report and do not do separate reports. The AG must take into account that the municipal elections took place on 03 August 2016 therefore new council was only established a week later.

Management comment on the root cause identified within the audit finding:
- The necessary controls will be instituted to address the staff shortage and subsequent workload.
- The AG must take into account that the municipal election took place on 03 August 2016 and the new council was only established a week later.

Management comment on the recommendation:
The recommendation is supported and controls will be instituted. This finding was never raised before.

Remedial action:

<table>
<thead>
<tr>
<th>What actions will be taken</th>
<th>By whom:</th>
<th>By when:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deadlines are set to submit reports</td>
<td>F Kruger</td>
<td>10 days</td>
</tr>
<tr>
<td></td>
<td></td>
<td>30 days</td>
</tr>
</tbody>
</table>

If the above findings affects an amount (s) disclosed in the financial statements: YES | NO
Please give an indication of whether the correcting journal entry shall be processed: YES | NO | N/A
If yes, please indicate the accounting entry:
If no, please provide the reason why such a conclusion:

Auditor's conclusion

Management's response noted. However, the finding still remains. Although the municipality sees the report as one, the municipal supply chain regulations clearly states that the annual report be submitted 30 days after the financial year end and the quarterly reports are submitted 10 days after the quarter ends.

Responsible Directorate/Department: (Finance/Procurement)

Deadline – To be determined
**Annexure B**

**Action:** First time this is a finding. SCM reporting to Council has improved in the last 3 years. It was non-existent and with useless information in the past and continuous improvement are in progress.

**Verified by:** February 2017
Annexure B

13. Procurement and contract management: SCM- No bid specification committee and incorrect composition of the bid committee - COMAF 7

Audit finding

The Municipal Supply Chain Management Regulation section 27 states that:

“1) A bid specification committee must compile the specifications for each procurement of goods or services by the municipality or municipal entity.”

The Municipal Supply Chain Management Regulation section 28 states:

“(2) A bid evaluation committee must as far as possible be composed of-
(b) at least one supply chain management practitioner of the municipality or municipal entity”

During the audit of procurement and contract management we identified that the municipality did not establish the Bid Specification Committee (BSC) to compile specifications for bids.

The following tenders were prepared at the time when the Bid Specification Committee did not exist.

<table>
<thead>
<tr>
<th>Supplier</th>
<th>Tender number</th>
<th>Rand award value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coastal Armature Winders and Suppliers CC</td>
<td>T53/2014</td>
<td>R1 545 177</td>
</tr>
<tr>
<td>Jacastro (pty) LTD</td>
<td>T19/2014</td>
<td>R274 341</td>
</tr>
<tr>
<td>Metsi Chem iKapa (Pty) Ltd</td>
<td>T45/2013</td>
<td>R3 813 690</td>
</tr>
<tr>
<td>Zebra surfacing</td>
<td>T65/2013</td>
<td>R3 621 686</td>
</tr>
<tr>
<td>Metsi Chem iKapa (Pty) Ltd</td>
<td>T44/2013</td>
<td>R9 783 657</td>
</tr>
<tr>
<td>New Morning Construction</td>
<td>T22/2014</td>
<td>R5 100 410</td>
</tr>
</tbody>
</table>

Furthermore it was identified that the composition of the Bid evaluation committee for Tender T45/2013 and Tender T44/2013, did not include an official of the supply chain management department.

This was noted during the inspection of the bid evaluation report as no representative of the SCM department was present at the bid evaluation committee meeting.

This consequently results in non-compliance with SCM regulation 27(1) and 28 (2).

Internal control deficiency

*Leadership – Establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities.*

Management did not ensure that there were policies and procedures in place to enable and support the understanding and execution of internal control objectives, processes and responsibilities which would result in the compliance with the SCM regulations.
Recommendation

Management should put processes and procedures in place to ensure that all the committees that are required per the SCM regulations are in place and the composition is in accordance to the SCM policy and SCM regulations.

Management response

<table>
<thead>
<tr>
<th>Management comment on the audit finding:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management do not support the audit findings due to the following:</td>
</tr>
</tbody>
</table>

**BID SPECIFICATION COMMITTEE COMPOSITION:**

Section 27 (3) of the MFMA Stipulates as follows:

(3) A Bid Specifications Committee must be composed of **one or more** officials of the Municipality or Municipal Entity, preferably the Manager responsible for the function involved and may when appropriate include Specialist Advisors."

It will then be realistic in practice that there will be no formal meeting and subsequent minutes when the committee is composed of a single member.

The Regulations contain no peremptory provision that there must be a formal meeting of a Bid Specifications Committee, as a bid specification may be composed of only one member.

**BID EVALUATION COMMITTEE:**

Section 28 (2) of the MFMA Stipulates as follows:

(2) A bid evaluation committee must **as far as possible** be composed of:

It was therefore not a definite prerequisite that the Bid Evaluation committees for Tender T45/2013 and Tender T44/2013 include an official of the supply chain management department.

Since the appointment of the current SCM Manager during 2014 formal Bid Specification as well as Bid Evaluation committees were instituted.

<table>
<thead>
<tr>
<th>Management comment on the root cause identified within the audit finding:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management note the root causes.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Management comment on the recommendation:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management note the recommendations. Since the appointment of the SCM Manager care was taken that KM complies with the regulations relating to the bid committees. Policies and SOP were put in place and are revised yearly.</td>
</tr>
</tbody>
</table>

**Remedial action:**
Annexure B

What actions will be taken:  | By whom: | By when:
---|---|---
- | - | -

If the above findings affects an amount(s) disclosed in the financial statements:  | YES | NO
Please give an indication of whether the correcting journal entry shall be processed: | YES | NO | N/A
If yes, please indicate the accounting entry:
If no, please provide the reason why such a conclusion:

Auditor's conclusion

Management comments noted. Regulation 27 does require one or more officials however there was no evidence that there was one official who was a member of the bid specification and this finding was raised in the previous year. The finding remains and will be reported in the management report as an irregular expenditure.

The management comments regarding regulation 28 (composition of the evaluation committee) have been noted and the finding will be removed from the final management report.

Responsible Directorate/Department:  (Finance/Procurement)

Deadline – To be determined

Action: First time this is a finding. SCM reporting to Council has improved in the last 3 years. It was non-existent and with useless information in the past and continuous improvement are in progress.

Verified by:  February 2017
Annexure B

14. Procurement and contract management: Deviations not disclosed in Annual Financial Statement - COMAF 5

Audit finding

The Supply Chain Management regulation 36(2) states:

“The accounting officer must record the reasons for any deviations in terms of subparagraphs 36(1) (a) and (b) of this policy and report them to the next meeting of the council and include as a note to the annual financial statements.”

During the audit of procurement and contract management, we identified that the following approved deviation is not disclosed in note 51 of the 2015/2016 annual financial Statements.

<table>
<thead>
<tr>
<th>Type of deviation</th>
<th>Transaction</th>
<th>Total amount awarded</th>
<th>Understatement of deviations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 30000</td>
<td>Viking Pony Africa (PTY) LTD T/A Tricom Africa (Order C5004655)</td>
<td>R13 923.26</td>
<td>R 13 923.26</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>R13 923.26</td>
<td>R13 923.26</td>
</tr>
</tbody>
</table>

Consequently the municipality did not comply with Supply Chain Management regulation 36(2) therefore resulting in note 51 to the annual financial statements being understated by R13 923.26.

The misstatement was identified in a sample of quotations and therefore we could not project the total deviations resulting from the Supply Chain Management regulation section 36(1) (a) and (b) that were not disclosed in note 51 of the annual financial statements.

Internal control deficiency

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

The supply chain manager did not ensure that all the deviations are disclosed in the notes of the annual financial statements.

Recommendation

The supply chain manager should ensure that all the deviations resulting from the Supply Chain Management Regulation section 36 1(a) and (b) are disclosed in the notes to the financial statements.

Furthermore the supply chain manager should determine the total amount of deviations that were not disclosed in note 51 and adjust the financial statements accordingly.

Management response

Management comment on the audit finding:

Management note the audit finding.
Annexure B

This instance occurred as an extension to R14 067 001 which was to the amount of R127 092.90 and awarded to Tricom.

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

Management comment on the recommendation:
The recommendations are noted and the note to the financial statements will be amended accordingly where warranted.

Remedial action:
<table>
<thead>
<tr>
<th>What actions will be taken:</th>
<th>By whom:</th>
<th>By when:</th>
</tr>
</thead>
</table>

If the above findings affects an amount (s) disclosed in the financial statements: YES | NO

Please give an indication of whether the correcting journal entry shall be processed: YES | NO | N/A

If yes, please indicate the accounting entry:

If no, please provide the reason why such a conclusion:

Auditor's conclusion

Management's comments noted. The amended annual financial statements have been inspected and the adjustment has been made. However, the municipality must address the internal control deficiency so that this matter does not reoccur.

Responsible Directorate/Department: (Finance/Procurement)

Deadline – March 2014

Action: Before March 2014 there were NO minutd BSC taking place and all tenders were evaluated by the user department. It was changed with the appointment of the SCM Manager. Unfortunately there is nothing I can do to tenders that were awarded before my appointment and this will continue to be a problem for all tenders before March 2014

Verified by: In Progress
Annexure B

15. Procurement and contract management: Deviations not disclosed - COMAF 20

Audit Finding

The Supply Chain Management regulation 36 states:

“(1) A supply chain management policy may allow the accounting officer-
   (b) To dispense with the official procurement processes established by the policy and to
   procure any required goods or services through any convenient process, which may
   include direct negotiations, but only-
   (vi) In an emergency;
   (vii) If such goods or services are produced or available from a single provider only,
   (viii) For the acquisition of special works of art or historical objects where
   specifications are difficult to compile;
   (ix) Acquisition of animals for zoos, or
   (x) In any other exceptional case where it is impractical or impossible to allow the
   official procurement process”

“(2) The accounting officer must record the reasons for any deviations in terms of subregulation
1(a) and (b) and report them to the next meeting of the council, or board of directors in the case
of a municipal entity, and include as a note to the annual financial statements.”

During the audit of procurement and contract management we identified that the municipality did
not follow the procurement process for the following suppliers

- Order C5004654 (Sky Printers t/a Action Ads)
- Order C5004659 (The Edge Community Newspaper).

A council resolution G11/02/2016 was in place, requesting the municipal manager to approve
the deviation that notices be placed in the above two local newspapers only for the 2015/2016
financial year and that no supply chain management process should be followed.

Consequently the municipality did not comply with Section 36 (2) as the deviation has not been
disclosed in the annual financial statements.

<table>
<thead>
<tr>
<th>Supplier</th>
<th>Order number</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Edge community newspaper</td>
<td>C5004659</td>
<td>R342 869.18</td>
</tr>
<tr>
<td>Sky Printers t/a Action Ads</td>
<td>C5004654</td>
<td>R371 482.54</td>
</tr>
</tbody>
</table>

The annual financial statements are therefore understated by R714 351.72

Internal Control Deficiency

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

Management did not ensure that all the deviations are disclosed in the notes of the annual
financial statements

Recommendation
Management should ensure that all the deviations resulting from the Supply Chain Management Regulation section 36 1(a) are disclosed in the notes to the financial statements.

Furthermore the supply chain manager should determine the total amount of deviations that were not disclosed in note 51 and adjust the financial statements accordingly.

Management response

**Management comment on the audit finding:**

Management disagree with the finding. Council did resolve that the 2 local newspapers must be used and therefore it should be seen as an exception from the SCM Policy although not listed in the policy as such.

The total amount indicated is incorrect as many of the orders for the advertisements are A orders, or below R2000.

Management will however determine the amount and disclose it in the AFS.

R265 754.00 – The Edge  
R228 070.52 – Action Ads

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

The council decision that was taken.

**Management comment on the recommendation:**

The Manager: SCM will ensure that a tender process/EOI is actioned as soon as possible to prevent this from occurring again.

**Remedial action:**

<table>
<thead>
<tr>
<th>What actions will be taken: tender process/EOI</th>
<th>By whom:</th>
<th>By when:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>F Kruger</td>
<td></td>
</tr>
</tbody>
</table>

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

| YES | NO |

Please give an indication of whether the correcting journal entry shall be processed:  

| YES | NO | N/A |

If yes, please indicate the accounting entry:  

If no, please provide the reason why such a conclusion:

**Auditor’s Response**

Management comments are noted. The finding will remain as an “other important matter” in the management report. The correction has been made to the annual financial statements.

**Responsible Directorate/Department:** (Finance/Procurement)

**Deadline** – August 2017
### Annexure B

**Action:** SCM Manager will instruct that all be included during the preparation of the AFS. Also deviations MUST be minimised. Organization has a culture of non-compliance to SCM Regulations due to in the past being allowed to operate in this manner.

**Verified by:** In Progress
Annexure B

16. Receivables from exchange and non-exchange and payables misstated - COMAF 3

Audit Finding

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

"(1) Every municipality and every municipal entity must for each financial year prepare annual financial statements which—

a) fairly presents the state of affairs of the municipality or entity, 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;"

Background regarding Receivables from exchange and non-exchange:

- Each client’s debtor account is normally split into subsections (Electricity, Water, Sewerage, Refuse and Rates) on the age analysis and on the statement which is sent to the client. These are consolidated together to give a full picture of the outstanding balance with the Municipality.
- Interest is charged separately on outstanding debt balances per subsection.
- All subsections with credit balances (amounts owed to the client) are then transferred to Payables: Payments received in advance for disclosure purposes at year-end.

During the audit of Receivables from exchange and non-exchange transactions the following issues were identified:

- Some receipts were not correctly offset against the client’s debt, thus on the age analysis there are amounts showing as a debit and at the same time as a credit (received in advance) in a separate subsection. The statement issued to the client however shows the net amount (consolidated balance) of these debit and credit amounts.
- As the receipts were not properly offset against the client’s debt as above, the debt balances in the specific client’s account are attracting interest which is being automatically generated.

Not enough care was taken in the allocation of these receipts to the client’s accounts as the allocation was captured against the incorrect codes which caused the offset of credits against debits not to occur correctly.

The total age analysis has been assessed and we found that the below accounts were affected:
### Annexure B

<table>
<thead>
<tr>
<th>Nr.</th>
<th>Acc number</th>
<th>Currently as Receivables R(^2)</th>
<th>Currently as Payables R(^2)</th>
<th>Should be Receivables R(^2)</th>
<th>Should be Payables R(^2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>10146100014</td>
<td>284.04</td>
<td>(262.17)</td>
<td>1.87</td>
<td>-</td>
</tr>
<tr>
<td>2</td>
<td>10457200013</td>
<td>6 292.25</td>
<td>(430.72)</td>
<td>5 861.53</td>
<td>-</td>
</tr>
<tr>
<td>3</td>
<td>10470000012</td>
<td>308.85</td>
<td>(290.04)</td>
<td>18.81</td>
<td>-</td>
</tr>
<tr>
<td>4</td>
<td>10549500017</td>
<td>2 500.83</td>
<td>(51.22)</td>
<td>2 449.41</td>
<td>-</td>
</tr>
<tr>
<td>5</td>
<td>10577300152</td>
<td>8.81</td>
<td>(1 421.32)</td>
<td></td>
<td>(1 412.51)</td>
</tr>
<tr>
<td>6</td>
<td>10655800013</td>
<td>102.67</td>
<td>(93.35)</td>
<td>9.32</td>
<td>-</td>
</tr>
<tr>
<td>7</td>
<td>108059000131</td>
<td>530.41</td>
<td>(475.11)</td>
<td>55.30</td>
<td>-</td>
</tr>
<tr>
<td>8</td>
<td>10819000111</td>
<td>238.57</td>
<td>(3 332.79)</td>
<td></td>
<td>(3 094.22)</td>
</tr>
<tr>
<td>9</td>
<td>10835300016</td>
<td>1 283.51</td>
<td>(1 186.35)</td>
<td>97.26</td>
<td>-</td>
</tr>
<tr>
<td>10</td>
<td>10876600121</td>
<td>51 321.88</td>
<td>(39 694.23)</td>
<td>11 627.65</td>
<td>-</td>
</tr>
<tr>
<td>11</td>
<td>10884400186</td>
<td>1 466.00</td>
<td>(1 100.00)</td>
<td>366.00</td>
<td>-</td>
</tr>
<tr>
<td>12</td>
<td>10899800042</td>
<td>329.19</td>
<td>(326.30)</td>
<td>2.89</td>
<td>-</td>
</tr>
<tr>
<td>13</td>
<td>10983500014</td>
<td>147 495.09</td>
<td>(146 287.55)</td>
<td>1 207.54</td>
<td>-</td>
</tr>
<tr>
<td>14</td>
<td>10994400137</td>
<td>5 690.53</td>
<td>(5 690.53)</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>15</td>
<td>11165800016</td>
<td>2 947.77</td>
<td>(1 293.40)</td>
<td>1 654.37</td>
<td>-</td>
</tr>
<tr>
<td>16</td>
<td>11300600206</td>
<td>10 860.95</td>
<td>(10 662.21)</td>
<td>198.74</td>
<td>-</td>
</tr>
<tr>
<td>17</td>
<td>11306500054</td>
<td>23 169.89</td>
<td>(17 422.75)</td>
<td>5 747.14</td>
<td>-</td>
</tr>
<tr>
<td>18</td>
<td>11306500077</td>
<td>40 191.13</td>
<td>(19 081.35)</td>
<td>21 109.78</td>
<td>-</td>
</tr>
<tr>
<td>19</td>
<td>11306500142</td>
<td>40 191.13</td>
<td>(17 520.46)</td>
<td>22 670.87</td>
<td>-</td>
</tr>
<tr>
<td>20</td>
<td>11306500158</td>
<td>18 734.15</td>
<td>(693.09)</td>
<td>16 041.06</td>
<td>-</td>
</tr>
<tr>
<td>21</td>
<td>11306500188</td>
<td>26 129.13</td>
<td>(16 365.59)</td>
<td>9 763.54</td>
<td>-</td>
</tr>
<tr>
<td>22</td>
<td>11306500216</td>
<td>64 474.66</td>
<td>(29 760.71)</td>
<td>34 713.95</td>
<td>-</td>
</tr>
<tr>
<td>23</td>
<td>11306500357</td>
<td>16 382.85</td>
<td>(16 236.18)</td>
<td>146.67</td>
<td>-</td>
</tr>
<tr>
<td>24</td>
<td>11306500408</td>
<td>749.36</td>
<td>(729.53)</td>
<td>19.83</td>
<td>-</td>
</tr>
<tr>
<td>25</td>
<td>11306500422</td>
<td>18 535.47</td>
<td>(1 357.60)</td>
<td>17 177.87</td>
<td>-</td>
</tr>
<tr>
<td>26</td>
<td>11306500533</td>
<td>23 166.17</td>
<td>(2 424.80)</td>
<td>20 923.37</td>
<td>-</td>
</tr>
<tr>
<td>27</td>
<td>11306500549</td>
<td>37 320.32</td>
<td>(15 667.96)</td>
<td>21 452.46</td>
<td>-</td>
</tr>
<tr>
<td>28</td>
<td>11306500644</td>
<td>35 884.90</td>
<td>(15 702.84)</td>
<td>20 182.06</td>
<td>-</td>
</tr>
<tr>
<td>29</td>
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<td>1 108.04</td>
<td>(1 098.67)</td>
<td>9.77</td>
<td>-</td>
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<tr>
<td>30</td>
<td>11337900209</td>
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<td>(50 084.73)</td>
<td>1 314.87</td>
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<td>11372700016</td>
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<td>(804.39)</td>
<td>18 895.98</td>
<td>-</td>
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<td>33</td>
<td>11499700134</td>
<td>228.43</td>
<td>(228.43)</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>34</td>
<td>20052100019</td>
<td>22 325.92</td>
<td>(1 459.17)</td>
<td>20 866.75</td>
<td>-</td>
</tr>
<tr>
<td>35</td>
<td>20142000121</td>
<td>214.68</td>
<td>(214.68)</td>
<td></td>
<td>-</td>
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<tr>
<td>36</td>
<td>20150600174</td>
<td>11 161.78</td>
<td>(170.25)</td>
<td>10 991.53</td>
<td>-</td>
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<tr>
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<td>19 704.07</td>
<td>(300.00)</td>
<td>19 404.07</td>
<td>-</td>
</tr>
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<td>38</td>
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<td>1.41</td>
<td>(1.41)</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>39</td>
<td>20466700016</td>
<td>14.75</td>
<td>(13.85)</td>
<td>0.90</td>
<td>-</td>
</tr>
</tbody>
</table>
### Annexure B

<table>
<thead>
<tr>
<th>Nr.</th>
<th>Account number</th>
<th>Currently as Receivables R'</th>
<th>Currently as Payables R'</th>
<th>Should be Receivables R'</th>
<th>Should be Payables R'</th>
</tr>
</thead>
<tbody>
<tr>
<td>40</td>
<td>30021600716</td>
<td>7 086.75</td>
<td>(7 026.71)</td>
<td>60.04</td>
<td>-</td>
</tr>
<tr>
<td>41</td>
<td>50004500016</td>
<td>32 337.94</td>
<td>(600.00)</td>
<td>31 737.94</td>
<td>-</td>
</tr>
<tr>
<td>42</td>
<td>102848000011</td>
<td>1 087.57</td>
<td>(1 052.65)</td>
<td>34.92</td>
<td>-</td>
</tr>
<tr>
<td>43</td>
<td>105332000016</td>
<td>1 154.50</td>
<td>(300.00)</td>
<td>854.50</td>
<td>-</td>
</tr>
<tr>
<td>44</td>
<td>106562000019</td>
<td>846.40</td>
<td>(700.66)</td>
<td>145.74</td>
<td>-</td>
</tr>
<tr>
<td>45</td>
<td>107020000017</td>
<td>3 778.90</td>
<td>(83.60)</td>
<td>3 695.30</td>
<td>-</td>
</tr>
<tr>
<td>46</td>
<td>107394000017</td>
<td>638.42</td>
<td>(638.42)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>47</td>
<td>107615000108</td>
<td>9 082.43</td>
<td>(915.82)</td>
<td>8 166.61</td>
<td>-</td>
</tr>
<tr>
<td>48</td>
<td>108549000015</td>
<td>191.75</td>
<td>(178.37)</td>
<td>13.38</td>
<td>-</td>
</tr>
<tr>
<td>49</td>
<td>111555000011</td>
<td>47.36</td>
<td>(0.02)</td>
<td>47.34</td>
<td>-</td>
</tr>
<tr>
<td>50</td>
<td>116413000017</td>
<td>154 956.56</td>
<td>(10 885.87)</td>
<td>144 070.69</td>
<td>-</td>
</tr>
</tbody>
</table>

**Grand**

<table>
<thead>
<tr>
<th>Currently as Receivables R'</th>
<th>Currently as Payables R'</th>
<th>Should be Receivables R'</th>
<th>Should be Payables R'</th>
</tr>
</thead>
<tbody>
<tr>
<td>R913 796.85</td>
<td>(442 481.74)</td>
<td>475 821.84</td>
<td>(4 506.73)</td>
</tr>
</tbody>
</table>

Adjustments to be made

R437 975.01

R437 975.01
The impact of the finding is as follows:
- Receivables from exchange and non-exchange transactions are overstated.
- Payables are overstated.
- The ageing of the above sections are misstated.
- Interest income is incorrectly charged and thus also overstated.
- Debt Impairment provision was calculated using incorrect figures and thus also misstated.

We calculated the misstatement between Receivables (exchange and non-exchange) and Payables to be R437 975.
We are however unable to determine the impact of the above on the interest, ageing and the impairment provision.

**Internal control deficiency**

*Financial and performance management:* Implement controls over daily and monthly processing and reconciling of transactions

Management did not implement adequately reviews over the debtor’s accounts in order to identify misstatements.

**Recommendation**

Management should investigate the misstatements identified above and correct the misstatement between Receivables (exchange and non-exchange) and Payables as well as assess the effect this will have on the interest charged, ageing disclosure and the impairment provision in the annual financial statements.

Furthermore management should ensure that a detailed review of the debtor’s accounts is performed regularly, thereby ensuring accurate financial information.

**Management response**

<table>
<thead>
<tr>
<th>Management comment on the audit finding:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management is in agreement with the above finding. We are aware of this issue and have communicated this to R-Data (Promun) to rectify. This was an isolated occurrence and limited to the Legal Suite accounts linked to billing type rates only.</td>
</tr>
<tr>
<td>This was corrected in the new financial year.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Management comment on the root cause identified within the audit finding:</th>
</tr>
</thead>
<tbody>
<tr>
<td>The credit / debit play off parameters were incorrect and was corrected in the new financial year as soon as the root cause was identified. Checks have also been added onto the interest raising checklists to ensure that the parameters are now correct.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Management comment on the recommendation:</th>
</tr>
</thead>
<tbody>
<tr>
<td>The assessed effect on the interest charged was R46 792.98 in total for the 2015/16 financial year with an impact of R30 314.77 on the 50 debtors mentioned above. Incorrect interest to be corrected in the new financial year.</td>
</tr>
<tr>
<td>Ageing disclosure effect was calculated, please refer to attached Excel spreadsheet. The majority of the impact is on 36 months + to the value of R32 615.84.</td>
</tr>
<tr>
<td>The effect on the impairment provision in the annual financial statements on the balances as per the attached Excel is R97 128.69</td>
</tr>
</tbody>
</table>
**Remedial action:**

<table>
<thead>
<tr>
<th>What actions will be taken:</th>
<th>By whom:</th>
<th>By when:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pending final materiality – the amendment to the Trade Receivables and Trade Payables balance will be made as well as the Provision adjustment</td>
<td>Nicoline Barnard</td>
<td>As soon as final materiality can be assessed</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
</table>

Please give an indication of whether the correcting journal entry shall be processed:

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
<th>N/A</th>
</tr>
</thead>
</table>

If yes, please indicate the accounting entry:

**Pending final materiality:**

- Dr Trade Payables  R438 030.31
- Cr Trade Receivables  (R438 030.31)

*Correction of trade receivables balance due to incorrect debit/credit play off parameters.*

- Dr Impairment on Trade Receivables  R97 128.69
- Cr Expense on impairment adjustment  (R97 128.69)

*Correction of impairment on trade receivables balance due to incorrect debit/credit play off parameters.*

If no, please provide the reason why such a conclusion:

Not applicable

---

**Auditor’s conclusion**

Management response noted. Management has decided not to adjust and therefore the amount will remain on the unadjusted error schedule. This matter will remain as an "other important matter" in the Management report.

---

**Responsible Directorate/Department:** (Finance/Budget Office)

**Deadline** – To be determined

**Action:** SCM Manager will instruct that all be included during the preparation of the AFS. Also deviations MUST be minimised. Organization has a culture of non-compliance to SCM Regulations due to in the past being allowed to operate in this manner.

**Verified by:** In Progress
17. Receivables from exchange disclosure misstated - CMAF 29

Audit Finding

During the audit of receivables from exchange transactions we have identified that the disclosure as per note 4 of the annual financial statements between water and electricity is incorrect. Receivables from exchange: water is understated and receivables from exchange: electricity is overstated in both the 2015/2016 financial year and the 2014/2015 financial year.

The misstatement in the disclosure between Receivables (exchange): Electricity and Receivables (exchange): Water as at 30 June 2016 amount to R2 335 824.

<table>
<thead>
<tr>
<th>DETAIL OF MISSTATEMENT (current year)</th>
<th>As Per Annual Financial Statements</th>
<th>As Per Auditors’ Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Section</td>
<td>Amount</td>
<td>Section</td>
</tr>
<tr>
<td>Electricity</td>
<td>R35 203 575</td>
<td>Electricity</td>
</tr>
<tr>
<td>Water</td>
<td>R37 494 761</td>
<td>Water</td>
</tr>
<tr>
<td>Total correction</td>
<td>R2 335 824</td>
<td>R32 867 751</td>
</tr>
<tr>
<td></td>
<td></td>
<td>R39 830 585</td>
</tr>
</tbody>
</table>

The misstatement between receivables (exchange): electricity and receivables (exchange): water as at 30 June 2015 amount to R3 210 875.

<table>
<thead>
<tr>
<th>DETAIL OF MISSTATEMENT (prior year)</th>
<th>As Per Annual Financial Statements</th>
<th>As Per Auditors’ Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Section</td>
<td>Amount</td>
<td>Section</td>
</tr>
<tr>
<td>Electricity</td>
<td>R30 195 231.00</td>
<td>Electricity</td>
</tr>
<tr>
<td>Water</td>
<td>R29 519 416.00</td>
<td>Water</td>
</tr>
<tr>
<td>Total correction</td>
<td>R3 210 875.00</td>
<td>R26 984 356.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td>R32 730 291.00</td>
</tr>
</tbody>
</table>

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 implement adequate reviews over Receivables (exchange) in order to identify all misstatements.

Recommendation

Management should implement adequate reviews of receivables disclosed to ensure that receivables are accurately recorded.

Management must correct the misstatement between Receivables (exchange): Electricity and Receivables (exchange): Water in the current and prior year in order to correct the disclosure in the AFS.

Management response

Management comment on the audit finding:

The finding is supported. Only the revenue portion of the June consumption billed in July was recognised separately for water and electricity. The debtor’s portion was recognised as part of electricity in total.
Management comment on the root cause identified within the audit finding:

Agreed and separate water receivables July billing vote will be created in order to ensure accurate disclosure going forward.

Management comment on the recommendation:

Agreed, and the disclosure note misstatement will be corrected in the financial statements.

Remedial action:

<table>
<thead>
<tr>
<th>What actions will be taken</th>
<th>By whom</th>
<th>By when</th>
</tr>
</thead>
<tbody>
<tr>
<td>Additional water receivables July billing vote to be opened and correction of the disclosure in the financial statements.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
<th>N/A</th>
</tr>
</thead>
</table>

Please give an indication of whether the correcting journal entry shall be processed:

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
<th>N/A</th>
</tr>
</thead>
</table>

If yes, please indicate the accounting entry:

- Dt Receivables from exchange transactions – Water  
  Ct Receivables from exchange transactions – Electricity  
  (Disclosure correction 2015/2016 financial year)  
  R 2 335 824  
- Dt Receivables from exchange transactions – Water  
  Ct Receivables from exchange transactions – Electricity  
  (Disclosure correction 2014/2015 financial year)  
  R 3 210 875

If no, please provide the reason why such a conclusion:

Auditor’s conclusion

Management response noted. This matter will remain as an “other important matter” in the Management report. The adjusted financial statements have been inspected and confirmed that the adjustment has been processed correctly.

Responsible Directorate/Department: (Finance/Budget Office)

Deadline – December 2016

Action: The SOP and working paper has been updated to include the additional water receivables July billing vote.

Verified by: Manager Performance, Internal Audit and Risk Management
18. Property rates misstated - COMAF 12

Audit finding

Annexure 3 of Knysna Municipality's 2015/2016 Medium Term Revenue and Expenditure Framework (MTREF) states that R100 000 is to be exempt from the value of each domestic property (excluding accommodation establishments) in the determination of property rates.

During the audit of revenue from property rates it was discovered that the value used to determine the property rates on four rural - residential category properties had not taken into account the R100 000 annual exemptions as per the MTREF.

The table below indicates the four properties that were affected by the error as well as a comparison of the amounts that were recorded in the accounting records of the municipality against what should have been recorded.

<table>
<thead>
<tr>
<th>Name</th>
<th>Description</th>
<th>Amount per records of the municipality</th>
<th>Property Value</th>
<th>Tariff</th>
<th>Recalculated amount by auditors</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lake Pleasant Estates PTY LTD</td>
<td>Ruggle Valley</td>
<td>R987.24</td>
<td>R150 000</td>
<td>R 0.00658160</td>
<td>R329.08</td>
<td>R658.16</td>
</tr>
<tr>
<td>The Brenton Property Trust</td>
<td>Uitzigt</td>
<td>R38 699.81</td>
<td>R5 880 000</td>
<td>R 0.00658160</td>
<td>R38 041.85</td>
<td>R658.16</td>
</tr>
<tr>
<td>De Beer G&amp;I</td>
<td>Greater Quarrywood</td>
<td>R7 897.92</td>
<td>R1 200 000</td>
<td>R 0.00658160</td>
<td>R7 239.76</td>
<td>R658.16</td>
</tr>
<tr>
<td>Kingshill Prop Holdings &amp; Inv.</td>
<td>Uitzigt</td>
<td>R76 017.48</td>
<td>R11 550 000</td>
<td>R 0.00658160</td>
<td>R75 359.32</td>
<td>R658.16</td>
</tr>
</tbody>
</table>

**Total difference**

R2 632.64

The misstatement calculated above is based on a sample therefore an extrapolation of the misstatement over the population was determined to be R525 957.07.

Consequently property rates revenue and receivables from non-exchange transactions are overstated by R525 957.07.

**Internal control deficiency**

Financial and performance management: Implement controls over daily and monthly processing and reconciling of transactions.

Management does not adequately review the property rates captured to ascertain that the correct tariffs and rateable values are used in determining property rates to be charged.

**Recommendation**

Management should implement appropriate controls over the calculation of property rates and ensure that there are adequate reviews that take place after property rates have been processed.

Furthermore management should investigate the entire population of property rates and adjust the annual financial statements with the total misstatement identified.

**Management response**

Management comment on the audit finding:

Management is in agreement with the finding of the AG

Management comment on the root cause identified within the audit finding:
The finding is a result of shortcomings in our billing framework as well as management’s lack of oversight in ensuring that proper review controls are in place. A “master guide” regarding rates and rebates is in place to ensure that the correct application of exemptions and rebates in terms of council’s approved tariffs, fees and charges is applied to a specific property or group of properties.

Management comment on the recommendation:

The entire population of this category of properties namely Rural/Non-Urban properties (Tariff Code 8051) were reviewed and 476 accounts were identified where the Property Rates Exemption of R100, 000 were not applied. The consumer listing (mun 837) were used to identify the misstatements.

The effect on revenue and receivables are as follows:

Total amount overstated: R313,284.16 (476 accounts x R658.16)

Remedial action:

What actions will be taken:

A correcting journal and adjustments to the individual accounts will be made.

Whether the journal will be recognised in the 2015/2016 year will be based on the final materiality calculation.

If the above findings affects an amount (s) disclosed in the financial statements: YES X NO

Please give an indication of whether the correcting journal entry shall be processed: YES X NO N/A

If yes, please indicate the accounting entry:

Pending final materiality evaluation:

Dr Revenue from Non-Exchange (Property Rates) R 313,284.16

Cr Debtors Control R 313,284.16

If no, please provide the reason why such a conclusion:

If immaterial the adjustment will be made to the individual debtor’s accounts in the 2016/2017 financial year.

Auditor’s conclusion

Management comments noted. This matter will still be reported as an “other important matter” in the management report. Management has decided not to adjust the financial statements and therefore these amounts will be included on the unadjusted errors schedule.

Responsible Directorate/Department: (Finance/Income)

Deadline – To be determined

Action: Please state what you are putting in place to prevent a repeat finding during the 2016/2017 audit.

Verified by: In Progress
19. Refuse removal misstated - COMAF 14

Audit finding

During the audit of refuse removal we identified that the incorrect tariff has been charged to the following property:

- Quatro Estate (Pty) Ltd - Account: 113309000024

The category used in the description on the account statement is that of a residential property however, the tariff applied for billing and accounting purposes is for vacant erven as per Annexure 3 of Knysna Municipality's 2015/2016 Medium Term Revenue and Expenditure Framework (MTREF).

Consequently the revenue and receivables from exchange transactions are overstated as follows:

<table>
<thead>
<tr>
<th>Amount recorded in the accounting records:</th>
<th>Tariff as per MTREF for residential properties</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>R1 314</td>
<td>R750.88</td>
<td>R563.16</td>
</tr>
</tbody>
</table>

The misstatement calculated above is based on a sample therefore an extrapolation of the misstatement over the population was determined to be: R372 329.64.

Internal control deficiency

Financial and performance management: implement controls over daily and monthly processing and reconciling of transactions.

Management does not adequately review the refuse removal tariffs captured and billed to the customers to ascertain that the correct tariffs and ratable values are used in determining refuse removal amounts to be charged.

Recommendation

Management should implement appropriate review controls over the capturing of tariffs for refuse removal to be charged to customers and therefore ensuring accurate revenue recognition and accurate account statements issued to customers.

Furthermore management should investigate the entire population of refuse removal and adjust the annual financial statements with the total misstatement identified.

Management response

Management comment on the audit finding:

Management is in agreement with the finding of the AG.

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

The finding is a result of shortcomings within our billing framework. The billing framework was extensively reviewed during the 2016/17 annual billing process to ensure that a "master guide" is in place which will determine which tariff shall apply to a specific property or group of properties.

Management comment on the recommendation:

The entire population of residential properties were investigated to identify discrepancies with the refuse tariff applied. Eight accounts were identified. The consumer file listing (mun837) were used
for this purpose. The report currently and in future will form the basis for our tariff setup. We have also started a process to standardize our tariffs and in this regard our rates policy will be used to determine the correct property category. This will ensure that the correct basic, consumption or availability tariff is applied to an account or category of property.

The monetary effect on revenue and receivables are as follows:

<table>
<thead>
<tr>
<th>Total amount charged:</th>
<th>R10,512.32 (Ex Vat) 8 properties x R1314.01</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual amount to be raise:</td>
<td>R6,007.04 (Ex Vat) 8 properties x R750.88</td>
</tr>
<tr>
<td>Revenue Overstated:</td>
<td>R4,505.28</td>
</tr>
<tr>
<td>Output VAT Overstated:</td>
<td>R630.74</td>
</tr>
<tr>
<td>Interest Revenue:</td>
<td>R121.20</td>
</tr>
<tr>
<td>Provision Overstated:</td>
<td>R2.03</td>
</tr>
</tbody>
</table>

Remedial action:
- What actions will be taken:
  - A correcting journal and adjustments to the individual accounts will be made in the 2016/2017 financial year due to having an immaterial effect.

<table>
<thead>
<tr>
<th>By whom:</th>
<th>By when:</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Pedro</td>
<td>26/10/16 to be finalised</td>
</tr>
</tbody>
</table>

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

- Please give an indication of whether the correcting journal entry shall be processed:
  - YES NO X N/A

- If yes, please indicate the accounting entry:
  - N/a

- If no, please provide the reason why such a conclusion:
  - Immaterial and will be adjusted in the 2016/2017 year against the accounts of the consumers.

**Auditor’s conclusion**

Management comments noted. This matter will still be reported as an “other important matter” in the management report. The amounts to be adjusted are below trivial. Therefore it will not be reported on the unadjusted schedule of misstatements. However, management should address the internal control deficiency to ensure that the error does not reoccur.

**Responsible Directorate/Department:** (Finance/Income)

**Deadline** – To be determined

**Action:** Please state what you are putting in place to prevent a repeat finding during the 2016/2017 audit.

**Verified by:** In Progress
20. VAT and Debt Impairment Misstated - COMAF 8

Audit Finding

The Value Added Tax (VAT) Act No 89 of 1991, Section 12 states:

“The supply of any of the following goods or services shall be exempt from the tax imposed under section 7 (1) (a):
   (a) The supply of any financial services, but excluding the supply of financial services which, but for this paragraph, would be charged with tax at the rate of zero per cent under section 11
   (c) the supply of—
      (i) a dwelling under an agreement for the letting and hiring thereof, and any “right of occupation” as defined in section 1 of the Housing Development Schemes for Retired Persons Act, 1988 (Act No.65 of 1988);”

Financial services is defined in section 2 (f) of the VAT act as follows:

“The provision by any person of credit under an agreement by which money or money’s worth is provided by that person to another person who agrees to pay in the future a sum or sums exceeding in the aggregate the amount of such money or money’s worth”

During the audit of Impairment the following issue was identified:

- The Municipality’s calculation of the VAT effect on the impairment of consumer debtors did not take into account that VAT exempt supply transactions/balances must be excluded from the VAT calculation. The VAT should have been excluded on the following:
  - Interest on accounts which does not carry VAT. [Section 12(a)]
  - Loan balances which does not carry VAT. [Section 12(a)]
  - Residential Rentals which does not carry VAT. [Section 12(c)]

The impact of the finding is as follows:

- VAT receivable (B/S): is overstated in the AFS with an estimated amount of R1 153 857
- Debt Impairment (I/S): is understated in the AFS with an estimated amount of R1 153 857

This is however only an estimate of the misstatement as the exact amount could not be estimated by the auditor. See calculation below:

<table>
<thead>
<tr>
<th>i) Interest effect Calculation (Estimate)</th>
<th>Age Analysis</th>
<th>Provision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Debtors Outstanding</td>
<td>143 156 896</td>
<td>72 344 938</td>
</tr>
<tr>
<td>Less: Interest included in balance</td>
<td>(17 452 139)</td>
<td>(8 819 573) Pro Rate Calc</td>
</tr>
<tr>
<td>Total Debtors Outstanding (excl Interest)</td>
<td>125 703 757</td>
<td>63 525 365</td>
</tr>
</tbody>
</table>

Estimated interest included in Provision | 8 819 573 |

Possible VAT on interest that the Municipality included by mistake | 1 083 106 Estimated |

<table>
<thead>
<tr>
<th>ii) Loans effect Calculation (Actual)</th>
<th>Age Analysis</th>
<th>Provision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Loans Outstanding</td>
<td>127 425</td>
<td>95 000</td>
</tr>
<tr>
<td>VAT on loans that the Municipality included by mistake</td>
<td>11 674 Actual</td>
<td></td>
</tr>
</tbody>
</table>
### iii) Residential Rental effect Calculation (Actual) - Age Analysis - Provision

<table>
<thead>
<tr>
<th>Total Loans Outstanding</th>
<th>870,534</th>
<th>481,054</th>
</tr>
</thead>
<tbody>
<tr>
<td>VAT on residential rentals that the Municipality included by mistake</td>
<td>59,077 Actual</td>
<td></td>
</tr>
<tr>
<td>TOTAL ESTIMATED MISSTATEMENT</td>
<td>1,153,856</td>
<td></td>
</tr>
</tbody>
</table>

### 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 implement adequate reviews over the consumer debtors’ impairment calculations in order to identify any possibly misstatements.

**Recommendation**

Management should ensure that adequate reviews of the impairment take place to ensure that all VAT act requirements are satisfied.

Management must investigate the full extent of the misstatement and the error must be corrected.

### Management response

<table>
<thead>
<tr>
<th>Management comment on the audit finding:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management agrees with the finding, due to the reports in the past not being able to split this for years’ prior to 2014/15.</td>
</tr>
</tbody>
</table>

| With the available report the additional calculation can be made to adjust for the interest component within the provision which was not able previously. |

| The impact on the prior year figure is an adjustment of R 620,141.04 on VAT owed to SARS and the Debt impairment provision. The impact on the current year figure is R 325,732.75 |

<table>
<thead>
<tr>
<th>Management comment on the root cause identified within the audit finding:</th>
</tr>
</thead>
<tbody>
<tr>
<td>The report used for the calculation of the provision for doubtful debt does not split the debt amongst capital and interest. Therefore it is difficult to exclude the interest portion. A new template was built to assist in the COMAF to get to a more specific answer on the impact of the VAT portion relating to the interest component which can be utilised going forward to ensure this does not occur.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Management comment on the recommendation:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management agrees and the amount was re-calculated to ensure accuracy.</td>
</tr>
</tbody>
</table>

### Remedial action:

<table>
<thead>
<tr>
<th>What actions will be taken:</th>
<th>By whom:</th>
<th>By when:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Based on final materiality calculation, the following journal might be processed in the current financial year.</td>
<td>Nicoline Barnard</td>
<td>a.s.a.p.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>If the above findings affects an amount (s) disclosed in the financial statements:</th>
</tr>
</thead>
<tbody>
<tr>
<td>YES</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Please give an indication of whether the correcting journal entry shall be processed:</th>
</tr>
</thead>
<tbody>
<tr>
<td>YES</td>
</tr>
</tbody>
</table>

| If yes, please indicate the accounting entry: |
Pending final materiality:

**2014/15 Comparison**

<table>
<thead>
<tr>
<th>Service</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity</td>
<td>5,848.97</td>
</tr>
<tr>
<td>Water</td>
<td>211,408.21</td>
</tr>
<tr>
<td>Rentals</td>
<td>173,658.46</td>
</tr>
<tr>
<td>Refuse</td>
<td>100,071.93</td>
</tr>
<tr>
<td>Sewerage</td>
<td>101,030.49</td>
</tr>
<tr>
<td>Other</td>
<td>281,22.98</td>
</tr>
<tr>
<td>VAT</td>
<td>(620,141.04)</td>
</tr>
</tbody>
</table>

**2015/16**

<table>
<thead>
<tr>
<th>Service</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity</td>
<td>44,230.30</td>
</tr>
<tr>
<td>Water</td>
<td>165,303.98</td>
</tr>
<tr>
<td>Rentals</td>
<td>(93,854.07)</td>
</tr>
<tr>
<td>Refuse</td>
<td>103,974.45</td>
</tr>
<tr>
<td>Sewerage</td>
<td>106,324.86</td>
</tr>
<tr>
<td>Other</td>
<td>(246.78)</td>
</tr>
<tr>
<td>VAT</td>
<td>(325,732.75)</td>
</tr>
</tbody>
</table>

If no, please provide the reason why such a conclusion:

Not applicable

**Auditor’s conclusion**

Management comments noted. Management has decided not to adjust the financial statements and therefore these amounts will be included on the unadjusted errors schedule. This matter will still be reported as an “other important matter” in the management report.

**Responsible Directorate/Department:** (Finance/Budget Office)

**Deadline** – Can only be done as part of the AFS process July/August 2017.

**Action:** The report extract was updated to include the required information and the calculation template was adjusted to ensure accuracy.

**Verified by:** In Progress
21. Income received in advance: Duplicate Journal entries - COMAF 17

Audit Findings

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

“(1) Every municipality and every municipal entity must for each financial year prepare annual financial statements which —

b) fairly presents the state of affairs of the municipality or entity, 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;”

During the audit of payables from exchange transactions we identified that duplicate journals were incorrectly processed to write off the below debtors and therefore creating debtors with creditors’ balances as follow:

<table>
<thead>
<tr>
<th>Nr</th>
<th>Date</th>
<th>Reference</th>
<th>Debtors name</th>
<th>Amount in credit</th>
<th>Journal reference of duplicate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>30/06/2016</td>
<td>105773000152</td>
<td>HM Groenewald</td>
<td>R1 519.18</td>
<td>TVR00886</td>
</tr>
<tr>
<td>2</td>
<td>30/06/2016</td>
<td>10999903342</td>
<td>G Bock</td>
<td>R8 900.94</td>
<td>jd007175</td>
</tr>
<tr>
<td>3</td>
<td>30/06/2016</td>
<td>11306500415</td>
<td>Pridesell 1111 CC</td>
<td>R719.34</td>
<td>jd007199</td>
</tr>
</tbody>
</table>

Consequently payables from exchange transactions are misstated with the following extrapolated amount: R157 646.82

Internal control deficiency

Financial and performance management: Implement controls over daily and monthly processing and reconciling of transactions.

Management did not implement adequate monitoring controls to ensure that the capturing of duplicate journals are prevented.

Recommendation

Management should ensure that adequate review controls are in place to ensure that duplicate journals are not captured

Management should investigate the misstatements identified above as well as the whole population of payables from exchange transactions and adjust the annual financial statements accordingly.
Management response

Management comment on the audit finding:
Management is in agreement with the finding of the Auditor General

Management comment on the root cause identified within the audit finding:
The finding is a result of a system error which was reported to Rdata at the time and fixed. Journals processed did not show or update on the individual accounts.

Management comment on the recommendation:
The entire population of journals processed by the Credit Control section were investigated. Three more duplicate journals were identified in addition to this finding. The effect of the total misstatement amounts to R19,005.01

Remedial action:

<table>
<thead>
<tr>
<th>What actions will be taken: correcting journals and adjustments to the individual accounts in the 2016/2017 financial year due to the immaterial effect</th>
<th>By whom:</th>
<th>By when:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>J. Davidson</td>
<td>In Progress 31.10.2016</td>
</tr>
<tr>
<td></td>
<td>T. van Rooyen</td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>YES</th>
<th>NO X</th>
</tr>
</thead>
</table>

Please give an indication of whether the correcting journal entry shall be processed:

<table>
<thead>
<tr>
<th>YES</th>
<th>NO X</th>
<th>N/A</th>
</tr>
</thead>
</table>

If yes, please indicate the accounting entry:

If no, please provide the reason why such a conclusion: Immaterial and will be adjusted against the accounts of the customer in the 2016/2017 financial year.

Auditor’s response

Management’s response is noted. The misstatements identified are below trivial and therefore no adjustment needed to be processed. The finding will remain in the management as an “other important matter” as management should address the internal control deficiency going forward.

Responsible Directorate/Department: (Finance/Income)

Deadline – To be determined

Action: Please state what you are putting in place to prevent a repeat finding during the 2016/2017 audit.

Verified by: In Progress

Audit Finding

In terms of the Local Government: Municipal Finance Management Act, 2003: Regulation 9 of Municipal Regulations on Minimum Competency Levels 2007:

“Any financial official of a municipality or municipal entity at middle management level must comply with the minimum competency levels required for higher education qualification and work related experience and competent in the unit standards prescribed for competency areas as set out below:

<table>
<thead>
<tr>
<th>Competency Areas</th>
<th>Required Minimum Competency Level in Unit Standards Municipality budget below R500 million</th>
<th>Required Minimum Competency Level in Unit Standards Municipality budget equal and above R500 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational financial management</td>
<td>116345; 119352; 119341; 119331; 116364</td>
<td>116345; 119352; 119341; 119331; 116364</td>
</tr>
<tr>
<td>Governance, ethics and values in financial management</td>
<td>116343</td>
<td>116343</td>
</tr>
<tr>
<td>Financial and performance reporting</td>
<td>116363; 119350; 119348; 116341</td>
<td>116363; 119350; 119348; 116341</td>
</tr>
<tr>
<td>Risk and change management</td>
<td>116339</td>
<td>116339</td>
</tr>
<tr>
<td>Project management</td>
<td>119343</td>
<td>119343</td>
</tr>
<tr>
<td>Legislation, policy and implementation</td>
<td>119334</td>
<td>119334</td>
</tr>
<tr>
<td>Supply Chain Management</td>
<td>116353</td>
<td>116353</td>
</tr>
<tr>
<td>Audit and assurance</td>
<td>116351</td>
<td>116351</td>
</tr>
</tbody>
</table>

During the audit of human resource management we have identified that the following employees are not in possession of a minimum competency as per above regulation:

<table>
<thead>
<tr>
<th>Competencies</th>
<th>W T Fillies - Manager Income</th>
<th>A Sunkar - Budget Manager</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Operational financial management</td>
<td>Not achieved</td>
<td>Not Achieved</td>
</tr>
<tr>
<td>b) Governance ethics and values in financial management</td>
<td>Achieved</td>
<td>Not Achieved</td>
</tr>
<tr>
<td>c) Financial and performance reporting</td>
<td>Not achieved</td>
<td>Achieved</td>
</tr>
<tr>
<td>d) Risk and change management</td>
<td>Not Achieved</td>
<td>Not achieved</td>
</tr>
<tr>
<td>e) Project management</td>
<td>Achieved</td>
<td>Not Achieved</td>
</tr>
<tr>
<td>f) Legislation, policy and implementation</td>
<td>Not achieved</td>
<td>Not achieved</td>
</tr>
<tr>
<td>g) Supply chain management</td>
<td>Not achieved</td>
<td>Achieved</td>
</tr>
<tr>
<td>h) Audit and assurance</td>
<td>Not achieved</td>
<td>Not achieved</td>
</tr>
</tbody>
</table>

Internal control deficiency

Leadership: Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place.

Management did not ensure that personnel have minimum competencies in place to meet the minimum competency levels as per regulation.

Recommendation

Management should ensure that personnel have minimum competencies in place to meet the Municipal Regulations on Minimum Competency Levels 2007.

Management response

Management comment on the audit finding:
Council during its meeting of October 2015 resolved that Managers should strictly comply with the MMC Regulations of 2007 by 30 June 2016. A MMC programme commenced through Stellenbosch University during April/May 2016 for most of the staff as required by the MMC Regulations 2007. The outcomes/results from the intervention with University Stellenbosch was anticipated at the end of October 2016 but extension was granted to students by the University up and until middle November 2016 to complete their examinations/assignments.

Management comment on the root cause identified within the audit finding:
There is no consistency with strict compliance with the MMC Regulations 2007 throughout Municipalities in the Province and practices are currently contradictory where some appointments are approved with MMC and some appointments are approved without MMC. Correspondence is awaited from National Treasury/Minister in this regard to clarity this matter.

Management comment on the recommendation:
Recommendation is noted.

Remedial action:

<table>
<thead>
<tr>
<th>What actions will be taken:</th>
<th>By whom:</th>
<th>By when:</th>
</tr>
</thead>
<tbody>
<tr>
<td>No additional actions are planned at this stage, once the results from the above actions have been determined a review will take place as part of the ongoing internal skills audit process.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
</table>

Please give an indication of whether the correcting journal entry shall be processed:

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
<th>N/A</th>
</tr>
</thead>
</table>

If yes, please indicate the accounting entry:

If no, please provide the reason why such a conclusion:
Auditor’s conclusion

Management comments noted. This finding will remain as an “other important matter” in the management report.

<table>
<thead>
<tr>
<th>Management Response for Audit Plan Purposes (OPCAR)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Responsible Directorate/Department:</strong> (Corporate/HR)</td>
</tr>
<tr>
<td><strong>Deadline</strong> – End February for Mr Fillies and 30 June 2017 for Ms Sunkar</td>
</tr>
<tr>
<td><strong>Action:</strong> Continued monitoring of progress of Managers into completed outcomes of their MMC Course of 2016 and new enrolment for newly appointed Managers.</td>
</tr>
<tr>
<td><strong>Verified by:</strong> Is monitored and reported as part of the Compliance system.</td>
</tr>
</tbody>
</table>
Audit finding

Section 67(1)(a) of the Municipal Finance Management Act No.56 of 2003 (MFMA) states:

“Before transferring funds of the municipality to an organisation or body outside any sphere of government otherwise than in compliance with a commercial or other business transaction, the accounting officer must be satisfied that the organization or body—

(a) has the capacity and has agreed—

(i) to comply with any agreement with the municipality;

(ii) for the period of the agreement to comply with all reporting, financial management and auditing requirements as may be stipulated in the agreement;

(iii) to report at least monthly to the accounting officer on actual expenditure against such transfer; and

(iv) to submit its audited financial statements for its financial year to the accounting officer promptly.”

Section 67(4)(b) of the Municipal Finance Management Act No.56 of 2003 (MFMA) states:

“Subsection (1)(a) does not apply to an organisation or body serving the poor or used by government as an agency to serve the poor, provided—

(b) that the accounting officer—

(i) takes all reasonable steps to ensure that the targeted beneficiaries receive the benefit of the transferred funds; and

(ii) certifies to the Auditor-General that compliance by that organisation or body with subsection (1)(a) is uneconomical or unreasonable.”

During the audit of conditional grants and transfers the following documentation requested were not received by the auditors for transfers to the respective organisations:

<table>
<thead>
<tr>
<th>Supporting documentation requested</th>
<th>Organisation Receiving the funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Financial statements/ financial reports</td>
<td>- Knysna Swallows FC</td>
</tr>
<tr>
<td></td>
<td>- Knysna Alcohol &amp; Drug Centre</td>
</tr>
<tr>
<td>2. Monthly expenditure reports submitted to the municipality by the recipient of donation/grant</td>
<td>- Die Werkswinkel</td>
</tr>
<tr>
<td></td>
<td>- Masithandane</td>
</tr>
<tr>
<td></td>
<td>- Isiseko Educare Centre</td>
</tr>
<tr>
<td></td>
<td>- Knysna Local Football Association</td>
</tr>
<tr>
<td></td>
<td>- Knysna Swallows FC</td>
</tr>
<tr>
<td></td>
<td>- Eagle Spurs Football Club</td>
</tr>
<tr>
<td></td>
<td>- Pirates United Cricket Club</td>
</tr>
<tr>
<td></td>
<td>- Knysna Community Band</td>
</tr>
<tr>
<td></td>
<td>- Hands &amp; Hearts</td>
</tr>
<tr>
<td></td>
<td>- Loeriehof Old Age Home</td>
</tr>
<tr>
<td></td>
<td>- Youth for Christ Knysna</td>
</tr>
<tr>
<td></td>
<td>- Knysna Tourism</td>
</tr>
</tbody>
</table>

In addition, the municipality has not provided any proof that the above organisations were unable to comply with section 67(1)(a).
Consequently the municipality did not comply with Sections 67(1)(a) and 67(4)(b) of the MFMA.

**Internal control deficiency**

*Financial and performance management; Review and monitor compliance with applicable laws and regulations*

Management did not ensure that adequate controls over the monitoring of transfers to the various organisations were implemented.

**Recommendation**

Management should ensure that they monitor transfers to all organisations before and after a transfer is made in order to ensure compliance with the MFMA.

**Management response**

<table>
<thead>
<tr>
<th>Management comment on the audit finding:</th>
</tr>
</thead>
<tbody>
<tr>
<td>We agree with the findings as contained in the above report.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Management comment on the root cause identified within the audit finding:</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Grant in Aid Ad Hoc Committee consists of Political member as per attached Council resolution.</td>
</tr>
<tr>
<td>Only the said Committee has the authority to make the final decision on which organisation/applicant can be awarded Grants in Aid funding in most cases the Policy, which clearly outlines the qualifications required for all successful applicants is frequently overlooked.</td>
</tr>
<tr>
<td>The GIA Policy as Annexure C, has Section 67 (1) (a) &amp; (4) (b) of the MFMA clearly set out, but the applicants do not adhere to it and the Ad Hoc Committee does not hold the Applicants accountable.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Management comment on the recommendation:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management has a Grants-in-Aid Policy in place that its Applicants receive attached to the application form. The Policy clearly points out guidelines to be followed and the GIA Ad Hoc Committee must ensure that their selected of successful GIA to be awarded is in line with the attached guidelines.</td>
</tr>
<tr>
<td>Upon the awarding phase, each successful applicant signs a Memorandum of Agreement, within which the above mentioned sections/clauses are contained and agreed upon by the Applicants and the MM.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>What actions will be taken:</td>
</tr>
</tbody>
</table>


Propose an amendment of the GIA Policy to have a clause that clearly states that All Applicants that do not comply or adhere to the Policy will forfeit the opportunity to receive Grants in Aid.

If the above findings affects an amount (s) disclosed in the financial statements: YES NO N/A

Please give an indication of whether the correcting journal entry shall be processed: YES NO N/A

If yes, please indicate the accounting entry:

N/A

If no, please provide the reason why such a conclusion:

N/A

Auditor’s conclusion

Management’s comments noted. This matter will however remain as an “other important matter” in the management report. This matter will be followed up during the quarterly key control visits.

Management Response for Audit Plan Purposes (OPCAR)

Responsible Directorate/Department: (Corporate/Administration)

Deadline – Please provide a deadline for action below

Action: Please state what you are putting in place to prevent a repeat finding during the 2016/2017 audit.

Verified by: In Progress
Audit Finding

The following findings have been identified with regard to IT Governance:

- As reported in the prior year, Service Level Agreement (SLA) monitoring of the performance of service providers was completed on an informal basis. Minutes of the meetings held had not been completed.

- There was no Master Systems Plan or IT Strategic Plan in place and the Integrated Development Plan (IDP) did not outline the planned IT project expenditure.

- It was noted that the IT steering committee did not assist in developing the IT Strategic Plan and ensuring that the IT Strategic Plan was delivered within the agreed budget and timeframes.

- No established process was in place to manage the commitment of funds (budget) for IT specific projects, spending, approval and amount spent to date. A budget is in place and spend was in line with the budget, but the process of authorising budgets and linking the budgets allocated to the IT strategy is not in place.

Without formal mechanisms in place to monitor performance of IT vendors, the effectiveness, efficiency and consistency of the IT services delivered cannot be reviewed and measured against agreed targets. In addition, the municipality may not obtain the required support from the service providers or hold them accountable for unsatisfactory service. This may lead to degraded services not being identified in a timely manner and could result in increased costs incurred for poor delivery of services.

If the IT Strategic Plan is not formally documented, approved and implemented there is a risk that IT goals and objectives might not be met. Inadequate linking of the IT project spend to the strategic plan (equivalent plan) could make it difficult for management to confirm the IT projects that were approved for the financial year, and the budget allocated to each. This could result in IT spending their budget on projects that were not identified and prioritised through the municipality’s strategic discussions.

If the IT Steering committee does not assist with developing the IT Strategic Plan, there is a risk that IT goals and objectives might not be correctly formulated according to business needs and that the goals and objectives might not be met. Furthermore, there may be a lack of accountability of compliance with the goals and objectives of the municipality and unnecessary IT expenditure may not be defined and attained.

Inadequate processes surrounding the IT budget could result in over or under allocation of the budget and make it difficult for management to confirm IT projects that were approved for the financial year, and the budget allocated to each. The budget should also be authorised and approved as failing to do so could result in IT spending budget on projects that were not identified and prioritised through the municipality’s strategic discussions.

Internal control deficiency

Management had been in contact with the service provider on a daily basis and therefore the meetings had not been formalised. Management considered the informal processes in place for monitoring IT vendor performance to be sufficient.
The current IDP does not focus on Information Technology (IT). With the absence of a dedicated IT manager, IT focus as part of the IDP was not prioritised.

- The vacant IT manager position resulted in the IT steering committee not focusing on the activities around the IT Strategic Plan and IT spend above.
- Due to the IT manager position being vacant for the full financial year, the IT project budget and spend procedures were not prioritised.

**Recommendation**

Management should implement a service level management process to ensure that the levels of service rendered by external service providers are continually identified, monitored and reviewed against those specified in the SLAs. Evidence of the monitoring, such as minutes of meetings, should be maintained.

Management should expedite the Master Systems Plan or IT Strategic Plan and the approval of the IT Strategic Plan. IT management should ensure that the IT Strategic Plan is aligned to the overall business strategy by engaging other business units during the review of the IT Strategic plan to clearly state the IT projects approved and the budget that has been approved for each for the financial year. The IT Strategic Plan should also be regularly monitored to ensure alignment to the municipality’s strategic goals and achievement of IT strategic goals.

The IT Steering Committee should play a more strategic role in the development of the IT Strategic plan and budgeting process in order to ensure that IT goals, objectives and IT project budgets are correctly defined and attained. The IT steering committee should identify the key business objectives, and ensure that they establish a strategic plan that assists business in achieving these objectives.

Management should ensure that a formalised process is in place to ensure that budgets are correctly identified and allocated in order to commit funds for IT projects, spending, approval and amount to be spent more accurately.

**Management comments**

Management agrees with the findings.

The IT Manager will start on 1 December 2016 and will ensure that the correct controls are in place relating to SLA monitoring (Lezelle Plaatjies – Acting IT Manager – 30/06/2017).

Attention to IT project expenditure and the link to the IDP will be provided via the new mSCOA process for the new financial year 2017/18. (Lezelle Plaatjies – Acting IT Manager – 30/06/2017).

Attention to the IT Steering committee assistance will be provided via the new mSCOA process for the new financial year 2017/18 and the appointment of a dedicated IT Manager in December 2016. (Lezelle Plaatjies – Acting IT Manager – 30/06/2017).

Attention to IT project budgets and spending will be provided via the new mSCOA process for the new financial year 2017/18. (Lezelle Plaatjies – Acting IT Manager – 30/06/2017).
Auditor’s conclusion
Management comments are noted. An assessment of the corrective actions agreed upon by management will be performed during the next information systems audit.

Management Response for Audit Plan Purposes (OPCAR)

Responsible Directorate/Department: (Finance/IT)

Deadline – 30 June 2017

Action: The audit findings relate to IT Governance control deficiencies. The municipality is currently in the process of implementing the CGICTPF⁴ which includes the implementation of appropriate policies and an ICT Strategy. Specific actions that are in progress or will be planned to address these findings will include:

- Requesting service providers to provide monthly service delivery reports (Collaborator, Promun, Mimecast, Community)
- Holding at least 6 IT Steering Committee meetings for the financial year
- Make every effort to ensure that the IT Steering Committee review and approves the draft CGICTPF policies before being submitted to Council for approval
- Make every effort to ensure that the IT Steering Committee drafts, reviews and approves a 5 year ICT strategy before being submitted to Council for approval

Verified by: In Progress

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⁴ Corporate Governance of Information Communications Technology Policy Framework
Audit Finding

Security management is the process of preventing unauthorised access to the application systems that generate the information used to prepare the financial statements. It includes the processes of anti-virus management, patch management and firewall management. It also includes password configuration settings.

The following repeat findings have been identified during the audit relating to security management:

- A shared firewall administrator account was used to make changes to the firewall. In addition, management had not reviewed firewall administrator activities.
- Periodic reviews of the firewall rule configuration were not performed to provide reasonable assurance that dormant rules and vulnerabilities are identified and removed on a timely basis.

Management may not be able to trace firewall maintenance actions if the firewall administrator account is shared by more than one individual. As a result, it may not be possible to hold individuals accountable for any unauthorised actions performed on the firewall.

If regular reviews of the firewall rule configuration settings are not performed, management may not be aware of existing firewall vulnerabilities within the rule configurations and underlying operating system of the firewall, which increases the risk of firewall breach attempts being successful.

Internal control deficiency

The IT department did not have the required skills to manage and monitor the firewall. A Head of Technical position had been included in the IT organisational structure for review by the board, however, it has not yet been approved.

Recommendation

Management should consider training existing staff to manage the firewall, or utilise the services of a third party to assist in this regard.

Management comments

Management agrees with the findings.

The new IT Manager will ensure correct controls are in place around firewall administration (Lezelle Plaatjies – Acting IT Manager – 30/06/2017).

Auditor’s conclusion

Management comments are noted. An assessment of the corrective actions agreed upon by management will be performed during the next information systems audit.
Management Response for Audit Plan Purposes (OPCAR)

Responsible Directorate/Department: (Finance/IT)

Deadline – 30June 2017

Action: The following actions will be completed by the deadline above:

- The Administrator password will be changed by C Mitchell and the password will not be shared with anyone else
- The firewall ruleset will be reviewed at least every 6 months to ensure that open ports are limited to needed services
- Changes to the firewall will be required to follow a standardised change control procedure to limit modifications to the firewall ruleset

Verified by: In Progress
Audit Finding

User account management (UAM) is the systematic process of managing the access of users to an application. The process includes the creation, review, disabling and removal of user accounts.

The following key audit findings were identified:

- As reported in the prior year procedures for managing user access to the IGNITE and PROMUN systems had not been documented or approved.
- As reported in the prior year the system administrators responsible for adding, removing and amending user access also have access to transact on the financial application. In addition the activities of the PROMUN system administrators were not independently reviewed to ensure that all user ID maintenance activities performed by the system administrator related to valid and approved user ID requests.
- As reported in the prior year the IGNITE and PROMUN password settings were not in line with the password policy.
- Evidence that user access reviews were carried out for all users of the PROMUN application could not be obtained during the audit. Currently all departments are selected per month where the section heads/managers are required to review and approve that all users are correct and that users have the correct access to the PROMUN application. This process was not always completed as not all section heads/managers approve the user reviews to confirm the accuracy and completeness of the users and the user’s access.
- The IGNITE application access of individuals who have left the municipality was not terminated in a timely manner. User access was terminated in bulk batches on two dates for the entire period under review, with two users being deleted on one day and 38 users being deleted on a second day.

Without adequate procedures and clearly defined responsibilities for the management of user accounts, accounts might not be properly managed and controlled, which could give rise to unauthorised access to the application, excessive functions assigned to users and unauthorised activities performed by system administrators not detected in a timely manner.

If regular reviews do not take place, users may perform functions not in line with or beyond their job requirements, resulting in potential system breaches and/or fraudulent activities.

If user access is not removed from applications in a timely manner, unauthorised users might still be able to gain access to the system. This could result in unauthorised transactions/functions which could result in potential system breaches and/or fraudulent activities.

Internal control deficiency

Management had prioritised day to day operational activities above the documentation of policies and procedures.

System administrator activities for the applications were performed by the business departments at the municipality, which resulted in consistent processes not being implemented.
The system administrators did not have the access to amend the password settings of the applications. Furthermore, they were unaware of the password policy in place.

A process to review user access is in place but the process is not operating effectively as the section heads/managers do not always respond since the reports are not easy to understand and therefore not user friendly to review.

The IT department is not always made aware of when individuals leave the municipality. The user administration policy/procedure also does not provide the detail on the process to be followed to timely remove a user’s access after they have left employment of the municipality.

**Recommendation**

Management should ensure that user account management procedures for the IGNITE and PROMUN systems are documented and approved. The user account management standards and procedures should include the following:

- Request for access (setting up of new users).
- Approval of requests.
- Resetting of passwords and Change of access.
- Termination of access and inactive accounts.

Monitoring of the actions of the administrators responsible for the management of user accounts on the operating and application systems.

Management should consider centralising the system administrator processes for both the IGNITE and PROMUN applications to ensure consistent processes are implemented and password settings are configured to comply with existing policies and procedures.

The user reviews should be performed on a bi-annual basis (or more frequently if required) and all section heads/managers must approve the user reviews to confirm the accuracy and completeness of the users and the user's access.

A process should be put in place to ensure that users are removed in a timely manner from the IGNITE application in order to avoid potential system breaches and/or fraudulent activities.

**Management comments**

Management agrees with the findings.

- The new IT Manager will ensure correct controls are in place around the user administration procedures documentation including administrator activity reviews and password settings (Lezelle Plaatjies – Acting IT Manager – 30/06/2017).
- The new IT Manager will ensure correct controls are in place around the review of user access (Lezelle Plaatjies – Acting IT Manager – 30/06/2017).
- The new IT Manager will ensure correct controls are in place around the timely removal of user access (Lezelle Plaatjies – Acting IT Manager – 30/06/2017).
Auditor’s conclusion

Management comments are noted. An assessment of the corrective actions agreed upon by management will be performed during the next information systems audit.

Management Response for Audit Plan Purposes (OPCAR)

Responsible Directorate/Department: (Finance/IT)

Deadline – 30 June 2017

Action: This finding relates to the activities of Administrators that are not under the direct supervision of the IT Manager. Therefore guidance / requirements can be communicated to the Administrators but the responsibility for carrying out the control activity rests with the individual system Administrators.

To address this finding, IT has performed the following:

- Met with the Administrators of Promun and Ignite to explain that audit findings as well as suggested remedial actions
- Reported the audit report findings to the IT Steering Committee
- Met with HR to discuss formalising the Joiners / Movers / Leavers process

In order to achieve the deadline of having new processes in place (note: due to the timing it cannot be guaranteed that audit samples for the period 1 December 2016 – 30 June 2017 will be compliant with a new process), IT will continue to assist with the following:

- Make every effort to ensure that User Access policies included in the CGICTPF are approved by Council
- Meet with the Administrators of Promun and Ignite as well as HR to formalise the new Joiners / Movers / Leavers process
- Guide the Promun and Ignite Administrators in performing a user access review
- Engage with 3rd party service providers to align password settings to the municipalities password policy requirements
- Meet with relevant stakeholders to identify potential compensating controls for the identified segregation of duties related control deficiencies.

Verified by: In Progress
Audit Finding

IT service continuity is the process of managing the availability of hardware, system software, application software and data to enable an organisation to recover/re-establish information systems services in the event of a disaster. The process includes IT continuity planning, disaster recovery plans and backups.

The following audit findings were identified with regard to IT service continuity:

- As previously reported, the disaster recovery plan (DRP) had not been tested during the year under review. The disaster recovery (DR) site was still located within 200 meters from the Knysna municipality.
- The ICT Disaster Recovery Action Plan has not been reviewed or updated since May 2013.

If the DRP is not tested according to documented requirements it may not be possible to ensure that critical applications and data is recovered in a timely manner. This could result in financial losses, reduced productivity and/or prolonged unavailability of critical business operations.

If the DR site is not located within a minimum of 10 km away from the municipality, a single destructive event could destroy both the municipality and the DR site resulting in the loss of all data, including backups and copies of data.

The procedures detailed in the ICT Disaster Recovery Action Plan could be outdated and may not reflect the current backup solution and disaster recovery procedures.

Internal control deficiency

Management had planned and budgeted to perform the DR tests, however due to budget constraints the budget was reallocated and the DR was therefore not tested. This also impacted the move of the DR site.

Due to capacity constraints in the IT department, and the absence of an IT manager, focus was not placed on updating the ICT Disaster Recovery Action Plan.

Recommendation

Management should prioritise testing the approved DRP to ensure that critical business services and operations can be restored within the time frames required by the business. The test should performed annually or when changes to the IT environment occur to ensure that the municipality would be able to recover critical services, systems and data adequately and effectively when required to do so.

Management should investigate the move of the DR site to a suitable location.

The municipality should update the existing ICT Disaster Recovery Action Plan or develop and implement a new ICT Disaster Recovery Action Plan and procedures. The policy and procedures should include the following:
• Disaster definitions.
• Objectives of the plan.
• Scope of the plan (including applications, operating systems, databases).
• Plan for IT disaster recovery (including DRP team roles and responsibilities).
• Disaster notification and plan activation.
• System and business unit recovery procedure.
• Primary site procedure.
• Re-establishment of normal operations.
• Plan maintenance and testing (including frequency of DRP tests).
• Business impact analysis (BIA)

Management comments
Management agrees with the findings.

The new IT Manager will ensure correct controls are in place relating to the update of the DRP and the test of the DRP (Lezelle Plaatjies – Acting IT Manager – 30/06/2017).

Auditor’s conclusion
Management comments are noted. An assessment of the corrective actions agreed upon by management will be performed during the next information systems audit.

Management Response for Audit Plan Purposes (OPCAR)

**Responsible Directorate/Department:** (Finance/IT)

**Deadline** – IT DR\(^5\) Plan 30/06/2017

IT DR Solution 2017/2018 financial year (subject to budget approval)

**Action:** An ICT DR business impact and risk analysis template as well as a template ICT Disaster Recovery Plan are included in the requirements for CGICTPF compliance by 30 June 2017. IT will make every effort to ensure that these will be completed with the assistance of the IT Steering Committee and be noted / approved (where relevant) by Council by 30 June 2017.

The location and capabilities of the IT DR Solution are subject to the outcome of the completion of the ICT DR business impact and risk analysis template and a timeline can therefore not be determined at this time. It can however be noted that the municipality does not have another ‘data centre ready’ facility which will result in a requirement for significant capital budget to be assigned to remediating this finding.

**Verified by:** In Progress

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\(^5\) Information and Communication Technology Disaster Recovery
28. Change management - ISA COMAF 5

Audit Finding

Change management is the process of ensuring that change management controls, which should ensure that any proposed changes to the existing information systems environment are coordinated, scheduled, authorised and tested have been adequately designed and implemented. The purpose of change management is to prevent unnecessary disruptions, erroneous changes and unauthorised and inappropriate access to the information systems environment.

As previously reported, a change management policy for the municipality had not been formally documented and approved.

Without a formal documented process in place for logging, approving and tracking the implementation of changes, the municipality may not be able to trace whether requested changes have been appropriately authorised, tested and implemented. This may result in unauthorised changes being implemented without being detected, which could lead to system instability or failure, with an adverse effect on the integrity, availability and confidentiality of the system and the financial data it contains.

Internal control deficiency

Change management activities were performed by the application administrators who were non-IT personnel. Consistent processes were therefore not documented in the form of a change management procedure.

Recommendation

Management should ensure that change control procedures are documented and approved. This should include at least the following:

- The definition of roles and responsibilities.
- Classification (e.g. between infrastructure and application software) and prioritisation of all changes.
- Assessment of impact, authorisation and approval (User Acceptance Testing); and
- Use of emergency change processes.
- The procedure should be approved and communicated to all relevant staff members.

Management comments

Management agrees with the findings.

The new IT Manager will ensure correct controls are in place relating to change management activities (Lezelle Plaatjies – Acting IT Manager – 30/06/2017).
Auditor’s Conclusion

Management comments are noted. An assessment of the corrective actions agreed upon by management will be performed during the next information systems audit.

<table>
<thead>
<tr>
<th>Management Response for Audit Plan Purposes (OPCAR)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Responsible Directorate/Department:</strong> (Finance/IT)</td>
</tr>
<tr>
<td><strong>Deadline</strong> – 30 June 2017</td>
</tr>
<tr>
<td><strong>Action:</strong> IT has a draft Change Management process in place and is currently in the process of testing the process with a variety of change requests. This process will be submitted to the IT Steering Committee for formalisation as a standard operating procedure.</td>
</tr>
<tr>
<td><strong>Verified by:</strong> In Progress</td>
</tr>
</tbody>
</table>
29. Roads and Infrastructure performance - COMAF 38

Audit Finding

During the audit of roads and infrastructure, we noted the following:

1. The municipality does not have an approved policy in place for the planning, management and reporting of road infrastructure.
2. The approved Road Maintenance Plan (RMP)/priority list does not provide for renewal of roads infrastructure allocated to the municipality.

Lack of an approved RMP by the council may result in inadequate commitment by the management to maintain roads in a structured manner.

Internal Control Deficiency

**Leadership:** Exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.

Council has approved the Roads Infrastructure policy with the required provisions and plan for renewal of roads infrastructure.

Recommendation

In order to address the backlog of roads infrastructure, policies and procedures should be approved to ensure consistent implementation.

Management response

<table>
<thead>
<tr>
<th>Management comment on internal control deficiencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) I agree that there is no document with that heading. We however have a PMS, which is our guiding document for planning road maintenance/rehabilitation, etc. We also present a plan to Council annually, which on acceptance, becomes the policy. We also use that same templet and report to Council on progress with the said plan.</td>
</tr>
<tr>
<td>2) The finding is incorrect. The RMP which is a subset of the PMS does contain renewal but the correct term is rehabilitation, which the PMS uses. Council has decided not to do rehabilitation due to funding constraints.</td>
</tr>
</tbody>
</table>

We have no comment on the comment of the auditor re the Internal Control deficiency.
Management comment on recommendation

We don’t understand the term backlog as it relates to roads infrastructure. As housing projects are undertaken, roads get build?

If backlog refers to maintenance/rehabilitation of existing roads, there is no set plan because Council allocates a pot of money and we use it to save roads from reaching total collapse.

According to the auditors Council has approved the RMP/priority list. We have an approved PMS that list all types of road maintenance interventions, prioritizes them and estimates the cost and nothing more can be done in that regard besides pump in more funds.

Council has a policy and procedure and it entails us informing Council of what will be done with the budget based on the approved RMP/PMS. Council then decides to workshop it. Following the workshop Council approves the RMP.

Remedial action
We will contact other municipalities to find out whether such a policy exists. Maybe the AG can guide us to a Municipality that has one and as a result complies.

<table>
<thead>
<tr>
<th>What actions will be taken</th>
<th>By whom</th>
<th>By when</th>
</tr>
</thead>
<tbody>
<tr>
<td>We will continue with our approach until the RAMMS project is implemented</td>
<td>Shaun Maree</td>
<td>2017</td>
</tr>
</tbody>
</table>

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’s response is noted and the finding will remain in the management report as an administrative matter.

Management Response for Audit Plan Purposes (OPCAR)

Responsible Directorate/Department: (Technical/Director)

Deadline – To be determined

Action: Please state what you are putting in place to prevent a repeat finding during the 2016/2017 audit.

Verified by: In Progress
REPORT FROM THE ACTING MUNICIPAL MANAGER

PURPOSE OF THE REPORT

To present to the Committee the progress made in regards to External Audit queries as contained in the Auditor-General’s Management Report for 2015/16.

BACKGROUND

Operation Clean Audit Report (OPCAR) was an initiative by National Government aiming to obtain clean audits, improve governance and enhanced service delivery within local government across the country by 2014. Although the targeted deadline has come and gone the majority of municipalities still fail to obtain a clean audit status. Overall for 2014/2015 only 54 of 278 municipalities obtained a clean audit outcome. The initiative was and is aimed at the overall improvement of management in financial, compliance to legislation, performance (predetermined objectives) and IT management.

DISCUSSION

Directors and or managers will respond to their own departmental issues as they pertain to ComAF’s received by them during the external audit process.

RECOMMENDATION OF THE ACTING MUNICIPAL MANAGER

That the progress made on the OPCAR as at the end of March 2017, be noted.

APPENDIX / ADDENDUM


File Number: 9/1/2/14
Execution: Acting Municipal Manager
Manager : PIARM
Audit Auction Plan

Operation Clean Audit Report (OPCAR)

2015/2016 Financial Year

22 March 2017

(All information in this report is as at the date of the report stated above)
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Executive Summary

2. Overview

Operation Clean Audit Report (OPCAR) was an initiative by National Government aiming to obtain clean audits, improve governance and enhanced service delivery within local government across the country by 2014. Although the targeted deadline has come and gone the majority of municipalities still fail to obtain a clean audit status. Overall for 2014/2015 only 54 of 278 municipalities obtained a clean audit outcome. The initiative was and is aimed at the overall improvement of management in financial, compliance to legislation, performance (predetermined objectives) and IT management. In 2012/2013 Knysna Municipality obtained its first “Clean Audit” which despite significant capacity constraints and ever changing requirements was able to retain for the 2013/2014, 2014/2015 and 2015/2016 financial years. Risks to the clean audit status for the next few years is the implementation of mSCOA (municipal Standard Chart of Accounts), increased capacity constraints, lack of and decline in internal controls, changing legislation and continuous changes in GRAP standards.

The Auditor General defines a clean audit as “The financial statements are free from material misstatements (in other words, a financially unqualified audit opinion) and there are no material findings on reporting on performance objectives or non-compliance with legislation.”

Initial focus by Knysna Municipality has been on financial management such as the Annual Financial Statements, MFMA section 71 and 72 reports, SCM, asset management, etc. Standard operating procedures (SOP’s) will have to be developed and implemented to ensure the proper implementation of Council policy, GRAP, record-keeping and the availability of supporting documentation (portfolio of evidence) must become standard practice. Emphasis is placed on timeous submission of monthly and quarterly reports to Council, Western Cape Provincial Treasury, National Treasury and the Auditor General when required. A preparation audit file (PAF) has been implemented and has been moderately successful. These processes will only be achievable and sustainable if adequate human resource capacity to perform financial management is capacity is acquired, developed and maintained.

The next focus area that received attention was to strengthen good governance within the municipality. This will only be achievable if there are effective governance arrangements in place, which includes a fully functional audit committee, internal audit, risk management, legislative compliance, performance management, political and administrative leadership, etc. Mechanisms have been put in place to implement plans and to remedy audit queries and findings raised in external (AG) and internal audit reports. However, to comply with all the elements of good corporate governance, the commitment and participation of Council and all levels of management is essential. With additional governance requirements being rolled out by national and provincial role-players such as of the Municipal Governance Review and Outlook (MGRO) [Western Cape Provincial Government], Financial Management Capability Maturity Model (FMCMM) [National Treasury], and the Auditor General quarterly Dashboard Report – Drivers of Internal Control to Achieve Clean Administration the expansion of governance structures within the municipality has become a necessity.

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An additional and very important focus area relates to information technology IT and the subsequent audit. Currently audits take place sporadically and seem to be problematic for the AG to execute on a regular basis and in an in-depth manner. Council has a dedicated IT section, committee, policies and systems in place and endeavors to carry out its IT functions in a secure, cost effective manner. Consideration will be given to amending internal audit plans over the next few years to include IT audits.

The fourth and final section and the primary driver of the overall audit process is the audit of compliance to legislation, frameworks, adopted circulars etc. The importance of compliance to the Auditor General can be seen in their quarterly dashboard report which contains three assessment areas financial, performance and compliance.

3. Auditor General
As the institution responsible for issuing the audit outcome the Auditor General provided the focus areas against which the clean audit was measured for the 2015/2016 audit as set out below.²

Annual Financial Statements

“The audit of the financial statements is conducted to provide reasonable assurance that the financial statements present fairly in all material respects the auditee’s financial position, financial performance and cash flows in accordance with the financial reporting framework applied.”

Predetermined Objectives

“The following strategic objectives have been selected for auditing:”

“SO1: To promote access for all citizens to equitable, appropriate and sustainable infrastructure and services within a safe environment.
SO2: To ensure ecological integrity through sustainable practices of municipal governance”

Compliance

“During the course of the audit the compliance areas listed below will be subject to auditing. This is considered to be an integral part of the audit.”

² Audit strategy for the year ended 30 June 2016 (Auditor General South Africa)
"Strategic planning and performance management
Budgets
Financial statements, performance and annual reports
Audit committees
Internal audit
Procurement and contract management
Human resource management and compensation
Expenditure management
Transfer of funds

Conditional grants received
Revenue management
Asset management
Liability management
Consequence management
Other matters which, in the auditor’s professional judgement,
are of sufficient importance to merit inclusion in the auditor’s
report for communication to those charged with governance."

Focus Areas

“During the course of the audit the following areas will be focused on:"

“Financial indicator reporting
Use of consultants
Human Resource (HR) management
Audit of Predetermined Objectives (AOPO)

Water and sanitation management
Roads and infrastructure
Procurement and contract management

Information Technology

“During the course of the audit the financial and performance management information systems listed below will be subject to
audit. This is considered to be an integral part of the audit.

<table>
<thead>
<tr>
<th>Application system</th>
<th>Type of audit</th>
<th>To be audited by</th>
<th>Timing of audit</th>
</tr>
</thead>
</table>
| PROMUN IGNITE            | • Assessment of the Information technology (IT) environment and application systems
|                          | • Review of the General Computer Controls with specific focus on the following areas:
|                          |   o IT Governance
|                          |   o Information Security Management
|                          |   o Change Management
|                          |   o IT Continuity
|                          | • Computer Aided Audit Techniques (CAATS) to support the Regularity Audit                        | Information Systems Audit team | Jul – Oct 2016            |
| PROMUN IGNITE            | Updating the understanding the IT environment and applications (completion of the CIS Checklist) | Information Systems Audit team | 1 July 2016 – 15 October 2016 |
| Cash and Bank Process Review | Assessment of automated controls in place for the cash and bank process                          | Information Systems Audit team | 1 July 2016 – 15 October 2016 |
| mSCOA                    | • Readiness assessment of municipalities for the implementation of MSCO.
|                          | • High level post implementation review                                                          | Information Systems Audit team | 1 July 2016 – 15 October 2016 |
4. Report Envisioned Use

There are various users each with their own requirements regarding information contained in this report. In order to address the various needs of the organisational users such as Executive Management, Audit Committee, Municipal Public Accounts Committee and Council as well as external users such as the Western Cape Province Treasury, National Treasury, Auditor General, etc. the report is arranged into three levels of detail which aims to address the various requirements. The high level summary included as part of the Executive Summary, the Audit Action Plan/OPCAR report and detailed annexures.

Primarily the report is of a technical nature and, at its core, it has been developed to aid oversight and assurance providers such as the Governance and Economic Development Committee, Mayoral Committee, Council, Audit Committee and the Municipal Public Accounts Committee (MPAC) in identifying issues reported on by the Auditor General and progress made in this regard.

5. High Level Summary

Since the implementation of the OPCAR process the Auditor General raised three hundred and seventy seven issues for the 2010/2011(83), 2011/2012(87), 2012/2013(74), 2013/2014(69), 2014/2015(34) and 2015/2016(30) financial years. All issues have been sufficiently addressed to obtain a Clean Audit for 2012/2013, 2013/2014, 2014/2015 and 2015/2016. Of concern is that many of the issues have resulted in restatements which could have been prevented if the municipality had the required capacity and systems, implemented sustainable in year processes and implemented in year reporting. The upcoming implementation of municipal Standard Chart of Accounts (mSCOA) by National Treasury is of great concern and the probable negative impact on the audit outcome should not be underestimated.

Comparing the previous financial year to the year under review there has been a slight decrease in issues raised down to 30 from the previous year’s 34 made up as follows Procurement and Contract Management (9), Audit on Predetermined Performance Outcomes (AOPO) (7), Information Technology (5), Receivables/Revenue (4), Compliance (3) and Payables/VAT (2) this indicates both the AG’ focus as well as areas where additional resources and capacity may be required.

The Auditor General has eleven repeat issues from previous years all "In progress" this is down from sixteen for the 2014/2015 audit.

6. Risks

The AG raised four risks areas these being quality of submitted financial statements, quality of submitted performance information, supply chain management and information technology. Most of these issues are as a result of insufficient, outdated or lacking internal controls.

There has been a general decline in “Financial and performance management” this can be attributed to a severe capacity constraint created by a lock of internal controls, deficient or nonexistent standard operating procedures (SoP), non-transfer of skills, changing legislative environment, non-integration of systems and procedures.
7. Acknowledgement

The personnel accomplished a remarkable outcome especially when considered against the challenges faced due to the instability in management especially in the Municipal Managers Office and Finance Directorate in addition the AG and his staff are thanked for their guidance and assistance during the audit process.
Report

The OPCAR relates to the queries or ComAF's (Communication of Audit Finding) issued by the Auditor General during the audit of the annual financial statements (financial), the predetermined objective (strategy, planning, performance and governance) and the IT audits.

8. Progress

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.\(^3\)

The table on the next page lists the queries received by directorate for the 2015/2016 financial year audit and the overall progress to date. Classifications have been assigned to each issue in line with the possible impact as determined by the AG that it could have future audit outcomes.

A. There are **no matters of urgency** (no Annexure A)
B. There are 29 other important matters (1-29 Annexure B)
C. There is 1 administrative matter (30 Annexure C)

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\(^3\) AG Management report 2015/2016
<table>
<thead>
<tr>
<th>No</th>
<th>Subject /Type</th>
<th>Directorate</th>
<th>Finding</th>
<th>Number of times reported in previous three years</th>
<th>Previous Status</th>
<th>Current Status</th>
<th>Change in Status</th>
<th>Deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>AOPO</td>
<td>Finance/ Income</td>
<td>AOPO: Reported indicator not accurate - COMAF 22</td>
<td>-</td>
<td>Completed</td>
<td>Completed</td>
<td>November 2016</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>AOPO</td>
<td>Technical/ Water Purification</td>
<td>AOPO: Misstatement of Reported indicator TL 42 - COMAF 39</td>
<td>-</td>
<td>Awaiting response</td>
<td>Awaiting response</td>
<td>To be determined</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>AOPO</td>
<td>MM/ Performance</td>
<td>AOPO: KPI (TL 31 and 32) not well defined - COMAF 28</td>
<td>-</td>
<td>Responded</td>
<td>Completed</td>
<td>Y</td>
<td>February 2017</td>
</tr>
<tr>
<td>4</td>
<td>AOPO</td>
<td>MM/ Performance</td>
<td>AOPO: Reported indicators TL 43, 45 and 39 misstated - COMAF 31</td>
<td>-</td>
<td>Responded</td>
<td>Completed</td>
<td>Y</td>
<td>February 2017</td>
</tr>
<tr>
<td>5</td>
<td>AOPO</td>
<td>Finance/ Income</td>
<td>AOPO: Reported indicators TL 6 and 7 misstated - COMAF 23</td>
<td>-</td>
<td>Awaiting response</td>
<td>Awaiting response</td>
<td>To be determined</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>AOPO</td>
<td>Finance/ Income</td>
<td>AOPO: Reported indicator TL 5 misstated - COMAF 33</td>
<td>-</td>
<td>Completed</td>
<td>Completed</td>
<td>November 2016</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>AOPO</td>
<td>MM/ Performance</td>
<td>AOPO: Inconsistency between SDBIP and APR - COMAF 21</td>
<td>-</td>
<td>In progress</td>
<td>In progress</td>
<td>August 2017</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Procurement</td>
<td>and contract</td>
<td>Preliminary SCM will be sent to those involved once identified</td>
<td>Contract management: Monitoring performance of contracts - COMAF 18</td>
<td>-</td>
<td>Responded</td>
<td>To be determined</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Procurement</td>
<td>and contract</td>
<td>Preliminary SCM will be sent to those involved once identified</td>
<td>Contract management: Monitoring performance of contracts - COMAF 24</td>
<td>-</td>
<td>Responded</td>
<td>To be determined</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Procurement</td>
<td>and contract</td>
<td>Finance/ Procurement</td>
<td>Procurement and contract management: Incorrect preference point system used - COMAF 4</td>
<td>-</td>
<td>Completed</td>
<td>Completed</td>
<td>February 2017</td>
</tr>
<tr>
<td>11</td>
<td>Procurement</td>
<td>and contract</td>
<td>Finance/ Procurement</td>
<td>Procurement and contract management: Three quotations not obtained - COMAF 19</td>
<td>-</td>
<td>Completed</td>
<td>Completed</td>
<td>February 2017</td>
</tr>
<tr>
<td>12</td>
<td>Procurement</td>
<td>and contract</td>
<td>Finance/ Procurement</td>
<td>Contract management: Non- Compliance - COMAF 25</td>
<td>-</td>
<td>Responded</td>
<td>To be determined</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Procurement</td>
<td>and contract</td>
<td>Finance/ Procurement</td>
<td>Procurement and contract management: Non-compliance with the Municipal Supply Chain Regulations - COMAF 2</td>
<td>-</td>
<td>Completed</td>
<td>Completed</td>
<td>February 2017</td>
</tr>
<tr>
<td>14</td>
<td>Procurement</td>
<td>and contract</td>
<td>Finance/ Procurement</td>
<td>Procurement and contract management: SCM- No bid specification committee and incorrect composition of the bid committee – COMAF 7</td>
<td>1</td>
<td>Completed</td>
<td>Completed</td>
<td>February 2017</td>
</tr>
<tr>
<td>15</td>
<td>Procurement</td>
<td>and contract</td>
<td>Finance/ Procurement</td>
<td>Procurement and contract management: Deviations not disclosed in Annual Financial Statement - COMAF 5</td>
<td>1</td>
<td>Completed</td>
<td>Completed</td>
<td>March 2014</td>
</tr>
<tr>
<td>16</td>
<td>Procurement</td>
<td>and contract</td>
<td>Finance/ Procurement</td>
<td>Procurement and contract management: Deviations not disclosed - COMAF 20</td>
<td>1</td>
<td>In progress</td>
<td>In progress</td>
<td>July/August 2017</td>
</tr>
<tr>
<td>17</td>
<td>Receivables</td>
<td>Finance/ Budget Office (Accounting)</td>
<td>Receivables from exchange and non-exchange and payables misstated - COMAF 3</td>
<td>-</td>
<td>In progress</td>
<td>In progress</td>
<td>July/August 2017</td>
<td></td>
</tr>
<tr>
<td>No</td>
<td>Subject/Type</td>
<td>Directorate</td>
<td>Finding</td>
<td>Number of times reported in previous three years</td>
<td>Previous Status</td>
<td>Current Status</td>
<td>Change in Status</td>
<td>Deadline</td>
</tr>
<tr>
<td>----</td>
<td>-------------------</td>
<td>------------------------------------</td>
<td>-------------------------------------------------------------------------</td>
<td>-----------------------------------------------</td>
<td>----------------</td>
<td>---------------</td>
<td>-----------------</td>
<td>--------------------</td>
</tr>
<tr>
<td>18</td>
<td>Receivables</td>
<td>Finance/ Budget Office (Accounting)</td>
<td>Receivables from exchange disclosure misstated - COMAF 29</td>
<td>-</td>
<td>Completed</td>
<td>Completed</td>
<td></td>
<td>December 2016</td>
</tr>
<tr>
<td>19</td>
<td>Revenue</td>
<td>Finance/ Income</td>
<td>Property rates misstated - COMAF 12</td>
<td>-</td>
<td>Waiting response</td>
<td>Waiting response</td>
<td></td>
<td>To be determined</td>
</tr>
<tr>
<td>20</td>
<td>Revenue</td>
<td>Finance/ Income</td>
<td>Refuse removal misstated - COMAF 14</td>
<td>-</td>
<td>Waiting response</td>
<td>Waiting response</td>
<td></td>
<td>To be determined</td>
</tr>
<tr>
<td>21</td>
<td>VAT</td>
<td>Finance/ Budget Office (Accounting)</td>
<td>VAT and Debt Impairment Misstated - COMAF 8</td>
<td>-</td>
<td>In progress</td>
<td>In progress</td>
<td></td>
<td>July/August 2017</td>
</tr>
<tr>
<td>22</td>
<td>Payables</td>
<td>Finance/ Income</td>
<td>Income received in advance: Duplicate Journal entries - COMAF 17</td>
<td>-</td>
<td>Waiting response</td>
<td>Waiting response</td>
<td></td>
<td>To be determined</td>
</tr>
<tr>
<td>23</td>
<td>Compliance</td>
<td>Corporate/ HR</td>
<td>Human Resource Management: Minimum Competency Levels - COMAF 36</td>
<td>1</td>
<td>In Progress</td>
<td>In progress</td>
<td></td>
<td>Feb and June 2017</td>
</tr>
<tr>
<td>24</td>
<td>Compliance</td>
<td>Corporate/ Administration</td>
<td>Transfer of funds - COMAF 13</td>
<td>1</td>
<td>Waiting response</td>
<td>In progress</td>
<td>Y</td>
<td>April 2017/June 2107</td>
</tr>
<tr>
<td>25</td>
<td>Information Technology</td>
<td>Finance/ IT</td>
<td>INFORMATION TECHNOLOGY GOVERNANCE - ISA COMAF 1</td>
<td>2</td>
<td>In progress</td>
<td>In progress</td>
<td></td>
<td>June 2017</td>
</tr>
<tr>
<td>26</td>
<td>Information Technology</td>
<td>Finance/ IT</td>
<td>SECURITY MANAGEMENT – ISA COMAF 2</td>
<td>2</td>
<td>In progress</td>
<td>In progress</td>
<td></td>
<td>June 2017</td>
</tr>
<tr>
<td>27</td>
<td>Information Technology</td>
<td>Finance/ IT</td>
<td>USER ACCOUNT MANAGEMENT – ISA COMAF 3</td>
<td>2</td>
<td>In progress</td>
<td>In progress</td>
<td></td>
<td>June 2017</td>
</tr>
<tr>
<td>28</td>
<td>Information Technology</td>
<td>Finance/ IT</td>
<td>IT SERVICE CONTINUITY – ISA COMAF 4</td>
<td>2</td>
<td>In progress</td>
<td>In Progress</td>
<td></td>
<td>June 2017</td>
</tr>
<tr>
<td>29</td>
<td>Information Technology</td>
<td>Finance/ IT</td>
<td>CHANGE MANAGEMENT – ISA COMAF 5</td>
<td>2</td>
<td>In progress</td>
<td>In progress</td>
<td></td>
<td>June 2017</td>
</tr>
</tbody>
</table>

**Annexure C**

<table>
<thead>
<tr>
<th>No</th>
<th>Subject/Type</th>
<th>Directorate</th>
<th>Finding</th>
<th>Number of times reported in previous three years</th>
<th>Previous Status</th>
<th>Current Status</th>
<th>Change in Status</th>
<th>Deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td>30</td>
<td>Compliance</td>
<td>Technical/ Director</td>
<td>Roads and Infrastructure performance - COMAF 38</td>
<td>1</td>
<td>Waiting response</td>
<td>Waiting response</td>
<td></td>
<td>To be determined</td>
</tr>
</tbody>
</table>

Table 5: Progress per query
Annexure B

1. AOPO - Reported Indicator not accurate - COMAF 22

Audit Finding

According to the national treasury medium term expenditure framework:
Section 3 paragraph 2 of the National Treasury Framework for managing programme performance information (FMPI) requires that a good performance indicator should be verifiable. It must be possible to validate the processes and systems that produce the indicator.

During the audit of key performance indicator (KPI) TL 1- The number of single residential properties with access to basic level electricity we have identified the following:

The number of single residential properties that have access to electricity as per the evidence submitted did not equal to the number that is reported in the Annual Performance Report (APR).

Below is the illustration of the differences identified:

<table>
<thead>
<tr>
<th>KPI</th>
<th>Figures per APR</th>
<th>Figures per evidence received by auditor according to Itron report at June 2016</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>The number of single residential properties with access to basic level electricity</td>
<td>18 988</td>
<td>19 017</td>
<td>29</td>
</tr>
</tbody>
</table>

Consequently KPI TL 1 has been understated by the above-mentioned figure.

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 have adequate reviews in place to ensure that the number recorded for TL 1 is complete and accurate.

Recommendation

Management should have adequate reviews in place to ensure that all information recorded as per the APR is accurate and complete.
Furthermore it is recommended that management should amend the figures reported in the APR for TL 1.
Management response

Management comment on the audit finding:
Management disagrees with the finding as stated.
Management is unsure how the AG arrived at the actual of 19 017 as no supporting information is included in the ComAF. The 18 988 is based on both Itron and RDdata year-end reports as supplied and made up as follows, Itron Domestic = 14 666, RDdata Domestic = 4 322. See table below for a summary as well as the detailed listing is resubmitted in Excel format.

<table>
<thead>
<tr>
<th>Prepaid Code</th>
<th>Count</th>
<th>Credit Code</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>ALL INCLUSIVE</td>
<td>62</td>
<td>ELEC-RESIDENT, BULK</td>
<td>17</td>
</tr>
<tr>
<td>DOMESTIC 20 AMP</td>
<td>216</td>
<td>EL-0A RES</td>
<td>5</td>
</tr>
<tr>
<td>DOMESTIC 3 PHASE 30</td>
<td>14</td>
<td>EL-5A RES</td>
<td>3</td>
</tr>
<tr>
<td>DOMESTIC 3 PHASE 40</td>
<td>5</td>
<td>EL-15A RES</td>
<td>41</td>
</tr>
<tr>
<td>DOMESTIC 3 PHASE 60</td>
<td>209</td>
<td>EL-20A RES</td>
<td>216</td>
</tr>
<tr>
<td>DOMESTIC 30 AMP</td>
<td>1 271</td>
<td>EL-25A RES</td>
<td>65</td>
</tr>
<tr>
<td>DOMESTIC 40 AMP</td>
<td>501</td>
<td>EL-30A RES</td>
<td>870</td>
</tr>
<tr>
<td>DOMESTIC 40 AMP SPECIAL</td>
<td>1</td>
<td>EL-35A RES</td>
<td>84</td>
</tr>
<tr>
<td>DOMESTIC 60 AMP</td>
<td>2 349</td>
<td>EL-40A RES</td>
<td>695</td>
</tr>
<tr>
<td>ELECTRIFICATION SCHEME 01</td>
<td>772</td>
<td>EL-45A RES</td>
<td>82</td>
</tr>
<tr>
<td>ELECTRIFICATION SCHEME 19</td>
<td>468</td>
<td>EL-50A RES</td>
<td>40</td>
</tr>
<tr>
<td>ELECTRIFICATION SCHEME 21</td>
<td>901</td>
<td>EL-55A RES</td>
<td>2</td>
</tr>
<tr>
<td>ELECTRIFICATION SCHEME 22</td>
<td>5 661</td>
<td>EL-60A RES</td>
<td>1 735</td>
</tr>
<tr>
<td>HOUSING (PREV 474)</td>
<td>356</td>
<td>EL-80A RES (AT BUS RATE)</td>
<td>6</td>
</tr>
<tr>
<td>HOUSING INCR AMPS 30</td>
<td>3</td>
<td>EL-20A 3P RES</td>
<td>7</td>
</tr>
<tr>
<td>SF BEHUISING</td>
<td>617</td>
<td>EL-30A 3P RES</td>
<td>41</td>
</tr>
<tr>
<td>SF DOMESTIC 20 AMP</td>
<td>8</td>
<td>EL-35A 3P RES</td>
<td>1</td>
</tr>
<tr>
<td>SF DOMESTIC 30 AMP</td>
<td>315</td>
<td>EL-40A 3P RES</td>
<td>35</td>
</tr>
<tr>
<td>SF DOMESTIC 40 AMP</td>
<td>158</td>
<td>EL-60A 3P RES</td>
<td>375</td>
</tr>
<tr>
<td>SF DOMESTIC 60 AMP</td>
<td>779</td>
<td>EL-10A 3P RES</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>EL-55A 3P RES</td>
<td>1</td>
</tr>
<tr>
<td><strong>Subtotal (Prepaid) Itron</strong></td>
<td><strong>14 666</strong></td>
<td><strong>Subtotal (Credit Meters) RDdata</strong></td>
<td><strong>4 322</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>18 988</strong></td>
<td></td>
</tr>
</tbody>
</table>

Even if the ComAF were correct it does raise some concern when the supposed difference of 29 only amounts to 0.15% what value would it add and how materiality is applied to AOPO.

Management comment on the root cause identified within the audit finding:
Management does not support the finding and therefore requests that the ComAF as is be withdrawn.

Management comment on the recommendation:
No amendments will be made at this stage.

Remedial action:
What actions will be taken: N/A
By whom: By when:
Annexure B

| If the above findings affects an amount (s) disclosed in the financial statements: | YES | NO |
| Please give an indication of whether the correcting journal entry shall be processed: | YES | NO | N/A |
| If yes, please indicate the accounting entry: | N/A |
| If no, please provide the reason why such a conclusion: | Not financial |

Auditor’s conclusion

Management’s response is noted. Management subsequently agreed to correct the reported figure; however the figure that was indicated on the COMAF incorrectly included the commercial properties. Management corrected the figure and excluded the commercial properties. The auditors have inspected the annual performance report for the corrections processed. The matter will remain under other important matters in the management report.

Management Response for Audit Plan Purposes (OPCAR)

Responsible Directorate/Department: (Finance/Income)

Deadline: July/August 2016

Action: After additional investigation the error of 29 resulted from the prepaid service provider drawing the Management report on 30 June and the data “detailed spreadsheet” a few days earlier.

The service provider have committed themselves to ensure that both the report and data are generated on the same day. Successful implementation was verified as working in November 2016 for the October 2016 period and will be monitored on an ongoing basis. The issue is therefore considered resolved.

Verified by: Manager Performance, Internal Audit and Risk Management.
2. AOPO: Misstatement of Reported Indicator TL 42 - COMAF 39

Audit Finding

According to the national treasury medium term expenditure framework:

Section 3 paragraph 2 of the National Treasury Framework for managing programme performance information (FMPPI) requires that a good performance indicator should be verifiable. It must be possible to validate the processes and systems that produce the indicator.

During the audit of TL 42-Limit water unaccounted for by maintaining the water loss below 20%, the following misstatements were identified:

a) Differences were identified during the recalculation of the unaccounted water losses for the following areas:

<table>
<thead>
<tr>
<th>Areas</th>
<th>Figures submitted per calculation from the auditee.</th>
<th>Recalculation by auditor using the reports provided as supporting documentation</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knysna</td>
<td>691 546</td>
<td>482 014</td>
<td>209 532</td>
</tr>
<tr>
<td>Sedgefield</td>
<td>134 109</td>
<td>1 00 197</td>
<td>33 912</td>
</tr>
<tr>
<td>Brenton</td>
<td>51 961</td>
<td>61 361</td>
<td>9 400</td>
</tr>
<tr>
<td>BELVIDERE</td>
<td>9 347</td>
<td>7 982</td>
<td>1 365</td>
</tr>
<tr>
<td>Total difference</td>
<td></td>
<td></td>
<td>254 209</td>
</tr>
</tbody>
</table>

b) There were missing supporting evidence for the calculations that were submitted as evidence for the key indicator. Below are the affected areas:

- Rheenenadal
- Buffalo Bay
- Karatara

c) The following areas were not included in the calculation that was submitted as evidence for the key performance indicator, however it was included in the reports that were submitted as supporting evidence for the calculation:

<table>
<thead>
<tr>
<th>Area</th>
<th>Water consumption per calculation</th>
<th>Water consumption per evidence</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kotze</td>
<td>0</td>
<td>2 035</td>
<td>2 035</td>
</tr>
<tr>
<td>Rural</td>
<td>0</td>
<td>18 848</td>
<td>18 848</td>
</tr>
</tbody>
</table>

Consequently this results in the unaccounted water reported in the APR being inaccurate as the above mentioned misstatement has an impact on the calculation of the 20.8% unaccounted losses reported. However the auditor could not determine the actual amount of misstatement as there was missing evidence.
**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 ensure that adequate review controls were in place for the unaccounted losses calculation performed.

**Recommendation**

Management should put appropriate controls in place to ensure that the information that is used to calculate the unaccounted losses and the calculation is appropriately reviewed to ensure that the percentage reported in the APR and the financial statement is accurate. Furthermore management should revisit the calculation and amend it.

**Management response**

| Management comment on the audit finding: |  |
| Management agreed after discussions that the final schedule submitted is correct and that the Annual Performance Report as well as the Annual Financial Statements will be amended accordingly. |  |

**NOTE:** Auditor-General to ensure that the figures mentioned in the COMAF are in accordance with the final schedule.

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

| Management comment on the recommendation: |  |
|  |  |

**Remedial action:**

| What actions will be taken: | By whom: | By when: |
| If the above findings affects an amount (s) disclosed in the financial statements: | YES | NO |
| Please give an indication of whether the correcting journal entry shall be processed: | YES | NO | N/A |

| If yes, please indicate the accounting entry: |  |
|  |  |

| If no, please provide the reason why such a conclusion: |  |
|  |  |

**Auditor’s conclusion**

Management’s response is noted. Subsequently the information was received and audited. The correction has been inspected and the annual financial statements and the annual performance
report have been correctly amended. The matter will remain in the management report as an “other important matter”.

Annexure B

Management Response for Audit Plan Purposes (OPCAR)

**Responsible Directorate/Department:** (Technical/Water Purification)

**Deadline** – To be determined

**Action:** Please state what you are putting in place to prevent a repeat finding during the 2016/2017 audit.

**Verified by:**
Audit Finding

In terms of Chapter 3 par. 3.2 of the Framework for Managing Programme Performance Information issued by the National Treasury in May 2007:

“Suitable indicators need to be specified to measure performance in relation to inputs, activities, outputs, outcomes and impacts. A good performance indicator should be:

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

Section 3.3 further indicates that a useful set of criteria for selecting performance targets is the "SMART" criteria:

- Specific: the nature and the required level of performance can be clearly identified
- Measurable: the required performance can be measured
- Achievable: the target is realistic given existing capacity
- Relevant: the required performance is linked to the achievement of a goal
- Time-bound: the time period or deadline for delivery is specified.

During the assessment of planned and reported performance information, we identified that the indicators listed below are not specific and not well defined in terms of the required level of performance that must be achieved.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Definition</th>
<th>Evidence obtained from the auditee</th>
<th>Reason for not being well defined</th>
</tr>
</thead>
</table>
| TL31: Human settlement Plan | Provide housing opportunities through servicing sites and building top structures | • Expenditure/Budget calculation.  
• List of expenditure incurred for the KPI to support the calculation of the percentage reported in the APR. | • It is not clear whether this should be the total number of houses or the total expenditure on houses to be provided.  
• The definition of the indicator does not make it clear that it is the percentage of budget spent on housing |
| TL32: Homlee Toilets | Provide access to proper sanitation through constructing toilets attached to houses in Homlee | • Expenditure/Budget calculation.  
• List of expenditure incurred for the KPI to support the calculation of the percentage reported in the APR. | • It is not clear whether the indicator is referring to the number of toilets constructed.  
• The definition of the indicator does not make it clear that it is the percentage of budget spent on toilets |

Performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPI.
Annexure B

Consequently the municipality did not comply with Chapter 3 of the Framework for Managing Programme Performance Information issued by the National Treasury.

Furthermore this has a negative impact on service delivery as data may not be collected consistently in order to achieve the above indicators and targets.

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 SDBIP to ensure that the key performance indicators were clear and unambiguous thereby making it easier to monitor the performance and thus ensuring useful information is included in the SDBIP and annual report.

Recommendation

Management should ensure that an adequate review of the key performance indicators is performed to ensure that they are well defined and useful to collate data and monitor performance.

Management response

<table>
<thead>
<tr>
<th>No.</th>
<th>Key Performance Indicator</th>
<th>Indicator Definition</th>
<th>Original Annual Target</th>
<th>Amendments Annual Target</th>
<th>Multi Year</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>Motivation for Amendment</th>
</tr>
</thead>
<tbody>
<tr>
<td>19 (TL 31)</td>
<td>Human Settlement Plan</td>
<td>Provide housing opportunities through servicing sites and building top structures. Number of opportunities provided. Expenditure of operational and capital funding provided.</td>
<td></td>
<td>500 [five hundred] (Number)</td>
<td>100% [one hundred] (Percentage)</td>
<td>Y</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>Due to our dependency on grant funding and unknowns at the time of the PI development such as final cost per unit and access to properties the actuals can vary significantly due to the factors outside of the municipality's control. In addition the verification of actuals both for internal and external audit require extensive and expensive verification process.</td>
</tr>
</tbody>
</table>
Due to the heavy reliance on human controls and limited capacity on occasion information is omitted or updated incorrectly to the various documents and systems.

Management comment on the root cause identified within the audit finding: Disagree the root cause relates to controls on the APR review process.

Management comment on the recommendation: Disagree as the root relates to the APR review process however Management will investigate and implement additional review process prior to submission of the Draft APR to the AG.

Remedial action:

<table>
<thead>
<tr>
<th>What actions will be taken:</th>
<th>By whom:</th>
<th>By when:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Misstatements in the APR will be corrected and submitted to the AG</td>
<td>Manager PIARM</td>
<td>15 October 2016</td>
</tr>
<tr>
<td>If the above findings affects an amount(s) disclosed in the financial statements:</td>
<td>YES</td>
<td>NO</td>
</tr>
<tr>
<td>Please give an indication of whether the correcting journal entry shall be processed:</td>
<td>YES</td>
<td>NO</td>
</tr>
<tr>
<td>If yes, please indicate the accounting entry:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>If no, please provide the reason why such a conclusion:</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Remedial action:

<table>
<thead>
<tr>
<th>What actions will be taken:</th>
<th>By whom:</th>
<th>By when:</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td></td>
<td></td>
</tr>
<tr>
<td>If the above findings affects an amount(s) disclosed in the financial statements:</td>
<td>YES</td>
<td>NO</td>
</tr>
<tr>
<td>Please give an indication of whether the correcting journal entry shall be processed:</td>
<td>YES</td>
<td>NO</td>
</tr>
<tr>
<td>If yes, please indicate the accounting entry:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>If no, please provide the reason why such a conclusion:</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Annexure B

Auditor’s conclusion

Management’s response is noted. Management subsequently agreed to include a note in the annual performance report to explain to make it clear that they are using actual expenditure over budgeted amounts to compile the indicator. The matter will remain in the management report as an “other important matter”.

<table>
<thead>
<tr>
<th>Management Response for Audit Plan Purposes (OPCAR)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Responsible Directorate/Department:</strong> (MM/Performance)</td>
</tr>
<tr>
<td><strong>Deadline:</strong> February 2017</td>
</tr>
<tr>
<td><strong>Action:</strong> To prevent a repeat of the finding the top level SDBIP has been reviewed and all indicators identified with similar issues have been amended and submitted along with the MTREF as required via the SB3 NT return.</td>
</tr>
<tr>
<td><strong>Verified by:</strong> Manager Performance, Internal Audit and Risk Management</td>
</tr>
</tbody>
</table>
### Annexure B

4. AOPO: Reported indicators TL 43, 45 and 39 misstated - COMAF 31

#### Audit Finding

During the audit of Strategic Objective number one (To promote access for all citizens to equitable, appropriate and sustainable infrastructure and services within a safe environment) we were unable to obtain the completion certificates for projects said to be completed for TL43 and TL 45.

Furthermore we also identified that projects per TL 39 which were said to be completed before year end were only completed after year end as per the completion certificates.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Audit evidence</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Water Master Plan [Complete all Master plans projects programmed for the financial year within the available budget]</strong></td>
<td>Both indicators relate to the completion of all master plan projects within available budget. Completion certificates or other proof that the projects were completed were not provided as part of audit evidence.</td>
</tr>
<tr>
<td><strong>Waste Water Master Plan [Complete all Master plans projects programmed for the financial year within the available budget]</strong></td>
<td>Inspected the Completion certificates and confirmed that the following projects were completed after year end (30 June 2016)</td>
</tr>
<tr>
<td><strong>Electrical Master Plan [Complete all Master plans projects programmed for the financial year within the available budget]</strong></td>
<td>- Knysna municipality: contract no. 39/2015: electrification of Gaaitjie: specification no. G/10074/e1: (completed 31 Aug. 2016)</td>
</tr>
<tr>
<td></td>
<td>- Knysna municipality: contract no. 43/2015: high mast floodlighting at the northern areas (phase 2d): (Competed, 12 Aug 2016)</td>
</tr>
</tbody>
</table>

Consequently the above indicators are misstated.
**Annexure B**

**Internal control deficiency**

Financial and Performance Management- Prepare accurate financial and performance reports that are supported and evidenced by reliable information

Management did not adequately review the supporting documents for the above indicators to ensure that the indicators have been accurately recorded per the annual performance report.

**Recommendation**

Management should properly review and reconcile the information submitted as evidence to ensure accuracy of the indicators that are reported on the annual performance report.

**Management response**

<table>
<thead>
<tr>
<th>Management comment on the audit finding:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management disagrees with the finding based on the following;</td>
</tr>
<tr>
<td>All three PI clearly state “Complete all Master plans projects programmed for the financial year” and not in the financial year.</td>
</tr>
<tr>
<td>TL43 and TL 45 are not met and are not claimed as met therefore management fails to see what the &quot;restated&quot; outcome would be, obviously the projects were not completed we state as follows in the APR</td>
</tr>
<tr>
<td>TL43 “The majority of the projects have been completed and awaiting for submission of claims for payment. They are grant funded projects and submissions for approval of rollover of funds to the new financial year have been submitted.”</td>
</tr>
<tr>
<td>TL45 “Sedgefield WWTW project is currently in construction phase. There were deviations on the project, which caused delays. Estimated closing date is end October 2016. Grant funds have been fully utilised, the R 3 million own funds still available will be used to complete the project.” No statement was made that all were done, therefore submitting proof that they were done seems to be a waste value employees time and effort better spent on achieving performance in the current financial year.</td>
</tr>
<tr>
<td>Therefore the finding repeats what we are already declaring in the APR.</td>
</tr>
<tr>
<td>In addition the Engineer Water and Sewer Services stated “We disagree with the findings. The water &amp; sewer master plans had to be completed and the measurement on KPI’s should have been plan for each services and not project complete. The project are measured in percentage budget spend”. Therefore we could not produce completion certificates for all projects.” In addition he will setup meeting with Auditors and give them the Water &amp; Sewer Master plans.</td>
</tr>
<tr>
<td>TL39 we are claiming 90.1% obviously this would infer that not all projects are completed within the finical year.</td>
</tr>
</tbody>
</table>
Management comment on the root cause identified within the audit finding:

Disagree with the root cause as management provided the AG with significant documentation at the beginning of the audit process, as in most audit process there are often requests for additional information and is near impossible to know in advance what the AG would require or consider sufficient. It is a blatant waste of ratepayer’s money to duplicate information already available on a system of Council onto another. In addition if the AG audited the AOPO from when they were given the information the PIARM section would have had sufficient time to trace and provide all the documentation required.

Management comment on the recommendation:

Management is of the opinion that they have reviewed and reconciled the information as it does not stand on its own and is directly derived from the asset reconciliation as contained in the AFS and as there are no findings affecting the assets including those generated by TL39, TL43 and TL49 we would assume that the system and process were found adequate by the AG and therefore acceptable for PMS as well. Even if the AG were correct in their finding management fails to see how this would affect the APR as the only way would be to amend the PI by removing “Complete all Master plans projects programmed for the financial year” which can only be done as part of a budget process and would further dilute the aim of performance.

Remedial action:

<table>
<thead>
<tr>
<th>What actions will be taken:</th>
<th>By whom:</th>
<th>By when:</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
</table>

Please give an indication of whether the correcting journal entry shall be processed:  

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
<th>N/A</th>
</tr>
</thead>
</table>

If yes, please indicate the accounting entry:

If no, please provide the reason why such a conclusion:

Auditor’s Conclusion

Management’s response is noted. Subsequently management agreed to include a note in the annual performance report to explain that the indicator refers to actual expenditure over budget. This was adequate as it makes it clear to the users the type of information used to compile the indicator. However this matter will remain as an “other important matter” in the management report.

Management Response for Audit Plan Purposes (OPCAR)

Responsible Directorate/Department: (MM/Performance)

Deadline: February 2017
Annexure B

**Action:** To prevent a repeat of the finding the top level SDBIP has been reviewed and all indicators identified with similar issues have been amended and submitted along with the MTREF as required via the SB3 NT return.

**Verified by:** Manager Performance, Internal Audit and Risk Management
Annexure B

5. AOPO: Reported Indicators TL 6 and 7 misstated - COMAF 23

Audit Finding

During the audit of Key Performance Indicator (KPI) TL 6 & 7: The number of formalised single properties with access to free basic service: Water and Sanitation we identified the following

The below approved indigent applicant was not included in the number of formalised single properties with access to free basic service: Water and Sanitation as per the annual performance report.

<table>
<thead>
<tr>
<th>ACCOUNT NO</th>
<th>SURNAME</th>
<th>INITIALS</th>
<th>ERF</th>
<th>AREA</th>
</tr>
</thead>
<tbody>
<tr>
<td>202684000014</td>
<td>BENSON</td>
<td>R</td>
<td>2564</td>
<td>EDGEFIELD</td>
</tr>
</tbody>
</table>

Consequently indicators TL 6 and 7 were understated.

The above misstatement was identified from a sample of approved applications tested and therefore we were unable to confirm the full extent of the 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 perform an adequate review of all applications received to ensure that TL6 and 7 as recorded in the annual performance report (APR) is complete.

Recommendation

Management should properly review and reconcile the information submitted as evidence to ensure completeness of the indicators that are reported on the APR.

Furthermore, management should inspect the full population of applications received and amend the APR accordingly.

Management response

Management comment on the audit finding:
Management is in agreement with finding of Auditor-General.

Management comment on the root cause identified within the audit finding:
The indigent application in question was however a late application (signed 12 March 2015) and processed and approved by our office on 5 April 2016 and administering official
Annexure B

inadvertently regard it as an application for 2016/2017 financial year.

Management comment on the recommendation:

A proper review process is in place to ensure that the number of application forms for free basis services (indigent support) does correspond with the indigent Register and Promun (Financial System) where the actual rebates is processed on the application account.

Remedial action:

<table>
<thead>
<tr>
<th>What actions will be taken:</th>
<th>By whom:</th>
<th>By when:</th>
</tr>
</thead>
<tbody>
<tr>
<td>The misstatement will be corrected in the APR to reflect 1399</td>
<td>Manager PIARM</td>
<td>15 November 2016</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
</table>

Please give an indication of whether the correcting journal entry shall be processed:

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
<th>N/A</th>
</tr>
</thead>
</table>

If yes, please indicate the accounting entry:

N/A

If no, please provide the reason why such a conclusion:

N/A

Auditor’s conclusion

Management’s comments noted. Inspected the updated annual performance report and confirmed that TL6 and 7 has been corrected. This finding will however be reported in the management report under other important matters.

Management Response for Audit Plan Purposes (OPCAR)

Responsible Directorate/Department: (Finance/Income)

Deadline – To be determined  1 December 2016 - Ongoing

Action: Please state what you are putting in place to prevent a repeat finding during the 2016/2017 audit. (Once again it is about the proper review and administration of our indigent applications and updating of the indigent register to ensure a meaningful and complete report on our performance indicators

Verified by:
Annexure B

6. AOPO: Reported Indicator TL 5 misstated - COMAF 33

Audit Finding

During the audit of Key Performance Indicator (KPI) TL 5 (The number of formalised single properties with access to free basic service: Electricity), we identified that the actual number properties with access to free basic electricity as reported per the annual report of 8 999 does not agree to the listing provided as audit evidence.

The listing shows a total amount of 6 774 properties that are on 20AMP and therefore qualify for the free 50KWH on their 1st purchase for each month.

The above indicator is misstated by 2 225 properties.

Internal control deficiency

Financial and Performance Management- Prepare accurate financial and performance reports that are supported and evidenced by reliable information

Management did not have adequate reviews in place to ensure that the number recorded for TL 5 is valid and accurate.

Recommendation

Management should properly review and reconcile the information submitted as evidence to ensure accuracy of the indicators that are reported on the annual performance report (APR).

Furthermore, management should investigate the entire population and amend TL 5 per the APR.

Management Response

Management comment on the audit finding:

Management agrees with the finding

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

Management agrees with the root cause

Management comment on the recommendation:

Management will implement the recommendation as provided by the AG.

Remedial action:

What actions will be taken:

The actual for TL5 will be restated to reflect the correct figure of 6 774.

By whom: Manager PIARM
By when: 15 November 2016
Annexure B

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

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
</table>

Please give an indication of whether the correcting journal entry shall be processed:  

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
<th>N/A</th>
</tr>
</thead>
</table>

If yes, please indicate the accounting entry:  

If no, please provide the reason why such a conclusion:  

Auditor’s Conclusion

Management’s comments noted. Inspected the corrected annual performance report and confirmed that the adjustment has been made. This item will still however be included under other important matters in the management report.

Management Response for Audit Plan Purposes (OPCAR)

Responsible Directorate/Department: (Finance/Income)

Deadline: November 2016

Action: After additional investigation the error resulted from a reporting difference between the Management report on 30 June and the data “detailed spreadsheet” leading to an interpretation error leading to an overstatement of individuals with 20amp circuit breakers.

To prevent a repeat of the finding the top level SDBIP the indicator has been amended and will be submitted to Council as part of the adjustment budget process for approval.

Verified by: Manager Performance, Internal Audit and Risk Management
## Annexure B

### 7. AOPO: Inconsistency between SDBIP and APR - COMAF 21

#### Audit Finding

In terms of Chapter 3 par. 3.2 of the Framework for Managing Programme Performance Information issued by the National Treasury in May 2007:

"Suitable indicators need to be specified to measure performance in relation to inputs, activities, outputs, outcomes and impacts. A good performance indicator should be:

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

During the assessment of the plan and reported information, the following was noted:

1. The definitions for the indicators listed in the Service Delivery Budget Implementation Plan (SDBIP) are not consistent with the objective listed in the Annual Performance Report (APR) submitted for audit.

<table>
<thead>
<tr>
<th>No.</th>
<th>Key performance indicator per SDBIP</th>
<th>Key performance indicator per APR</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>TL 7</td>
<td>TL7: The number of formalized single properties with access to free basic service: SANITATION / SEWERAGE This indicator reflects the 100% social rebate granted in respect to the annual sanitation fee charged to qualifying home owners of single residential properties.</td>
<td>TL7: The number of formalized single properties with access to free basic service: SANITATION / SEWERAGE The indicator reflects the 100% social rebate granted in respect to the annual water availability fee charged to qualifying home owners of single residential properties.</td>
<td>The indicator in the SDBIP speaks to sanitation/sewerage and in the APR it speaks to water, therefore the indicator is inconsistent.</td>
</tr>
<tr>
<td>TL 31</td>
<td>TL31: Human settlement Plan Expenditure of operational and capital funding provided</td>
<td>TL31: Human settlement Plan Provide housing opportunities through servicing sites and building top structures</td>
<td>The indicator in the SDBIP defines unit of measurement as expenditure for funding provided and the APR only speaks to housing opportunities. This indicator is not well defined and is not reported consistently</td>
</tr>
<tr>
<td>TL 3</td>
<td>TL3: The number of single residential properties with access to basic level of sanitation The indicator reflects the number of residential properties that the Municipality is aware of connected to the municipal waste water (sanitation/sewerage) network irrespective of the number of water closets (toilets).</td>
<td>TL3: The number of single residential properties with access to basic level of sanitation The indicator reflects the number of residential properties that the Municipality is aware of connected to the municipal waste water (sanitation/sewerage) network irrespective of the number of water closets (toilets).</td>
<td>The indicator is reported under strategic objective one in the SDBIP (Final) and reported under strategic objective two in the APR. This indicator is not reported consistently</td>
</tr>
</tbody>
</table>
Consequently the municipality did not comply with Chapter 3 of the Framework for Managing Programme Performance Information issued by the National Treasury.

Furthermore this has a negative impact on service delivery as data may not be collected consistently in order to achieve the above indicators and targets.

**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 APR to ensure that it is consistent with the SDBIP before the APR is submitted for audit.

**Recommendation**

Management should ensure that they do an adequate review of the APR for consistency before they submit the APR for audit.

**Management response**

<table>
<thead>
<tr>
<th>Management comment on the audit finding:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management agrees with the finding in regards to TL7 and TL31</td>
</tr>
<tr>
<td>Management disagrees with the finding in regards to TL3</td>
</tr>
</tbody>
</table>

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

TL7 and TL31, the errors originally originated from the midyear review and adjustment processes. The APR is a manual document and is generated with significant reliance on manual processes which by nature and with limited time, resources and capacity will result in a certain percentage of errors. Management is continually striving to improve the quality and accuracy of the APR and will continue to do so. It should also be kept in mind that the APR forms the backbone of the Annual Report which receives the legislated review process by the public, MPAC and Council. Consideration should possible be given by the AG at a national level to realigning there AOPO processes to after the Public, MPAC and Council Processes thereby reducing the possibilities of errors resulting in quicker audits and freeing up funds desperately needed for service delivery to needy communities.

TL3 Strategic Objective 1 begins on page 68 of the APR, TL3 is on page 69 and Strategic Objective 2 only begins on page 72 therefor TL3 is correctly listed under Strategic Objective 1.

Management comment on the recommendation:
Annexure B

Management continually strives to improve the accuracy of the information in the APR however with limited time and staff as well as the volume of work relating to the APR.

Remedial action:

<table>
<thead>
<tr>
<th>What actions will be taken:</th>
<th>By whom:</th>
<th>By when:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amendments will be made to the errors relating to TL7 and TL31</td>
<td>Manager PIARM</td>
<td>On completion of the ComAF and Draft Management Report process</td>
</tr>
</tbody>
</table>

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

| YES | NO |

Please give an indication of whether the correcting journal entry shall be processed:  

| YES | NO | N/A |

If yes, please indicate the accounting entry:  

If no, please provide the reason why such a conclusion:

Auditor’s conclusion

Management’s comments noted. The finding will however remain in the management report under other important matters. Auditors’ have inspected the amendments made and ensured that they are correct.

Management Response for Audit Plan Purposes (OPCAR)

Responsible Directorate/Department: (MM/Performance)

Deadline: August 2017

Action: The approach to address the issue is twofold, the long term ideal solution is for a system driven report/export directly to the Annual Performance Report. This could take a few years depending on issues such as the role out of mSCOAn and the resulting systems integrations. Secondly for the upcoming year additional pre submission reviews will be undertaken within the PAIRM section with assistance from Internal Audit.

Verified by: ongoing IA (EY) PMS audits
Annexure B

8. Contract management: Monitoring performance of contracts - COMAF 18

Audit Finding

Section 116 of the Municipal Finance Management Act No.56 of 2003 (MFMA) states:

“(2) The accounting officer of a municipality or municipal entity must—

(b) monitor on a monthly basis the performance of the contractor under the contract or agreement;

(c) establish capacity in the administration of the municipality or municipal entity—

(i) to assist the accounting officer in carrying out the duties set out in paragraphs (a) and (b); and

(ii) to oversee the day-to-day management of the contract or agreement;”

During the audit of Contract management we could not obtain proof that performance monitoring of contracts took place for the following tenders:

<table>
<thead>
<tr>
<th>No</th>
<th>Tender number</th>
<th>Supplier name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>T09/2015</td>
<td>Autumn Skies Trading</td>
</tr>
<tr>
<td>2.</td>
<td>T18/2014</td>
<td>Konica Minolta</td>
</tr>
<tr>
<td>3.</td>
<td>T23/2013</td>
<td>Gijimi Telephone</td>
</tr>
<tr>
<td>4.</td>
<td>T39/2014</td>
<td>XP Construction</td>
</tr>
<tr>
<td>5.</td>
<td>T04/2015</td>
<td>Curogyn Construction</td>
</tr>
</tbody>
</table>

Consequently the municipality did not comply with Section 116 of the Municipal Finance Management Act.

Internal control deficiency

**Leadership:** Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls

The accounting officer did not exercise sufficient oversight responsibility to ensure that there is monitoring controls in place for contract management

Recommendation

The accounting officer should ensure that effective monitoring controls are implemented over the monitoring of contracts.
Management response

<table>
<thead>
<tr>
<th>Management comment on the audit finding:</th>
</tr>
</thead>
<tbody>
<tr>
<td>T09/2015 Management is in agreement with the finding.</td>
</tr>
<tr>
<td>T18/2014 Management is in agreement with the finding.</td>
</tr>
<tr>
<td>T23/2015 Management is in agreement with the finding.</td>
</tr>
<tr>
<td>T39/2014 Management is in agreement with the finding</td>
</tr>
<tr>
<td>T04/2015 Management Disagrees with the Finding.</td>
</tr>
</tbody>
</table>

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

| T09/2015 We in constant communication with the Consultants who supervises the contractors, we meet often, management also visit the sites but do not take minutes of meetings held. |
| T18/2014 - We are regularly in contact with Konica Minolta, and have informal meetings with regards to services rendered. |
| T23/2013 - We are regularly in contact with Gijima with regards to the telephone system, and have informal meetings. |
| T39/2014 We in constant communication with the Consultants who supervises the contractors, we meet often, management also visit the sites but do not take minutes of meetings held. |
| T04/2015 We in constant communication with the Consultants who supervises the contractors, we meet often, management also visit the sites, minutes and attendance register of meetings held attached. |

Management comment on the recommendation:

| T09/2015 Management agrees to the recommendation and will ensure that it monitors the contract and its implementation. |
| T18/2014 - Will have formal meetings with Konica Minolta. |
| T23/2013 Management agrees on the recommendation to document meetings to monitor the contract |
| T39/2014; Management agrees on recommendations. |
| T04/2015 Agree to monitor contracts at all times. |

Remedial action:

<table>
<thead>
<tr>
<th>What actions will be taken:</th>
</tr>
</thead>
<tbody>
<tr>
<td>T09/2015 Formalise all meetings held with consultants and contractors.</td>
</tr>
<tr>
<td>T18/014 - Documented meetings with Konica Minolta, to ensure monitoring of contracts.</td>
</tr>
<tr>
<td>T23/2013 To formulise the meetings held with Gijima.</td>
</tr>
<tr>
<td>T39/2014 Formalise all meetings held with consultants and contractors.</td>
</tr>
<tr>
<td>T04/2015 Portfolio of evidence for site seeing and meetings with consultants or contractors.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>By whom:</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT Manager</td>
</tr>
<tr>
<td>Manager Housing Mawethu Penxa</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>By when:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Immediately</td>
</tr>
</tbody>
</table>

If the above findings affects an amount (s) disclosed in the financial statements: YES NO

Please give an indication of whether the correcting journal entry shall be processed: YES NO N/A

If yes, please indicate the accounting entry:

If no, please provide the reason why such a conclusion:
**Auditor’s conclusion**  
Management’s response is noted. The matter will remain in the management report as an “other important matter”. The auditor assessed and evaluated the supporting documentation and concluded the following:

- T 09/2015 and T23/2015: still remains as a non-compliance.

*This matter will be followed up during the quarterly key control visits.*

<table>
<thead>
<tr>
<th>Management Response for Audit Plan Purposes (OPCAR)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Responsible Directorate/Department:</strong> (Finance/Procurement)</td>
</tr>
<tr>
<td><strong>Deadline</strong> – To be determined</td>
</tr>
<tr>
<td><strong>Action:</strong> This is dependent on the organogram and SCM will at this point not take responsibility for it. I do not have staff and get 0% support from user department on this. I have highlighted this to Council in SCM reports from 2 year ago already. Still no support or alternative resolution.</td>
</tr>
<tr>
<td><strong>Verified by:</strong></td>
</tr>
</tbody>
</table>

Annexure B


Audit Finding

Section 116 of the Municipal Finance Management Act No.56 of 2003 (MFMA) states:

“(2) The accounting officer of a municipality or municipal entity must—

(b) monitor on a monthly basis the performance of the contractor under the contract or agreement;

(c) establish capacity in the administration of the municipality or municipal entity—

(i) to assist the accounting officer in carrying out the duties set out in paragraphs (a) and (b); and

(ii) to oversee the day-to-day management of the contract or agreement;”

During the audit of Contract management we identified the following:

We were unable to obtain proof that performance monitoring of contracts took place for the following tenders:

<table>
<thead>
<tr>
<th>No</th>
<th>Tender number</th>
<th>Supplier name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>T18/2015</td>
<td>Entsha Henra CC</td>
</tr>
<tr>
<td>2.</td>
<td>T16/2015</td>
<td>Gau Flora CC</td>
</tr>
<tr>
<td>3.</td>
<td>T35/2015</td>
<td>Benver Civils and Plant Hire</td>
</tr>
<tr>
<td>4.</td>
<td>T12/2011</td>
<td>TMT Services and Supplies</td>
</tr>
<tr>
<td>5.</td>
<td>T61/2015</td>
<td>Artcon Construction</td>
</tr>
</tbody>
</table>

For the following contracts we received responses from management as to what measures are in place with regards to performance management of contracts but we could not obtain any proof of these measures implemented:

<table>
<thead>
<tr>
<th>No</th>
<th>Tender number</th>
<th>Supplier name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>T35/2014</td>
<td>B&amp;V Contracts (PTY) Ltd</td>
</tr>
<tr>
<td>2.</td>
<td>T24/2015</td>
<td>Unwebo E Transend Willvest (PTY) Ltd</td>
</tr>
<tr>
<td>3.</td>
<td>T77/2015</td>
<td>Spectrum Communications (PTY) Ltd</td>
</tr>
<tr>
<td>4.</td>
<td>T48/2015</td>
<td>Benver Civils and Plant Hire</td>
</tr>
<tr>
<td>5.</td>
<td>T30/2015</td>
<td>Prentec (PTY) Ltd</td>
</tr>
<tr>
<td>6.</td>
<td>T52/2015</td>
<td>Briden Engineering CC</td>
</tr>
<tr>
<td>7.</td>
<td>T44/2013</td>
<td>Metsi Chem iKapa</td>
</tr>
<tr>
<td>8.</td>
<td>T22/2015</td>
<td>New Morning Construction</td>
</tr>
</tbody>
</table>

Consequently the municipality did not comply with Section 116 of the Municipal Finance Management Act.
Internal control deficiency

Leadership: Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls

The accounting officer did not exercise sufficient oversight responsibility to ensure that there is monitoring controls in place for contract management

Recommendation

The accounting officer should ensure that effective controls are implemented over the monitoring of contracts.

Management response

Management comment on the audit finding:
T18/2015 – Management disagrees with the finding due to the fact management do have constant communication with consultants and the appointed contractor on a monthly basis progress reports received every month in each meeting with regards to the performance of the contract and management regularly visit sites for verification.
T16/2015 - Management disagrees with the finding due to the fact management do have constant communication with consultants and the appointed contractor on a monthly basis progress reports received every month in each meeting with regards to the performance of the contract and management regularly visit sites for verification
T35/2015 - Management disagrees with the finding due to the fact management do have constant communication with consultants and the appointed contractor on a monthly basis progress reports received every month in each meeting with regards to the performance of the contract and management regularly visit sites for verification
T61/2015 Tender has been cancelled due to non-performance.
T35/2014 – Management agrees with the findings
T12/2011 Management Disagrees with the finding as it does hold meetings with the contractor with regards to the performance of the contract and deliverance, see minutes attached, the meetings are held upon request of either of the parties.
T24/2015; T07/2015; T48/2015; T30/2015; T52/2015; T44/2013; T22/2015 From a Technical Services point of view, there is performance management of all contracts. Generally our large contracts are managed by consultants and regular meetings are held with the stakeholders involved in the contract. The project managers also meet weekly at a project management meeting to monitor ALL projects in the municipality. The weekly monitoring sheet and minutes of meetings is available. I suggest the AG make contact with the relevant responsible manager to view or request such documents. (See excel spreadsheet attached as a summary)

Management comment on the root cause identified within the audit finding:
T18/2015 – not applicable as management visits sites regularly
T16/2015 - not applicable as management visits sites regularly
T35/2015 - not applicable as management visits sites regularly
T61/2015 Tender has been cancelled due to non-performance
Annexure B

T35/2014 – Management have informal meetings with Contractor, will now formalise all meetings
T12/2011 - We have regular contact and communications with the contractor but not all meetings
are formalise therefore management will make sure all meetings held with the contractor are
formalised
T24/2015; T07/2015; T48/2015; T30/2015; T52/2015; T44/2013; T22/2015 - The accounting officer
does ensure this as he/she gets feedback from the weekly project meeting held on a Monday.

Management comment on the recommendation:
T18/2015; T16/2015; T35/2014 - Management agrees to the recommendations and will ensure that
proper controls exist and are adhered to as agreed.
T61/2015 - Tender has been cancelled due to non-performance
T35/2015 – Management agrees with the recommendation and will implement proper control and
monitor the contract.
T12/2011 - Management agrees to the recommendations and will ensure that proper controls exist
and are adhered to.
T24/2015; T07/2015; T48/2015; T30/2015; T52/2015; T44/2013; T22/2015 - This is being done.
(see example of monitoring sheet as well as some site minutes attached)

Remedial action:
What actions will be taken:
T16/2015; T35/2015; T61/2015; T35/2014; T18/2015
- Management will make sure all controls are
adhered to and implemented correctly and improve
where possible.
T12/2011 - Management will document all meetings
and make sure that contracts specs are achieved.
T24/2015; T07/2015; T48/2015; T30/2015;
T52/2015; T44/2013; T22/2015 - We will see if there
is room for further improvement and implement
same.

By whom:
Manager Housing:
Mawethu Penxa
Richard Meyer
Director Technical
Services: Micheal Rhode
Manager Roads and
Public Works: Shaun
Maree
Manager Water and
Sewer: Rhoydon Parry

By when:
From 16/17
Financial
year.

If the above findings affects an amount (s) disclosed in the financial statements: YES NO
Please give an indication of whether the correcting journal entry shall be processed:
YES NO N/A
If yes, please indicate the accounting entry:
If no, please provide the reason why such a conclusion:

Auditor’s conclusion
Management’s response is noted. The matter will remain in the management report as an “other
important matter”. The auditor assessed and evaluated the supporting documentation and
concluded that the findings for the following tenders still remain:

- T61/2015
- T48/2014
- T30/2015

This matter will be followed up during the quarterly key control visits.
Annexure B

Management Response for Audit Plan Purposes (OPCAR)

Responsible Directorate/Department: (Finance/Procurement)

Deadline – To be determined

Action: This is dependent on the organogram and SCM will at this point not take responsibility for it. I do not have staff and get 0% support from user department on this. I have highlighted this to Council in SCM reports from 2 year ago already. Still no support or alternative resolution.

Verified by:
10. Procurement and contract management: Incorrect preference point system used - COMAF 4

Audit finding

Section 8(1)(a) of the Preferential Procurement Policy Framework Act, 2000: Preferential Procurement Regulations, 2011 states that:

“In the event that, in the application of the 80/20 preference point system as stipulated in the tender documents, all tenders received exceed the estimated Rand value of R 1 000 000, the tender must be cancelled.”

Section 8(2)(a) of the Preferential Procurement policy Framework Act, 2000: Preferential Procurement Regulations, 2011 states that:

“In the event that, in the application of the 90/10 preference point system as stipulated in the tender documents, all tenders received are equal to, or below R 1 000 000, the tender must be cancelled.”

Section 62(1) of the Municipal Finance Management Act 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-

(d) that unauthorised, irregular or fruitless and wasteful expenditure and other losses are Prevented”

During the audit of procurement and contract management, we identified the following two issues:

1. Tender 19/2014 was advertised as a 90/10 preference point system. However the value of all bids received was below the prescribed threshold of R 1 million. The municipality continued with the tender process and evaluated bids based on the 90/10 preference point system, regardless of the fact that the value of bids received was below R 1 million.

The following suppliers submitted bids for tender T 19/2014

<table>
<thead>
<tr>
<th>Bidders</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jocastro (PTY) Ltd</td>
<td>R274 341.00</td>
</tr>
<tr>
<td>Voltex Knysna</td>
<td>R333 729.30</td>
</tr>
<tr>
<td>Powertech ABB</td>
<td>R314 982.00</td>
</tr>
<tr>
<td>Powertech Schneider</td>
<td>R320 112.00</td>
</tr>
<tr>
<td>Valley Distributer</td>
<td>R333 335.40</td>
</tr>
<tr>
<td>MDL Electrical ABB</td>
<td>R342 771.78</td>
</tr>
<tr>
<td>MDL Electrical Scheinder</td>
<td>R337 245.06</td>
</tr>
<tr>
<td>Actom</td>
<td>R316 672.18</td>
</tr>
<tr>
<td>Lerumo Mashaba</td>
<td>R501 693.99</td>
</tr>
</tbody>
</table>
Annexure B

The municipality did not comply with the Preferential Procurement Regulation and incurred irregular expenditure of R274 341 which also results in non-compliance with section 62 of the MFMA.

2. Tender 69/2015, was advertised as an 80/20 preference point system. However the value of the bids received exceeded the estimated rand value of R 1 million. The municipality continued with the tender process and evaluated bids based on the 80/20 preference point system, regardless of the fact that the valued of bids received exceeded the rand value of a million.

The following suppliers submitted bids for tender T 69/2015

<table>
<thead>
<tr>
<th>Bids</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acknowledge Advertising</td>
<td>R1 244 851.00</td>
</tr>
<tr>
<td>Meropa Communications</td>
<td>R1 255 372.00</td>
</tr>
<tr>
<td>Redflag</td>
<td>R2 355 75.12</td>
</tr>
<tr>
<td>Aayanda Mbanga</td>
<td>R2 598 658.22</td>
</tr>
<tr>
<td>ZA Media</td>
<td>R3 384 292.92</td>
</tr>
<tr>
<td>Lutuxxe</td>
<td>R3 673 402.00</td>
</tr>
<tr>
<td>Matrix</td>
<td>R3 900 131.74</td>
</tr>
</tbody>
</table>

Consequently the municipality did not comply with the Preferential Procurement Regulation and incurred irregular expenditure of R852 322 which also results in non-compliance with section 62 of the MFMA.

Internal control deficiency


Management did not ensure that a needs analysis and specification research was done before going out on tender.

Management also did not ensure that adequate monitoring controls were in place to ensure compliance with the Municipal Supply Chain Regulations.

Recommendation

Management responsible for procurement should ensure that the user department conducts a proper needs analysis and specifications research before going out on tender.

An investigation of the population should take place to identify where the proper procurement process was not followed and an amendment to the financial statements should be made to recognise the irregular expenditure incurred.
### Management Response

<table>
<thead>
<tr>
<th>Management comment on the audit finding:</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Audit findings are not supported by Management. The expenditure cannot be regarded as irregular as the SCM procedures were followed. The fact that the evaluation was done on the 90/10 and not the 80/20 calculation do not have an effect on the awarding of the tender as the outcome remain the same.</td>
</tr>
</tbody>
</table>

T19/2014: On page 4 of the evaluation report the KM legal department was asked for clarity on the evaluation of the tender. The evaluation therefore was done in accordance with the advice from the KM legal department.

It was also not clear at the time of going out on tender if all the items as specified will be used or the quantities of each of the items as this is a tender for as and when required.

If the tender was cancelled to follow a new tender process the bidders might have objected due to the prices being read out and the process not being fair, equitable, cost effective, transparent and competitive. The municipality would have incurred additional cost to advertise the tender again.

T69/2015: On this matter legal advice was also obtained.

If the tender was evaluated on a 90/10 basis the outcome would have been the same. If the tender was advertised again the bidders might have objected due to the prices being read out and the process not being fair, equitable, cost effective, transparent and competitive.

It was also not clear at the time of going out on tender if all the items as specified will be used or the quantities of each of the items as this tender was for as and when required need.

The BAC did therefore limit the award to the R1 million in the approved budget. The municipality would have incurred additional cost to advertise the tender again.

<table>
<thead>
<tr>
<th>Management comment on the root cause identified within the audit finding:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proper needs analysis should be made and submitted by the user departments before submitting specifications to the BSC.</td>
</tr>
</tbody>
</table>

The SCM Manager will consult with the Legal department and BEC Chairperson before evaluations takes place to ensure full compliance.

Tenders based on an item list over a period of three must also be considered when the 90/10 and 80/20 principles are applied. If a tender will run over 3 years should the 90/10 calculation be used or must all tenders be evaluated on a transactional basis irrespective of the total cost that will be incurred over the contract period.

<table>
<thead>
<tr>
<th>Management comment on the recommendation:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management do not support the irregular expenditure finding.</td>
</tr>
</tbody>
</table>
Management will implement the recommendation from the AG by instructing the user department to conduct a proper needs analysis and specifications research before submitting specifications to the BSC.

**Remedial action:**

<table>
<thead>
<tr>
<th>What actions will be taken:</th>
<th>By whom:</th>
<th>By when:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Memorandum to be sent to all user departments with instruction</td>
<td>Manager SCM</td>
<td>31 October 2016</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
</table>

Please give an indication of whether the correcting journal entry shall be processed:

<table>
<thead>
<tr>
<th></th>
<th>YES</th>
<th>NO</th>
<th>N/A</th>
</tr>
</thead>
</table>

If yes, please indicate the accounting entry:

If no, please provide the reason why such a conclusion:

**Auditors’ conclusion**

Management’s response noted, however we do not agree as management did not comply with the applicable legislation and therefore could have excluded suppliers from bidding. Inspected updated annual financial statements and confirmed that the adjustments to irregular expenditure have been processed. This matter will be followed up during the next key control visit.

**Management Response for Audit Plan Purposes (OPCAR)**

**Responsible Directorate/Department:** (Finance/Procurement)

**Deadline** – February 2017

**Action:** User department to submit estimate for each tender to the SCM Manager to determine preference points. Exact quantities must also be provided and not just a list of items required. User department will have to plan and budget better. Tenders will be cancelled if it does not comply with PPP, no more legal opinions will be asked on this.

**Verified by:** Still to be verified
11. Procurement and contract management: Three quotations not obtained - COMAF 19

**Audit finding**

The Supply Chain Management regulation section 16 states that:

“A supply chain management policy must stipulate the conditions for the procurement of goods or service through written or verbal quotations, which must include conditions stating-

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

The Supply Chain Management regulation 36(1) on Deviations from, and ratification of minor breaches of, procurement process states:

“(1) A supply chain management policy may allow the accounting officer-

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

(i) In an emergency;

(ii) If such goods or services are produced or available from a single provider only;

(iii) For the acquisition of special works of art or historical objects where specifications are difficult to compile;

(iv) Acquisition of animals for zoos, or

(v) In any other exceptional case where it is impractical or impossible to allow the official procurement process”

During the audit of procurement and contract management we identified the following two issues:

1. Three written quotations were not obtained for order C5004658 (George Lawnmowers and Chainsaw).

The reason provided for the deviation is that George Lawnmowers and Chainsaws is the only agent of the Falcon bush cutter. Management in charge of supply chain management provided us with a letter from Prodist (Pty) Ltd, dated 22 September 2016, stating that they are the only suppliers of authentic Falcon parts to George Lawnmowers and Chainsaws in the Eden District.

However, upon inspection of the list of Falcon dealers on the Falcon website (www.falconequipment.co.za), we identified that there is more than one supplier in the Eden District and the greater Western Cape.
Annexure B

2. Three written or verbal quotations were not obtained for order C5004656 (Forms Media Independent). The reason provided for the deviation was as follows:

- Forms Media Independent is the only company in South Africa that provides the traffic department with the S56 Summons books.
- The books were ordered on a minor deviation from Forms Media Independent as the Law Enforcement office began to run out of the S56 summons books. Forms Media Independent was therefore the only supplier that could provide the books at short notice.

However, from enquiries made from other audit teams within the area the following suppliers submitted quotes for the S56 traffic summons books:

  o Forms Media Independent
  o TC Online
  o Lithotech
  o Rand data forms

This is an indication that Forms Media Independent is not the sole provider for the service.

Consequently the municipality did not comply with the supply chain management regulation sections 16 (a) and 36 (1) and incurred irregular expenditure as follows;

<table>
<thead>
<tr>
<th>Supplier</th>
<th>Order number</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Forms Media Independent</td>
<td>C5004656</td>
<td>R2 579.00</td>
</tr>
<tr>
<td>George Lawnmowers and Chainsaw</td>
<td>C5004656</td>
<td>R19 308.69</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>R21 887.69</strong></td>
</tr>
</tbody>
</table>

Internal control deficiency

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

The supply chain manager did not ensure that the correct Supply Chain Management process was followed and thus ensure compliance with the Supply Chain Management regulations.

Recommendation

The supply chain manager should ensure that appropriate measures are in place to investigate instances where it was identified that only one supplier is able to provide the service or goods and therefore should ensure that the correct supply chain management process is followed.

Management should investigate the population to identify where the appropriate procurement process was not followed and amend the annual financial statements to recognise the irregular expenditure incurred.
Management response

Management comment on the audit finding:
Management acknowledge the audit findings and recommendations.
Supply chain manager will draft a SOP and going forward all such instances will be investigated and proof requested from the suppliers before the deviation memorandum is recommended by the SCM Manager and CFO.

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

Management comment on the recommendation:
Management will investigate the population to identify where the appropriate procurement process was not followed and amend the annual financial statements to recognise the irregular expenditure incurred.

Remedial action:

<table>
<thead>
<tr>
<th>What actions will be taken:</th>
<th>By whom:</th>
<th>By when:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Draft SOP and communicate with user departments</td>
<td>Manager SCM</td>
<td>November</td>
</tr>
</tbody>
</table>

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

| YES | NO |

Please give an indication of whether the correcting journal entry shall be processed:

| YES | NO | N/A |

If yes, please indicate the accounting entry:

If no, please provide the reason why such a conclusion:

Auditor’s response
Management responses noted. This matter will however remain as an “other important matter” in the management report. The auditors inspected the annual financial statements and confirmed that the irregular expenditure has been disclosed correctly.

Management Response for Audit Plan Purposes (OPCAR)

Responsible Directorate/Department: (Finance/Procurement)
Deadline – February 2017
Action: Deviations to be better motivated or not to occur at all. MM to instruct that tenders must be done for all requirements.
Verified by: Still to be verified
Annexure B


Audit Finding

Section 5 of the Municipal Supply Chain Management Regulations states:

"An accounting officer may in terms of section 79 or 106 of the Act subdelegate any supply chain management powers and duties, including those delegated to the accounting officer in terms of regulation 4 (1), but any such subdelegation must be consistent with subregulation (2) and regulation 4.

(2) The power to make a final award-

(b) Above R2 million (VAT included), but not exceeding R10 million (VAT included), may be subdelegated but only to-

(i) The chief financial officer;
(ii) A senior manager; or
(iii) A bid adjudication committee of which the chief financial officer or a senior manager is a member of; or

(c) not exceeding R2 million (VAT included) may subdelegated but only to –

(i) the chief financial officer
(ii) a senior manager;
(iii) a manager directly accountable to the chief financial officer or senior manager; or
(iv) a bid adjudication committee"

Section 116 of the Municipal Finance Management Act No.56 of 2003 (MFMA) states:

"(1) A contract or agreement procured through the supply chain management system of the municipality or municipal entity must-

(a) be in writing;

(b) stipulate the terms and conditions of the contract or agreement, which must include

Provisions providing for-

(i) the termination of the contract or agreement in the case of non-or under performance;

(ii) dispute resolution mechanisms to settle disputes between the parties;"
Annexure B

Section 21 of the Municipal Supply Chain Management Regulations of 2005 states:

“A supply chain management policy must determine the criteria to which bid documentation for a competitive bidding process must comply, and state that in addition to regulation 13 the bid documentation must-

(a) take into account-

(i) the general conditions of contract
(ii) any treasury guidelines on bid documentation; and;
(iii) the requirements of the Construction industry Development Board, in the case of a bid relating to construction, upgrading or refurbishment of buildings or infrastructure”

Clause 17.1 of the General conditions of a Contract states:

“Prices charged by the supplier for goods delivered and services performed under the contract shall not vary from the prices quoted by the supplier in his/her bid, with the exception of any price adjustments authorized in SCC or in the purchase’s request for bid validity extension, as the case may be.”

Section 19 of the Municipal Supply Chain Management Regulations of 2005 states:

“A supply chain management policy must specify-

(a) that goods or services above a transaction value of R200 000 (VAT included) and long term contracts may be procured by the municipality or municipal entity only through a competitive bidding process, subject to regulation 11 (2)”

During the audit of Contract Management we identified the following three issues:

1. During the audit of Contract Management we identified the following contracts on which the total expenditure to date exceeds the contract price:

<table>
<thead>
<tr>
<th>Tender</th>
<th>Total expenditure to date 2015/2016</th>
<th>Contract Price</th>
<th>Amount exceeding</th>
</tr>
</thead>
<tbody>
<tr>
<td>T18/2015:Entsha Henra</td>
<td>R23 627 563.00</td>
<td>R23 319 130.11</td>
<td>R308 452.89</td>
</tr>
<tr>
<td>T44/2013:Metsi Chem iKAPA</td>
<td>R11 934 221.00</td>
<td>R9 783 657.06</td>
<td>R2 150 563.94</td>
</tr>
<tr>
<td>T22/2015:New Morning Construction</td>
<td>R5 701 198.00</td>
<td>R 5 100 409.88</td>
<td>R600 788.12</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>R3 659 804.95</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

We were unable to establish from the supporting documentation provided whether or not the additional expenditure per the above contracts have been approved by a delegated authority as set out per section 5 of the municipal supply chain regulations.
Annexure B

Consequently the municipality did not comply with Section 5 of the municipal supply chain management regulations and as a result the total amount of expenditure that exceeded the contract should be recognized as irregular expenditure.

Therefore irregular expenditure is understated by R3 059 804.95

2. Tender T52/2015: Briden Engineering

Upon inspection of the contract between Briden Engineering and the municipality, we noted that the contract has not been signed by either party. We therefore could not determine the validity of this contract.

Furthermore we identified that Briden Engineering quoted an hourly rate per their tender documentation but upon inspection of the batch of invoices received from creditors we noted that a rate for labour and parts were actually charged to the municipality.

It was therefore difficult to establish whether the expenditure incurred to date is still within budget and whether irregular expenditure has been incurred.

The municipality has therefore not complied with Clause 17.1 of the General conditions of a Contract.

3. Tender T61/2015: Artcon Construction

During the audit of Contract Management, we noted that the contract was originally awarded to Bright and Bold Contractors. However, due to non-performance, Bright and Bold’s contract has been cancelled.

Subsequently the contract has been awarded to Artcon Construction without going through a new procurement process. We could also not obtain proof that a valid contract exist between Artcon construction and the municipality.

Consequently the municipality did not comply with section 19 of the supply chain management regulation and has therefore incurred irregular expenditure of R1 313 890.60

Internal control deficiency

Leadership: Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls

The accounting officer did not exercise sufficient oversight responsibility to ensure that there are adequate monitoring controls in place to management contracts
Recommendation

The accounting officer should ensure that effective controls are implemented over the monitoring of contracts.

Management response

Management comment on the audit finding:
Management acknowledge the audit finding and recommendation and wish to comment as follows:

T18/2015: Management do not support the finding. The over expenditure to the tender was a result of a variation order which was approved by the relevant committee see variation order attached.

T44/2013: When contracts are awarded by the BAC, the contract value is loaded on the financial system against the project. It would be impossible for the financial system to allow any over expenditure on the project unless it was approved by an authorised authority. When a user department intends to over expend a project, it would have to be properly motivated and it also serves at the BAC.

T22/2015: When contracts are awarded by the BAC, the contract value is loaded on the financial system against the project. It would be impossible for the financial system to allow any over expenditure on the project unless it was approved by an authorised authority. When a user department intends to over expend a project, it would have to be properly motivated and it also serves at the BAC.

T52/2015: There was no contract with Briden Engineering since this is a vehicle repair agent. The conditions in the tender and the price would constitute the contract. This contract was only based on a labour rate without a cap. Parts would’ve been additional and would have been purchased as required.

T61/2015 – Management do not support the finding due to the fact that Artcon appointment did follow the SCM/Procurement process it was processed as a Deviation two reasons: emergency and an exceptional case. See deviation memo attached.

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

T18/2015 T61/2015 – The was a need for erection of temporary wendy houses to accommodate those being relocated from illegal shacks in order to build houses.

T44/2013: This is a misunderstanding. There is sufficient monitoring of contracts in place and sufficient control to handle over expenditure within the allowed frameworks.

T22/2015: This is a misunderstanding. There is sufficient monitoring of contracts in place and sufficient control to handle over expenditure within the allowed frameworks.

T52/2015: This is a misunderstanding. There is sufficient monitoring of contracts in place and sufficient control to handle over expenditure within the allowed frameworks.

T61/2015 – The cause was of emergency and unforeseeable as Bright and Bold was supposed to build 40 Wendy houses for relocating families and there was nowhere to move those families and contractor appointed to build houses was to charge on standing time which could have also resulted in an unauthorised expenditure to that tender.

Management comment on the recommendation:

T18/2015 Management agrees with the recommendation and will ensure proper budgeting in future considering all costs involved in building houses including relocation costs and building of
Annexure B

houses.
T44/2013 There is always room for improvement and if through this process a deficiency is
highlighted, then a control measure should be put in place.
T22/2015 There is always room for improvement and if through this process a deficiency is
highlighted, then a control measure should be put in place.
T52/2015: There is always room for improvement and if through this process a deficiency is
highlighted, then a control measure should be put in place.
T61/2015 – Management Agree on recommendation, though this situation was beyond
management control.

Remedial action:

<table>
<thead>
<tr>
<th>What actions will be taken:</th>
<th>By whom:</th>
<th>By when:</th>
</tr>
</thead>
</table>
| T18/2015 Proper forecasting/budgeting for tender amount include all costs involved in projects of building houses. | Manager Housing: Mawethu Penxa
Manager Water and Sewer: Rhoydon Parry
Manager Roads and Public works: Shaun Maree
Director Technical Services: Micheal Rhode | Immediately |
| T61/2015 – n/a | | |

If the above findings affects an amount (s) disclosed in the financial statements: YES NO
Please give an indication of whether the correcting journal entry shall be processed: YES NO N/A
If yes, please indicate the accounting entry:
If no, please provide the reason why such a conclusion:

Auditor’s conclusion

Management’s response is noted. The matter will remain in the management report as an “other
important matter”. The auditor assessed and evaluated the supporting documentation and concluded the following:

- T44/2013- still remains with irregular expenditure of R 2 150 564

The adjustment has been agreed to the amended annual financial statements submitted. This
matter will be followed up during the quarterly key control visits.

Management Response for Audit Plan Purposes (OPCAR)

Responsible Directorate/Department: (Finance/Procurement)

Deadline – To be determined

Action: This is dependent on the organogram and SCM will at this point not take responsibility
for it. I do not have staff and get 0% support from user department on this. I have highlighted
this to Council in SCM reports from 2 year ago already. Still no support or alternative resolution.
User department were asked to submit information to BAC but requests were ignored.

Verified by:
Annexure B

13. Procurement and contract management: Non-compliance with the Municipal Supply Chain Regulations - COMAF 2

Audit Finding

Municipal supply chain management regulation 6(2) (a) (i) and 6 (3) states:

"6 (2) For the purpose of such oversight the accounting officer must-

(a) (i) in the case of a municipality, within 30 days of the end of each financial year, submit a report on the implementation of the supply chain management policy of the municipality and of any municipal entity under its sole or shared control, to the council of the municipality

(3) The accounting officer must, within 10 days of the end of each quarter, submit a report on the implementation of the supply chain management policy to the mayor of the municipality or the board of directors of the municipality, as the case may be."

We identified that the reports submitted to council on the implementation of the Supply Chain Management policy was not submitted within the stipulated timeframe as set out in the Municipal supply chain management regulations. Below is the date of submission:

<table>
<thead>
<tr>
<th>Year end</th>
<th>30 June 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Submission date</td>
<td>16 August 2016</td>
</tr>
<tr>
<td>Days between year-end and submission date</td>
<td>34 days</td>
</tr>
<tr>
<td>Days required for submission</td>
<td>30 days</td>
</tr>
<tr>
<td>Days overdue</td>
<td>4 days overdue</td>
</tr>
</tbody>
</table>

In addition to the above we have also identified that the accounting officer did not at the end of each quarter submit a report on the implementation of the supply chain management policy to the mayor of the municipality. Below is the date of submission:

<table>
<thead>
<tr>
<th>Quarter end date</th>
<th>Quarter 1</th>
<th>Quarter 2</th>
<th>Quarter 3</th>
<th>Quarter 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Submission date</td>
<td>22 October 2015</td>
<td>18 April 2016</td>
<td>18 April 2016</td>
<td>16 August 2016</td>
</tr>
<tr>
<td>Days between quarter end date and submission date</td>
<td>17 days</td>
<td>78 days</td>
<td>14 days</td>
<td>34 days</td>
</tr>
<tr>
<td>Days required for submission</td>
<td>10 days</td>
<td>10 days</td>
<td>10 days</td>
<td>10 days</td>
</tr>
<tr>
<td>Days overdue</td>
<td>7 days overdue</td>
<td>68 days overdue</td>
<td>4 days overdue</td>
<td>24 days overdue</td>
</tr>
</tbody>
</table>

Consequently this results in non-compliance with the municipal supply chain management regulation.

Internal control deficiency

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

Management did not review and monitor compliance with supply chain management regulation 6(2)(a)(i) and 6(3) by ensuring that the annual report on the implementation of the supply chain management policy was submitted to council within 30 days after financial year end as well as the submission of the quarterly reports on the implementation of the supply chain management policy to the mayor within 10 days of the end of each quarter.

Recommendation

The accounting officer should implement effective and efficient controls to ensure compliance with the SCM regulation; in this regard management must monitor the date of submissions to ensure that the reports are submitted within the prescribed timeframe.

Management response

Management comment on the audit finding:
Please note that the report for quarter 1 was submitted on 22 October and not 23 October.
Management see quarter 4 and the annual report as 1 report and do not do separate reports. The AG must take into account that the municipal elections took place on 03 August 2016 therefore new council was only established a week later.

Management comment on the root cause identified within the audit finding:
- The necessary controls will be instituted to address the staff shortage and subsequent workload.
- The AG must take into account that the municipal election took place on 03 August 2016 and the new council was only established a week later.

Management comment on the recommendation:
The recommendation is supported and controls will be instituted. This finding was never raised before.

Remedial action:

<table>
<thead>
<tr>
<th>What actions will be taken</th>
<th>By whom:</th>
<th>By when:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deadlines are set to submit reports</td>
<td>F Kruger</td>
<td>10 days 30 days</td>
</tr>
</tbody>
</table>

If the above findings affects an amount (s) disclosed in the financial statements: YES | NO

Please give an indication of whether the correcting journal entry shall be processed: YES | NO | N/A

If yes, please indicate the accounting entry:
If no, please provide the reason why such a conclusion:

Auditor’s conclusion

Management’s response noted. However, the finding still remains. Although the municipality sees the report as one, the municipal supply chain regulations clearly states that the annual report be submitted 30 days after the financial year end and the quarterly reports are submitted 10 days after the quarter ends.

Responsible Directorate/Department: (Finance/Procurement)

Deadline – February 2017
### Annexure B

**Action:** First time this is a finding. SCM reporting to Council has improved in the last 3 years. It was non-existent and with useless information in the past and continuous improvement are in progress.

**Verified by:** Still to be verified
Annexure B

14. Procurement and contract management: SCM- No bid specification committee and incorrect composition of the bid committee - COMAF 7

Audit finding

The Municipal Supply Chain Management Regulation section 27 states that:

“1) A bid specification committee must compile the specifications for each procurement of goods or services by the municipality or municipal entity.”

The Municipal Supply Chain Management Regulation section 28 states:

“(2) A bid evaluation committee must as far as possible be composed of—
(b) at least one supply chain management practitioner of the municipality or municipal entity”

During the audit of procurement and contract management we identified that the municipality did not establish the Bid Specification Committee (BSC) to compile specifications for bids.

The following tenders were prepared at the time when the Bid Specification Committee did not exist.

<table>
<thead>
<tr>
<th>Supplier</th>
<th>Tender number</th>
<th>Rand award value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coastal Armature Winders and Suppliers CC</td>
<td>T53/2014</td>
<td>R1 545 177</td>
</tr>
<tr>
<td>Jacastro (pty) LTD</td>
<td>T19/2014</td>
<td>R274 341</td>
</tr>
<tr>
<td>Metsi Chem iKapa (Pty) Ltd</td>
<td>T45/2013</td>
<td>R3 813 690</td>
</tr>
<tr>
<td>Zebra surfacing</td>
<td>T65/2013</td>
<td>R3 621 686</td>
</tr>
<tr>
<td>Metsi Chem iKapa (Pty) Ltd</td>
<td>T44/2013</td>
<td>R9 783 657</td>
</tr>
<tr>
<td>New Morning Construction</td>
<td>T22/2014</td>
<td>R5 100 410</td>
</tr>
</tbody>
</table>

Furthermore it was identified that the composition of the Bid evaluation committee for Tender T45/2013 and Tender T44/2013, did not include an official of the supply chain management department.

This was noted during the inspection of the bid evaluation report as no representative of the SCM department was present at the bid evaluation committee meeting.

This consequently results in non-compliance with SCM regulation 27(1) and 28 (2).

Internal control deficiency

Leadership – Establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities.

Management did not ensure that there were policies and procedures in place to enable and support the understanding and execution of internal control objectives, processes and responsibilities which would result in the compliance with the SCM regulations.
Annexure B

Recommendation

Management should put processes and procedures in place to ensure that all the committees that are required per the SCM regulations are in place and the composition is in accordance to the SCM policy and SCM regulations.

Management response

<table>
<thead>
<tr>
<th>Management comment on the audit finding:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management do not support the audit findings due to the following:</td>
</tr>
</tbody>
</table>

**BID SPECIFICATION COMMITTEE COMPOSITION:**

Section 27 (3) of the MFMA Stipulates as follows:

(3) A Bid Specifications Committee must be composed of one or more officials of the Municipality or Municipal Entity, preferably the Manager responsible for the function involved and may when appropriate include Specialist Advisors."

It will then be realistic in practice that there will be no formal meeting and subsequent minutes when the committee is composed of a single member.

The Regulations contain no peremptory provision that there must be a formal meeting of a Bid Specifications Committee, as a bid specification may be composed of only one member.

**BID EVALUATION COMMITTEE:**

Section 28 (2) of the MFMA Stipulates as follows:

(2) A bid evaluation committee must as far as possible be composed of-

It was therefore not a definite prerequisite that the Bid Evaluation committees for Tender T45/2013 and Tender T44/2013 include an official of the supply chain management department

Since the appointment of the current SCM Manager during 2014 formal Bid Specification as well as Bid Evaluation committees were instituted.

<table>
<thead>
<tr>
<th>Management comment on the root cause identified within the audit finding:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management note the root causes.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Management comment on the recommendation:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management note the recommendations. Since the appointment of the SCM Manager care was taken that KM complies with the regulations relating to the bid committees. Policies and SOP were put in place and are revised yearly.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Remedial action:</th>
</tr>
</thead>
</table>
**Annexure B**

<table>
<thead>
<tr>
<th>What actions will be taken:</th>
<th>By whom:</th>
<th>By when:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

If the above findings affects an amount (s) disclosed in the financial statements: | YES | NO |
Please give an indication of whether the correcting journal entry shall be processed: | YES | NO | N/A |

If yes, please indicate the accounting entry:

If no, please provide the reason why such a conclusion:

**Auditor’s conclusion**

Management comments noted. Regulation 27 does require one or more officials however there was no evidence that there was one official who was a member of the bid specification and this finding was raised in the previous year. The finding remains and will be reported in the management report as an irregular expenditure.

The management comments regarding regulation 28 (composition of the evaluation committee) have been noted and the finding will be removed from the final management report.

**Responsible Directorate/Department:** (Finance/Procurement)

**Deadline** – February 2017

**Action:** First time this is a finding. SCM reporting to Council has improved in the last 3 years. It was non-existent and with useless information in the past and continuous improvement are in progress.

**Verified by:** Still to be verified
Annexure B

15. Procurement and contract management: Deviations not disclosed in Annual Financial Statement - COMAF 5

Audit finding

The Supply Chain Management regulation 36(2) states:

“The accounting officer must record the reasons for any deviations in terms of subparagraphs 36(1) (a) and (b) of this policy and report them to the next meeting of the council and include as a note to the annual financial statements.”

During the audit of procurement and contract management, we identified that the following approved deviation is not disclosed in note 51 of the 2015/2016 annual financial Statements.

<table>
<thead>
<tr>
<th>Type of deviation</th>
<th>Transaction</th>
<th>Total amount awarded</th>
<th>Understatement of deviations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 30000 (Emergency)</td>
<td>Viking Pony Africa (PTY LTD T/A Tricom Africa (Order C5004655))</td>
<td>R13 923.26</td>
<td>R 13 923.26</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>R13 923.26</td>
<td>R13 923.26</td>
</tr>
</tbody>
</table>

Consequently the municipality did not comply with Supply Chain Management regulation 36(2) therefore resulting in note 51 to the annual financial statements being understated by R13 923.26.

The misstatement was identified in a sample of quotations and therefore we could not project the total deviations resulting from the Supply Chain Management regulation section 36(1) (a) and (b) that were not disclosed in note 51 of the annual financial statements.

Internal control deficiency

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

The supply chain manager did not ensure that all the deviations are disclosed in the notes of the annual financial statements.

Recommendation

The supply chain manager should ensure that all the deviations resulting from the Supply Chain Management Regulation section 36 1(a) and (b) are disclosed in the notes to the financial statements.

Furthermore the supply chain manager should determine the total amount of deviations that were not disclosed in note 51 and adjust the financial statements accordingly.

Management response

Management comment on the audit finding:

Management note the audit finding.
Annexure B

This instance occurred as an extension to R14 067 001 which was to the amount of R127 092.90 and awarded to Tricom.

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

Noted.

Management comment on the recommendation:

The recommendations are noted and the note to the financial statements will be amended accordingly where warranted.

Remedial action:
What actions will be taken:  
By whom:  
By when:

If the above findings affects an amount (s) disclosed in the financial statements:  
YES  
NO

Please give an indication of whether the correcting journal entry shall be processed:  
YES  
NO  
N/A

If yes, please indicate the accounting entry:

If no, please provide the reason why such a conclusion:

Auditor's conclusion

Management's comments noted. The amended annual financial statements have been inspected and the adjustment has been made. However, the municipality must address the internal control deficiency so that this matter does not reoccur.

Responsible Directorate/Department: (Finance/Procurement)

Deadline – March 2014

Action: Before March 2014 there were NO minutes BSC taking place and all tenders were evaluated by the user department. It was changed with the appointment of the SCM Manager. Unfortunately there is nothing I can do to tenders that were awarded before my appointment and this will continue to be a problem for all tenders before March 2014

Verified by: Still to be verified
Annexure B

16. Procurement and contract management: Deviations not disclosed - CCOMAF 20

Audit finding

The Supply Chain Management regulation 36 states:

“(1) A supply chain management policy may allow the accounting officer -
   (b) To dispense with the official procurement processes established by the policy and to
   procure any required goods or services through any convenient process, which may
   include direct negotiations, but only -
   (vi) In an emergency;
   (vii) If such goods or services are produced or available from a single provider only,
   (viii) For the acquisition of special works of art or historical objects where
   specifications are difficult to compile;
   (ix) Acquisition of animals for zoos, or
   (x) In any other exceptional case where it is impractical or impossible to allow the
   official procurement process”

“(2) The accounting officer must record the reasons for any deviations in terms of subregulation
1(a) and (b) and report them to the next meeting of the council, or board of directors in the case
of a municipal entity, and include as a note to the annual financial statements.”

During the audit of procurement and contract management we identified that the municipality did
not follow the procurement process for the following suppliers

- Order C5004654 (Sky Printers t/a Action Ads)
- Order C5004659 (The Edge Community Newspaper).

A council resolution G11/02/2016 was in place, requesting the municipal manager to approve
the deviation that notices be placed in the above two local newspapers only for the 2015/2016
financial year and that no supply chain management process should be followed.

Consequently the municipality did not comply with Section 36 (2) as the deviation has not been
disclosed in the annual financial statements.

<table>
<thead>
<tr>
<th>Supplier</th>
<th>Order number</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Edge community newspaper</td>
<td>C5004659</td>
<td>R342 869.18</td>
</tr>
<tr>
<td>Sky Printers t/a Action Ads</td>
<td>C5004654</td>
<td>R371 482.54</td>
</tr>
</tbody>
</table>

The annual financial statements are therefore understated by R714 351.72

Internal control deficiency

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

Management did not ensure that all the deviations are disclosed in the notes of the annual
financial statements

Recommendation
Management should ensure that all the deviations resulting from the Supply Chain Management Regulation section 36 1(a) are disclosed in the notes to the financial statements.

Furthermore the supply chain manager should determine the total amount of deviations that were not disclosed in note 51 and adjust the financial statements accordingly.

Management response

Management comment on the audit finding:

Management disagree with the finding. Council did resolve that the 2 local newspapers must be used and therefore it should be seen as an exception from the SCM Policy although not listed in the policy as such.

The total amount indicated is incorrect as many of the orders for the advertisements are A orders, or below R2000.

Management will however determine the amount and disclose it in the AFS.

R265 754.00 – The Edge
R228 070.52 – Action Ads

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

The council decision that was taken.

Management comment on the recommendation:

The Manager: SCM will ensure that a tender process/EOI is actioned as soon as possible to prevent this from occurring again.

Remedial action:

<table>
<thead>
<tr>
<th>What actions will be taken: tender process/EOI</th>
<th>By whom: F Kruger</th>
<th>By when:</th>
</tr>
</thead>
</table>

If the above findings affects an amount(s) disclosed in the financial statements: YES NO

Please give an indication of whether the correcting journal entry shall be processed: YES NO N/A

If yes, please indicate the accounting entry:

If no, please provide the reason why such a conclusion:

Auditor’s Response

Management comments are noted. The finding will remain as an “other important matter” in the management report. The correction has been made to the annual financial statements.

Responsible Directorate/Department: (Finance/Procurement)

Deadline – August 2017
**Annexure B**

| Action | SCM Manager will instruct that all be included during the preparation of the AFS. Also deviations MUST be minimised. Organization has a culture of non-compliance to SCM Regulations due to in the past being allowed to operate in this manner |

| Verified by: |  |
Annexure B

17. Receivables from exchange and non-exchange and payables misstated - COMAF 3

Audit Finding

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

“(1) Every municipality and every municipal entity must for each financial year prepare annual financial statements which—

a) fairly presents the state of affairs of the municipality or entity, 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;”

Background regarding Receivables from exchange and non-exchange:

- Each client's debtor account is normally split into subsections (Electricity, Water, Sewerage, Refuse and Rates) on the age analysis and on the statement which is sent to the client. These are consolidated together to give a full picture of the outstanding balance with the Municipality.
- Interest is charged separately on outstanding debt balances per subsection.
- All subsections with credit balances (amounts owed to the client) are then transferred to Payables: Payments received in advance for disclosure purposes at year-end.

During the audit of Receivables from exchange and non-exchange transactions the following issues were identified:

- Some receipts were not correctly offset against the client's debt, thus on the age analysis there are amounts showing as a debit and at the same time as a credit (received in advance) in a separate subsection. The statement issued to the client however shows the net amount (consolidated balance) of these debit and credit amounts.
- As the receipts were not properly offset against the client's debt as above, the debt balances in the specific client's account are attracting interest which is being automatically generated.

Not enough care was taken in the allocation of these receipts to the client's accounts as the allocation was captured against the incorrect codes which caused the offset of credits against debits not to occur correctly.

The total age analysis has been assessed and we found that the below accounts were affected:
## Annexure B

<table>
<thead>
<tr>
<th>Nr.</th>
<th>Acc number</th>
<th>Currently as Receivables</th>
<th>Currently as Payables</th>
<th>Should be Receivables</th>
<th>Should be Payables</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>10146100014</td>
<td>264.04</td>
<td>(262.17)</td>
<td>1.87</td>
<td>-</td>
</tr>
<tr>
<td>2</td>
<td>10457200013</td>
<td>6 292.25</td>
<td>(430.72)</td>
<td>5 661.53</td>
<td>-</td>
</tr>
<tr>
<td>3</td>
<td>10470000012</td>
<td>308.65</td>
<td>(290.04)</td>
<td>18.81</td>
<td>-</td>
</tr>
<tr>
<td>4</td>
<td>10549500017</td>
<td>2 500.63</td>
<td>(51.22)</td>
<td>2 449.41</td>
<td>-</td>
</tr>
<tr>
<td>5</td>
<td>10577300152</td>
<td>8.81</td>
<td>(1 421.32)</td>
<td>-</td>
<td>(1 412.51)</td>
</tr>
<tr>
<td>6</td>
<td>10659000013</td>
<td>102.67</td>
<td>(93.35)</td>
<td>9.32</td>
<td>-</td>
</tr>
<tr>
<td>7</td>
<td>1065900131</td>
<td>530.41</td>
<td>(475.11)</td>
<td>55.30</td>
<td>-</td>
</tr>
<tr>
<td>8</td>
<td>10819000111</td>
<td>238.57</td>
<td>(3 323.79)</td>
<td>-</td>
<td>(3 094.22)</td>
</tr>
<tr>
<td>9</td>
<td>10835000016</td>
<td>1 283.61</td>
<td>(1 186.55)</td>
<td>97.26</td>
<td>-</td>
</tr>
<tr>
<td>10</td>
<td>10876600121</td>
<td>51 321.88</td>
<td>(39 894.23)</td>
<td>11 627.65</td>
<td>-</td>
</tr>
<tr>
<td>11</td>
<td>10884400186</td>
<td>1 466.00</td>
<td>(1 100.00)</td>
<td>366.00</td>
<td>-</td>
</tr>
<tr>
<td>12</td>
<td>10899800042</td>
<td>329.19</td>
<td>(326.30)</td>
<td>2.89</td>
<td>-</td>
</tr>
<tr>
<td>13</td>
<td>10983900014</td>
<td>147 495.09</td>
<td>(146 287.55)</td>
<td>1 207.54</td>
<td>-</td>
</tr>
<tr>
<td>14</td>
<td>1098440137</td>
<td>5 690.53</td>
<td>(5 690.53)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>15</td>
<td>11165800158</td>
<td>2 947.77</td>
<td>(1 293.40)</td>
<td>1 654.37</td>
<td>-</td>
</tr>
<tr>
<td>16</td>
<td>11300600208</td>
<td>10 880.95</td>
<td>(10 662.21)</td>
<td>198.74</td>
<td>-</td>
</tr>
<tr>
<td>17</td>
<td>1130500054</td>
<td>23 189.89</td>
<td>(17 422.75)</td>
<td>5 747.14</td>
<td>-</td>
</tr>
<tr>
<td>18</td>
<td>11306500077</td>
<td>40 191.13</td>
<td>(19 081.55)</td>
<td>21 109.78</td>
<td>-</td>
</tr>
<tr>
<td>19</td>
<td>11306500142</td>
<td>40 191.13</td>
<td>(17 582.46)</td>
<td>22 670.67</td>
<td>-</td>
</tr>
<tr>
<td>20</td>
<td>11306500158</td>
<td>18 734.15</td>
<td>(632.09)</td>
<td>18 041.06</td>
<td>-</td>
</tr>
<tr>
<td>21</td>
<td>1130650188</td>
<td>26 129.13</td>
<td>(16 365.59)</td>
<td>9 763.54</td>
<td>-</td>
</tr>
<tr>
<td>22</td>
<td>1130650216</td>
<td>64 474.66</td>
<td>(29 780.71)</td>
<td>34 713.95</td>
<td>-</td>
</tr>
<tr>
<td>23</td>
<td>1130650057</td>
<td>16 392.85</td>
<td>(16 236.18)</td>
<td>145.67</td>
<td>-</td>
</tr>
<tr>
<td>24</td>
<td>11306500408</td>
<td>749.36</td>
<td>(729.53)</td>
<td>19.83</td>
<td>-</td>
</tr>
<tr>
<td>25</td>
<td>11306500422</td>
<td>18 535.47</td>
<td>(1 357.60)</td>
<td>17 177.87</td>
<td>-</td>
</tr>
<tr>
<td>26</td>
<td>11306500533</td>
<td>23 186.17</td>
<td>(2 242.80)</td>
<td>20 923.37</td>
<td>-</td>
</tr>
<tr>
<td>27</td>
<td>11306500549</td>
<td>37 320.32</td>
<td>(15 857.86)</td>
<td>21 462.46</td>
<td>-</td>
</tr>
<tr>
<td>28</td>
<td>11306500644</td>
<td>35 884.90</td>
<td>(15 702.84)</td>
<td>20 182.06</td>
<td>-</td>
</tr>
<tr>
<td>29</td>
<td>1130650081</td>
<td>1 108.64</td>
<td>(1 098.67)</td>
<td>9.97</td>
<td>-</td>
</tr>
<tr>
<td>30</td>
<td>11337900209</td>
<td>51 399.60</td>
<td>(50 084.73)</td>
<td>1 314.87</td>
<td>-</td>
</tr>
<tr>
<td>31</td>
<td>11372700016</td>
<td>158.21</td>
<td>(145.79)</td>
<td>12.42</td>
<td>-</td>
</tr>
<tr>
<td>32</td>
<td>1138270126</td>
<td>19 700.37</td>
<td>(804.39)</td>
<td>18 895.98</td>
<td>-</td>
</tr>
<tr>
<td>33</td>
<td>11499700134</td>
<td>228.43</td>
<td>(228.43)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>34</td>
<td>20052100019</td>
<td>22 325.92</td>
<td>(1 459.17)</td>
<td>20 866.75</td>
<td>-</td>
</tr>
<tr>
<td>35</td>
<td>20142000121</td>
<td>214.68</td>
<td>(214.68)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>36</td>
<td>20156000174</td>
<td>11 161.78</td>
<td>(170.25)</td>
<td>10 991.53</td>
<td>-</td>
</tr>
<tr>
<td>37</td>
<td>20310200653</td>
<td>19 704.07</td>
<td>(300.00)</td>
<td>19 404.07</td>
<td>-</td>
</tr>
<tr>
<td>38</td>
<td>20390700019</td>
<td>1.41</td>
<td>(1.41)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>39</td>
<td>20468700016</td>
<td>14.75</td>
<td>(13.85)</td>
<td>0.90</td>
<td>-</td>
</tr>
</tbody>
</table>
### Annexure B

<table>
<thead>
<tr>
<th>Nr.</th>
<th>Acc number</th>
<th>Currently as Receivables R'</th>
<th>Currently as Payables R'</th>
<th>Should be Receivables R'</th>
<th>Should be Payables R'</th>
</tr>
</thead>
<tbody>
<tr>
<td>40</td>
<td>30021600716</td>
<td>7 086.75</td>
<td>(7 026.71)</td>
<td>60.04</td>
<td>-</td>
</tr>
<tr>
<td>41</td>
<td>50004500016</td>
<td>32 337.94</td>
<td>(600.00)</td>
<td>31 737.94</td>
<td>-</td>
</tr>
<tr>
<td>42</td>
<td>102848000011</td>
<td>1 087.57</td>
<td>(1 052.65)</td>
<td>34.92</td>
<td>-</td>
</tr>
<tr>
<td>43</td>
<td>105332000016</td>
<td>1 154.50</td>
<td>(300.00)</td>
<td>854.50</td>
<td>-</td>
</tr>
<tr>
<td>44</td>
<td>106562000019</td>
<td>846.40</td>
<td>(700.66)</td>
<td>145.74</td>
<td>-</td>
</tr>
<tr>
<td>45</td>
<td>107020000017</td>
<td>3 778.90</td>
<td>(83.60)</td>
<td>3 695.30</td>
<td>-</td>
</tr>
<tr>
<td>46</td>
<td>107394000017</td>
<td>638.42</td>
<td>(638.42)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>47</td>
<td>1075150000108</td>
<td>9 082.43</td>
<td>(915.82)</td>
<td>8 166.61</td>
<td>-</td>
</tr>
<tr>
<td>48</td>
<td>108549000015</td>
<td>191.75</td>
<td>(178.37)</td>
<td>13.38</td>
<td>-</td>
</tr>
<tr>
<td>49</td>
<td>111550000011</td>
<td>47.36</td>
<td>(0.02)</td>
<td>47.34</td>
<td>-</td>
</tr>
<tr>
<td>50</td>
<td>116413000017</td>
<td>154 956.56</td>
<td>(10 895.87)</td>
<td>144 070.69</td>
<td>-</td>
</tr>
</tbody>
</table>

**Grand**

<table>
<thead>
<tr>
<th>Currently as Receivables R'</th>
<th>Currently as Payables R'</th>
<th>Should be Receivables R'</th>
<th>Should be Payables R'</th>
</tr>
</thead>
<tbody>
<tr>
<td>(442 481.74)</td>
<td>(4 596.73)</td>
<td>475 821.84</td>
<td>(4 596.73)</td>
</tr>
</tbody>
</table>

**Adjustments to be made**

| R437 975.01 | R437 975.01 |
The impact of the finding is as follows:
- Receivables from exchange and non-exchange transactions are overstated.
- Payables are overstated.
- The ageing of the above sections are misstated.
- Interest income is incorrectly charged and thus also overstated.
- Debt Impairment provision was calculated using incorrect figures and thus also misstated.

We calculated the misstatement between Receivables (exchange and non-exchange) and Payables to be R437 975.
We are however unable to determine the impact of the above on the interest, ageing and the impairment provision.

**Internal control deficiency**

*Financial and performance management*: Implement controls over daily and monthly processing and reconciling of transactions

Management did not implement adequately reviews over the debtor’s accounts in order to identify misstatements.

**Recommendation**

Management should investigate the misstatements identified above and correct the misstatement between Receivables (exchange and non-exchange) and Payables as well as assess the effect this will have on the interest charged, ageing disclosure and the impairment provision in the annual financial statements.

Furthermore management should ensure that a detailed review of the debtor’s accounts is performed regularly, thereby ensuring accurate financial information.

**Management response**

Management comment on the audit finding:

Management is in agreement with the above finding. We are aware of this issue and have communicated this to R-Data (Promun) to rectify. This was an isolated occurrence and limited to the Legal Suite accounts linked to billing type rates only.

This was corrected in the new financial year.

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

The credit / debit play off parameters were incorrect and was corrected in the new financial year as soon as the root cause was identified. Checks have also been added onto the interest raising checklists to ensure that the parameters are now correct.

Management comment on the recommendation:

The assessed effect on the interest charged was R46 792.98 in total for the 2015/16 financial year with an impact of R30 314.77 on the 50 debtors mentioned above. Incorrect interest to be corrected in the new financial year.

Ageing disclosure effect was calculated, please refer to attached Excel spreadsheet. The majority of the impact is on 36 months + to the value of R32 615.84.

The effect on the impairment provision in the annual financial statements on the balances as per the attached Excel is R97 128.69.
Remedial action:

<table>
<thead>
<tr>
<th>What actions will be taken:</th>
<th>By whom:</th>
<th>By when:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pending final materiality – the amendment to the Trade Receivables and Trade Payables balance will be made as well as the Provision adjustment</td>
<td>Nicoline Barnard</td>
<td>As soon as final materiality can be assessed</td>
</tr>
</tbody>
</table>

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

- [ ] YES
- [x] NO

Please give an indication of whether the correcting journal entry shall be processed:

- [x] YES
- [ ] NO
- [ ] N/A

If yes, please indicate the accounting entry:

**Pending final materiality:**

Dr Trade Payables       R438 030.31
Cr Trade Receivables    (R438 030.31)

*Correction of trade receivables balance due to incorrect debit/credit play off parameters.*

Dr Impairment on Trade Receivables       R97 128.69
Cr Expense on impairment adjustment     (R97 128.69)

*Correction of impairment on trade receivables balance due to incorrect debit/credit play off parameters*

If no, please provide the reason why such a conclusion:

Not applicable

**Auditor’s conclusion**

Management response noted. Management has decided not to adjust and therefore the amount will remain on the unadjusted error schedule. This matter will remain as an “other important matter” in the Management report.

**Responsible Directorate/Department:** (Finance/Budget Office)

**Deadline** – July/August 2017

**Action:** SCM Manager will instruct that all be included during the preparation of the AFS. Also deviations MUST be minimised. Organization has a culture of non-compliance to SCM Regulations due to in the past being allowed to operate in this manner.

**Verified by:**
18. Receivables from exchange disclosure misstated - COMAF 29

Audit Finding

During the audit of receivables from exchange transactions we have identified that the disclosure as per note 4 of the annual financial statements between water and electricity is incorrect. Receivables from exchange: water is understated and receivables from exchange: electricity is overstated in both the 2015/2016 financial year and the 2014/2015 financial year.

The misstatement in the disclosure between Receivables (exchange): Electricity and Receivables (exchange): Water as at 30 June 2016 amount to R2 335 824.

<table>
<thead>
<tr>
<th>DETAIL OF MISSTATEMENT (current year)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>As Per Annual Financial Statements</td>
<td>As Per Auditors’ Calculation</td>
</tr>
<tr>
<td>Section</td>
<td>Amount</td>
</tr>
<tr>
<td>Electricity</td>
<td>R35 203 575</td>
</tr>
<tr>
<td>Water</td>
<td>R37 494 761</td>
</tr>
<tr>
<td><strong>Total correction</strong></td>
<td><strong>R2 335 824</strong></td>
</tr>
</tbody>
</table>

The misstatement between receivables (exchange): electricity and receivables (exchange): water as at 30 June 2015 amount to R3 210 875

<table>
<thead>
<tr>
<th>DETAIL OF MISSTATEMENT (prior year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>As Per Annual Financial Statements</td>
</tr>
<tr>
<td>Section</td>
</tr>
<tr>
<td>Electricity</td>
</tr>
<tr>
<td>Water</td>
</tr>
<tr>
<td><strong>Total correction</strong></td>
</tr>
</tbody>
</table>

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 implement adequate reviews over Receivables (exchange) in order to identify all misstatements.

Recommendation

Management should implement adequate reviews of receivables disclosed to ensure that receivables are accurately recorded.

Management must correct the misstatement between Receivables (exchange): Electricity and Receivables (exchange): Water in the current and prior year in order to correct the disclosure in the AFS.

Management response

**Management comment on the audit finding:**

The finding is supported. Only the revenue portion of the June consumption billed in July was recognised separately for water and electricity. The debtor’s portion was recognised as part of electricity in total.
Management comment on the root cause identified within the audit finding:
Agreed and separate water receivables July billing vote will be created in order to ensure accurate disclosure going forward.

Management comment on the recommendation:
Agreed, and the disclosure note misstatement will be corrected in the financial statements.

Remedial action:
What actions will be taken: Additional water receivables July billing vote to be opened and correction of the disclosure in the financial statements.

If the above findings affects an amount(s) disclosed in the financial statements: YES X NO
Please give an indication of whether the correcting journal entry shall be processed: YES X NO N/A

If yes, please indicate the accounting entry:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dt Receivables from exchange transactions – Water (Disclosure correction 2015/2016 financial year)</td>
<td>R 2 335 824</td>
</tr>
<tr>
<td>Ct Receivables from exchange transactions – Electricity (Disclosure correction 2015/2016 financial year)</td>
<td>R 2 335 824</td>
</tr>
<tr>
<td>Dt Receivables from exchange transactions – Water (Disclosure correction 2014/2015 financial year)</td>
<td>R 3 210 875</td>
</tr>
<tr>
<td>Ct Receivables from exchange transactions – Electricity (Disclosure correction 2014/2015 financial year)</td>
<td>R 3 210 875</td>
</tr>
</tbody>
</table>

If no, please provide the reason why such a conclusion:

Auditor’s conclusion
Management response noted. This matter will remain as an “other important matter” in the Management report. The adjusted financial statements have been inspected and confirmed that the adjustment has been processed correctly.

Responsible Directorate/Department: (Finance/Budget Office)

Deadline – December 2016

Action: The SOP and working paper has been updated to include the additional water receivables July billing vote.

Verified by: Manager Performance, Internal Audit and Risk Management
19. Property rates misstated - COMAF 12

Audit finding

Annexure 3 of Knysna Municipality's 2015/2016 Medium Term Revenue and Expenditure Framework (MTREF) states that R100 000 is to be exempt from the value of each domestic property (excluding accommodation establishments) in the determination of property rates.

During the audit of revenue from property rates it was discovered that the value used to determine the property rates on four rural - residential category properties had not taken into account the R100 000 annual exemptions as per the MTREF.

The table below indicates the four properties that were affected by the error as well as a comparison of the amounts that were recorded in the accounting records of the municipality against what should have been recorded.

<table>
<thead>
<tr>
<th>Name</th>
<th>Description</th>
<th>Amount per records of the municipality</th>
<th>Property Value</th>
<th>Tariff</th>
<th>Recalculated amount by auditors</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lake Pleasant Estates PTY LTD</td>
<td>Ruygte Valley</td>
<td>R987.24</td>
<td>R150 000</td>
<td>R 0.00658160</td>
<td>R329.08</td>
<td>R558.16</td>
</tr>
<tr>
<td>The Brenton Property Trust</td>
<td>Greater Quarrywood</td>
<td>R38 699.81</td>
<td>R5 880 000</td>
<td>R 0.00658160</td>
<td>R38 041.85</td>
<td>R558.16</td>
</tr>
<tr>
<td>De Beer G&amp;I</td>
<td>Utzig</td>
<td>R7 897.92</td>
<td>R1 200 000</td>
<td>R 0.00658160</td>
<td>R7 239.76</td>
<td>R558.16</td>
</tr>
<tr>
<td>Kingshill Prop Holdings &amp; Inv.</td>
<td>Utzig</td>
<td>R76 017.48</td>
<td>R11 550 000</td>
<td>R 0.00658160</td>
<td>R75 359.32</td>
<td>R558.16</td>
</tr>
</tbody>
</table>

Total difference: R2 632.64

The misstatement calculated above is based on a sample therefore an extrapolation of the misstatement over the population was determined to be R525 957.07.

Consequently property rates revenue and receivables from non-exchange transactions are overstated by R525 957.07.

Internal control deficiency

Financial and performance management: implement controls over daily and monthly processing and reconciling of transactions.

Management does not adequately review the property rates captured to ascertain that the correct tariffs and ratable values are used in determining property rates to be charged.

Recommendation

Management should implement appropriate controls over the calculation of property rates and ensure that there are adequate reviews that take place after property rates have been processed.

Furthermore management should investigate the entire population of property rates and adjust the annual financial statements with the total misstatement identified.

Management response

Management comment on the audit finding:

Management is in agreement with the finding of the AG

Management comment on the root cause identified within the audit finding:
The finding is a result of shortcomings in our billing framework as well as management’s lack of oversight in ensuring that proper review controls are in place. A “master guide” regarding rates and rebates is in place to ensure that the correct application of exemptions and rebates in terms of council’s approved tariffs, fees and charges is applied to a specific property or group of properties.

Management comment on the recommendation:

The entire population of this category of properties namely Rural/Non-Urban properties (Tariff Code 8051) were reviewed and 476 accounts were identified where the Property Rates Exemption of R100, 000 were not applied. The consumer listing (mun 837) were used to identify the misstatements.

The effect on revenue and receivables are as follows:

Total amount overstated: R313,284.16 (476 accounts x R658.16)

<table>
<thead>
<tr>
<th>Remedial action:</th>
<th>By whom:</th>
<th>By when:</th>
</tr>
</thead>
<tbody>
<tr>
<td>What actions will be taken:</td>
<td>A. Pedro</td>
<td></td>
</tr>
<tr>
<td>A correcting journal and adjustments to the individual accounts will be made.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Whether the journal will be recognised in the 2015/2016 year will be based on the final materiality calculation.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>If the above findings affects an amount (s) disclosed in the financial statements:</td>
<td>YES</td>
<td>NO</td>
</tr>
<tr>
<td>Please give an indication of whether the correcting journal entry shall be processed:</td>
<td>YES</td>
<td>NO</td>
</tr>
<tr>
<td>If yes, please indicate the accounting entry:</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Pending final materiality evaluation:

Dr Revenue from Non-Exchange (Property Rates) R 313,284.16
Cr Debtors Control R 313,284.16

If no, please provide the reason why such a conclusion:

If immaterial the adjustment will be made to the individual debtor’s accounts in the 2016/2017 financial year.

Auditor’s conclusion

Management comments noted. This matter will still be reported as an “other important matter” in the management report. Management has decided not to adjust the financial statements and therefore these amounts will be included on the unadjusted errors schedule.

Responsible Directorate/Department: (Finance/Income)

Deadline – To be determined (monthly/1 July 2017 – ongoing)

Action: Please state what you are putting in place to prevent a repeat finding during the 2016/2017 audit. A billing framework has been put in place which is used as a master guide to determine which tariff must be billed and which rebate and/or exemption should apply to a particular category of property

Verified by: In Progress
20. Refuse removal misstated - COMAF 14

Audit finding

During the audit of refuse removal we identified that the incorrect tariff has been charged to the following property:

- Quartro Estate (Pty) Ltd - Account: 113309000024

The category used in the description on the account statement is that of a residential property however, the tariff applied for billing and accounting purposes is for vacant erven as per Annexure 3 of Knysna Municipality’s 2015/2016 Medium Term Revenue and Expenditure Framework (MTREF).

Consequently the revenue and receivables from exchange transactions are overstated as follows:

<table>
<thead>
<tr>
<th>Amount recorded in the accounting records:</th>
<th>Tariff as per MTREF for residential properties</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>R1 314</td>
<td>R750.88</td>
<td>R563.16</td>
</tr>
</tbody>
</table>

The misstatement calculated above is based on a sample therefore an extrapolation of the misstatement over the population was determined to be: R372 329.64.

Internal control deficiency

**Financial and performance management:** Implement controls over daily and monthly processing and reconciling of transactions.

Management does not adequately review the refuse removal tariffs captured and billed to the customers to ascertain that the correct tariffs and ratable values are used in determining refuse removal amounts to be charged.

**Recommendation**

Management should implement appropriate review controls over the capturing of tariffs for refuse removal to be charged to customers and therefore ensuring accurate revenue recognition and accurate account statements issued to customers.

Furthermore management should investigate the entire population of refuse removal and adjust the annual financial statements with the total misstatement identified.

**Management response**

**Management comment on the audit finding:**

Management is in agreement with the finding of the AG.

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

The finding is a result of shortcomings within our billing framework. The billing framework was extensively reviewed during the 2016/17 annual billing process to ensure that a “master guide” is in place which will determine which tariff shall apply to a specific property or group of properties.

**Management comment on the recommendation:**

The entire population of residential properties were investigated to identify discrepancies with the refuse tariff applied. Eight accounts were identified. The consumer file listing (mun837) were
used for this purpose. The report currently and in future will form the basis for our tariff setup. We have also started a process to standardize our tariffs and in this regard our rates policy will be used to determine the correct property category. This will ensure that the correct basic, consumption or availability tariff is applied to an account or category of property.

The monetary effect on revenue and receivables are as follows:

Total amount charged:  R10,512.32 (Ex Vat)  8 properties x R1314.01
Actual amount to be raise:  R6,007.04 (Ex Vat)  8 properties x R750.88

Revenue Overstated:  R4,505.28
Output VAT Overstated:  R630.74
Interest Revenue:  R121,20
Provision Overstated:  R2,03

Remedial action:

What actions will be taken:  
A correcting journal and adjustments to the individual accounts will be made in the 2016/2017 financial year due to having an immaterial effect.

By whom:  A. Pedro
By when:  26/10/16 to be finalised

If the above findings affects an amount (s) disclosed in the financial statements:  
YES X
NO

Please give an indication of whether the correcting journal entry shall be processed:  
YES
NO X
N/A

If yes, please indicate the accounting entry:  
N/a

Immaterial and will be adjusted in the 2016/2017 year against the accounts of the consumers.

Auditor’s conclusion

Management comments noted. This matter will still be reported as an “other important matter” in the management report. The amounts to be adjusted are below trivial. Therefore it will not be reported on the unaudited schedule of misstatements. However, management should address the internal control deficiency to ensure that the error does not reoccur.

Responsible Directorate/Department: (Finance/Income)

Deadline – To be determined monthly/ 1 July 2017 - ongoing

Action: Please state what you are putting in place to prevent a repeat finding during the 2016/2017 audit. (A billing framework has been put in place which is used as a master guide to determine which tariff must be billed and which rebate and or exemption should apply to a particular category of property. Eg. The rates category will guide the relevant services tariff for each individual property eg business to business)

Verified by: In Progress
21. VAT and Debt Impairment Misstated - COMAF 8

Audit Finding

The Value Added Tax (VAT) Act No 89 of 1991, Section 12 states:

“The supply of any of the following goods or services shall be exempt from the tax imposed under section 7 (1) (a):

(a) The supply of any financial services, but excluding the supply of financial services which, but for this paragraph, would be charged with tax at the rate of zero per cent under section 11

(c) the supply of—

(i) a dwelling under an agreement for the letting and hiring thereof, and any “right of occupation” as defined in section 1 of the Housing Development Schemes for Retired Persons Act, 1988 (Act No.65 of 1988);”

Financial services is defined in section 2 (f) of the VAT act as follows:

“The provision by any person of credit under an agreement by which money or money’s worth is provided by that person to another person who agrees to pay in the future a sum or sums exceeding in the aggregate the amount of such money or money’s worth”

During the audit of Impairment the following issue was identified:

- The Municipality’s calculation of the VAT effect on the impairment of consumer debtors did not take into account that VAT exempt supply transactions/balances must be excluded from the VAT calculation. The VAT should have been excluded on the following:
  - Interest on accounts which does not carry VAT. [Section 12(a)]
  - Loan balances which does not carry VAT. [Section 12(a)]
  - Residential Rentals which does not carry VAT. [Section 12(c)]

The impact of the finding is as follows:

- VAT receivable (B/S): is overstated in the AFS with an estimated amount of R1 153 857
- Debt Impairment (I/S): is understated in the AFS with an estimated amount of R1 153 857

This is however only an estimate of the misstatement as the exact amount could not be estimated by the auditor. See calculation below:

<table>
<thead>
<tr>
<th>i) Interest effect Calculation (Estimate)</th>
<th>Age Analysis</th>
<th>Provision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Debtors Outstanding</td>
<td>143 155 896</td>
<td>72 344 938</td>
</tr>
<tr>
<td>Loss: Interest included in balance</td>
<td>(17 452 139)</td>
<td>(8 819 573) Pro Rata Calc</td>
</tr>
<tr>
<td>Total Debtors Outstanding (excl Interest)</td>
<td>125 703 757</td>
<td>63 525 365</td>
</tr>
</tbody>
</table>

Estimated interest included in Provision 8 819 573

Possible VAT on interest that the Municipality included by mistake 1 083 106 Estimated

<table>
<thead>
<tr>
<th>ii) Loans effect Calculation (Actual)</th>
<th>Age Analysis</th>
<th>Provision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Loans Outstanding</td>
<td>127 425</td>
<td>95 080</td>
</tr>
</tbody>
</table>

VAT on loans that the Municipality included by mistake 11 674 Actual
### iii Residential Rentals effect Calculation (Actual) - Provision

<table>
<thead>
<tr>
<th></th>
<th>Age Analysis</th>
<th>Provision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Loans Outstanding</td>
<td>870 584</td>
<td>481 054</td>
</tr>
<tr>
<td>VAT on residential rentals that the Municipality included by mistake</td>
<td>59 077 Actual</td>
<td></td>
</tr>
<tr>
<td>TOTAL ESTIMATED MISSTATEMENT</td>
<td></td>
<td>1 153 896</td>
</tr>
</tbody>
</table>

### 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 implement adequate reviews over the consumer debtors’ impairment calculations in order to identify any possibly misstatements.

**Recommendation**

Management should ensure that adequate reviews of the impairment take place to ensure that all VAT act requirements are satisfied.

Management must investigate the full extent of the misstatement and the error must be corrected.

### Management response

**Management comment on the audit finding:**
Management agrees with the finding, due to the reports in the past not being able to split this for years’ prior to 2014/15.

With the available report the additional calculation can be made to adjust for the interest component within the provision which was not able previously.

The impact on the prior year figure is an adjustment of R 620,141.04 on VAT owed to SARS and the Debt impairment provision. The impact on the current year figure is R 325,732.75.

**Management comment on the root cause identified within the audit finding:**
The report used for the calculation of the provision for doubtful debt does not split the debt amongst capital and interest. Therefore it is difficult to exclude the interest portion. A new template was built to assist in the COMAF to get to a more specific answer on the impact of the VAT portion relating to the interest component which can be utilised going forward to ensure this does not occur.

**Management comment on the recommendation:**
Management agrees and the amount was re-calculated to ensure accuracy.

### Remedial action

**What actions will be taken:**
Based on final materiality calculation, the following journal might be processed in the current financial year.

<table>
<thead>
<tr>
<th>By whom:</th>
<th>By when:</th>
</tr>
</thead>
</table>

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

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
<th>N/A</th>
</tr>
</thead>
</table>

Please give an indication of whether the correcting journal entry shall be processed:

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
<th>N/A</th>
</tr>
</thead>
</table>
If yes, please indicate the accounting entry:

**Pending final materiality:**

### 2014/15 Comparison

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity</td>
<td>5,848.97</td>
</tr>
<tr>
<td>Water</td>
<td>211,408.21</td>
</tr>
<tr>
<td>Rentals</td>
<td>173,658.46</td>
</tr>
<tr>
<td>Refuse</td>
<td>100,071.93</td>
</tr>
<tr>
<td>Sewerage</td>
<td>101,030.49</td>
</tr>
<tr>
<td>Other</td>
<td>281,222.98</td>
</tr>
<tr>
<td>VAT</td>
<td>(620,141.04)</td>
</tr>
</tbody>
</table>

### 2015/16

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity</td>
<td>44,230.30</td>
</tr>
<tr>
<td>Water</td>
<td>165,303.98</td>
</tr>
<tr>
<td>Rentals</td>
<td>(93,854.07)</td>
</tr>
<tr>
<td>Refuse</td>
<td>103,974.45</td>
</tr>
<tr>
<td>Sewerage</td>
<td>106,324.86</td>
</tr>
<tr>
<td>Other</td>
<td>(246,78)</td>
</tr>
<tr>
<td>VAT</td>
<td>(325,732.75)</td>
</tr>
</tbody>
</table>

If no, please provide the reason why such a conclusion:

Not applicable

**Auditor's conclusion**

Management comments noted. Management has decided not to adjust the financial statements and therefore these amounts will be included on the unadjusted errors schedule. This matter will still be reported as an “other important matter” in the management report.

---

**Responsible Directorate/Department:** (Finance/Budget Office)

**Deadline** – Can only be done as part of the AFS process July/August 2017.

**Action:** The report extract was updated to include the required information and the calculation template was adjusted to ensure accuracy.

**Verified by:**
22. Income received in advance: Duplicate Journal entries - COMAF 17

Audit Findings

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

“(1) Every municipality and every municipal entity must for each financial year prepare annual financial statements which —

b) fairly presents the state of affairs of the municipality or entity, 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;”

During the audit of payables from exchange transactions we identified that duplicate journals were incorrectly processed to write off the below debtors and therefore creating debtors with creditors’ balances as follow:

<table>
<thead>
<tr>
<th>Nr</th>
<th>Date</th>
<th>Reference</th>
<th>Debtors name</th>
<th>Amount in credit</th>
<th>Journal reference of duplicate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>30/06/2016</td>
<td>10577300152</td>
<td>HM Groenewald</td>
<td>R1 519.18</td>
<td>TVR00886</td>
</tr>
<tr>
<td>2</td>
<td>30/06/2016</td>
<td>10999903342</td>
<td>G Bock</td>
<td>R8 900.94</td>
<td>jd007175</td>
</tr>
<tr>
<td>3</td>
<td>30/06/2016</td>
<td>11306500415</td>
<td>Prideself 1111 CC</td>
<td>R719.34</td>
<td>jd007199</td>
</tr>
</tbody>
</table>

Consequently payables from exchange transactions are misstated with the following extrapolated amount: R157 646.82

Internal control deficiency

Financial and performance management: Implement controls over daily and monthly processing and reconciling of transactions.

Management did not implement adequate monitoring controls to ensure that the capturing of duplicate journals are prevented.

Recommendation

Management should ensure that adequate review controls are in place to ensure that duplicate journals are not captured

Management should investigate the misstatements identified above as well as the whole population of payables from exchange transactions and adjust the annual financial statements accordingly.
Management response

| Management comment on the audit finding: | Management is in agreement with the finding of the Auditor General |
| Management comment on the root cause identified within the audit finding: | The finding is a result of a system error which was reported to Rdata at the time and fixed. Journals processed did not show or update on the individual accounts. |
| Management comment on the recommendation: | The entire population of journals processed by the Credit Control section were investigated. Three more duplicate journals were identified in addition to this finding. The effect of the total misstatement amounts to R19,005.01 |

Remedial action:

| What actions will be taken: | By whom: | By when: |
| Correcting journals and adjustments to the individual accounts in the 2016/2017 financial year due to the immaterial effect | J. Davidson | In Progress |
| T. van Rooyen | 31.10.2016 |

If the above findings affects an amount (s) disclosed in the financial statements: YES NO X

Please give an indication of whether the correcting journal entry shall be processed: YES NO X N/A

If no, please indicate the accounting entry:

Auditor’s response

Management’s response is noted. The misstatements identified are below trivial and therefore no adjustment needed to be processed. The finding will remain in the management as an “other important matter” as management should address the internal control deficiency going forward.

Responsible Directorate/Department: (Finance/Income)

Deadline – To be determined 1 December 2016

Action: Please state what you are putting in place to prevent a repeat finding during the 2016/2017 audit. (This was a once-off occurrence and management has therefore put in place a proper review process to ensure that journals are not being duplicated.)

Verified by: In Progress

Audit Finding

In terms of the Local Government: Municipal Finance Management Act, 2003: Regulation 9 of Municipal Regulations on Minimum Competency Levels 2007:

“A financial official of a municipality or municipal entity at middle management level must comply with the minimum competency levels required for higher education qualification and work related experience and competent in the unit standards prescribed for competency areas as set out below:

<table>
<thead>
<tr>
<th>Competency Areas</th>
<th>Required Minimum Competency Level in Unit Standards Municipality budget below R500 million</th>
<th>Required Minimum Competency Level in Unit Standards Municipality budget equal and above R500 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational financial management</td>
<td>116345; 119352; 119341; 119331; 116364</td>
<td>116345; 119352; 119341; 119331; 116364</td>
</tr>
<tr>
<td>Governance, ethics and values in financial management</td>
<td>116343</td>
<td>116343</td>
</tr>
<tr>
<td>Financial and performance reporting</td>
<td>116363; 119350; 119348; 116341</td>
<td>116363; 119350; 119348; 116341</td>
</tr>
<tr>
<td>Risk and change management</td>
<td>116339</td>
<td>116339</td>
</tr>
<tr>
<td>Project management</td>
<td>119343</td>
<td>119343</td>
</tr>
<tr>
<td>Legislation, policy and implementation</td>
<td>119334</td>
<td>119334</td>
</tr>
<tr>
<td>Supply Chain Management</td>
<td>116353</td>
<td>116353</td>
</tr>
<tr>
<td>Audit and assurance</td>
<td>116351</td>
<td>116351</td>
</tr>
</tbody>
</table>

During the audit of human resource management we have identified that the following employees are not in possession of a minimum competency as per above regulation:

<table>
<thead>
<tr>
<th>Competencies</th>
<th>W T Fillies - Manager Income</th>
<th>A Sunkar - Budget Manager</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Operational financial management</td>
<td>Not achieved</td>
<td>Not Achieved</td>
</tr>
<tr>
<td>b) Governance ethics and values in financial management</td>
<td>Achieved</td>
<td>Not Achieved</td>
</tr>
<tr>
<td>c) Financial and performance reporting</td>
<td>Not achieved</td>
<td>Achieved</td>
</tr>
<tr>
<td>d) Risk and change management</td>
<td>Not Achieved</td>
<td>Not achieved</td>
</tr>
<tr>
<td>e) Project management</td>
<td>Achieved</td>
<td>Not Achieved</td>
</tr>
<tr>
<td>f) Legislation, policy and implementation</td>
<td>Not achieved</td>
<td>Not achieved</td>
</tr>
<tr>
<td>g) Supply chain management</td>
<td>Not achieved</td>
<td>Achieved</td>
</tr>
<tr>
<td>h) Audit and assurance</td>
<td>Not achieved</td>
<td>Not achieved</td>
</tr>
</tbody>
</table>

Internal control deficiency

Leadership: Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place.

Management did not ensure that personnel have minimum competencies in place to meet the minimum competency levels as per regulation.

Recommendation

Management should ensure that personal have minimum competencies in place to meet the Municipal Regulations on Minimum Competency Levels 2007.

Management response

Management comment on the audit finding:
Council during its meeting of October 2015 resolved that Managers should strictly comply with the MMC Regulations of 2007 by 30 June 2016. A MMC programme commenced through Stellenbosch University during April/May 2016 for most of the staff as required by the MMC Regulations 2007. The outcome/results from the intervention with University Stellenbosch was anticipated at the end of October 2016 but extension was granted to students by the University up and until middle November 2016 to complete their examinations/assignments.

Management comment on the root cause identified within the audit finding:
There is no consistency with strict compliance with the MMC Regulations 2007 throughout Municipalities in the Province and practices are currently contradictory where some appointments are approved with MMC and some appointments are approved without MMC. Correspondence is awaited from National Treasury/Minister in this regard to clarity this matter.

Management comment on the recommendation:
Recommendation is noted.

Remedial action:

<table>
<thead>
<tr>
<th>What actions will be taken:</th>
<th>By whom:</th>
<th>By when:</th>
</tr>
</thead>
<tbody>
<tr>
<td>No additional actions are planned at this stage, once the results from the above actions have been determined a review will take place as part of the ongoing internal skills audit process.</td>
<td>YES</td>
<td>NO</td>
</tr>
</tbody>
</table>

If the above findings affects an amount (s) disclosed in the financial statements: YES NO

Please give an indication of whether the correcting journal entry shall be processed: YES NO N/A

If yes, please indicate the accounting entry:

If no, please provide the reason why such a conclusion:
Auditor’s conclusion

Management comments noted. This finding will remain as an “other important matter” in the management report.

Management Response for Audit Plan Purposes (OPCAR)

Responsible Directorate/Department: (Corporate/HR)

Deadline – End February for Mr Fillies and 30 June 2017 for Ms Sunkar

Action: Continued monitoring of progress of Managers into completed outcomes of their MMC Course of 2016 and new enrolment for newly appointed Managers.

Verified by: Is monitored and reported as part of the Compliance system.
Audit finding

Section 67(1)(a) of the Municipal Finance Management Act No.56 of 2003 (MFMA) states:

“Before transferring funds of the municipality to an organisation or body outside any sphere of government otherwise than in compliance with a commercial or other business transaction, the accounting officer must be satisfied that the organization or body—

(a) has the capacity and has agreed—

(i) to comply with any agreement with the municipality;

(ii) for the period of the agreement to comply with all reporting, financial management and auditing requirements as may be stipulated in the agreement;

(iii) to report at least monthly to the accounting officer on actual expenditure against such transfer; and

(iv) to submit its audited financial statements for its financial year to the accounting officer promptly.”

Section 67(4)(b) of the Municipal Finance Management Act No.56 of 2003 (MFMA) states:

“Subsection (1)(a) does not apply to an organisation or body serving the poor or used by government as an agency to serve the poor, provided—

(b) that the accounting officer—

(i) takes all reasonable steps to ensure that the targeted beneficiaries receive the benefit of the transferred funds; and

(ii) certifies to the Auditor-General that compliance by that organisation or body with subsection (1)(a) is uneconomical or unreasonable.”

During the audit of conditional grants and transfers the following documentation requested were not received by the auditors for transfers to the respective organisations:

<table>
<thead>
<tr>
<th>Supporting documentation requested</th>
<th>Organisation Receiving the funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Financial statements/ financial reports</td>
<td>- Knysna Swallows FC</td>
</tr>
<tr>
<td></td>
<td>- Knysna Alcohol &amp; Drug Centre</td>
</tr>
<tr>
<td>2. Monthly expenditure reports submitted to the municipality by the recipient of donation/grant</td>
<td>- Die Werkswinkel</td>
</tr>
<tr>
<td></td>
<td>- Masithandane</td>
</tr>
<tr>
<td></td>
<td>- Iiseko Educare Centre</td>
</tr>
<tr>
<td></td>
<td>- Knysna Local Football Association</td>
</tr>
<tr>
<td></td>
<td>- Knysna Swallows FC</td>
</tr>
<tr>
<td></td>
<td>- Eagle Spurs Football Club</td>
</tr>
<tr>
<td></td>
<td>- Pirates United Cricket Club</td>
</tr>
<tr>
<td></td>
<td>- Knysna Community Band</td>
</tr>
<tr>
<td></td>
<td>- Hands &amp; Hearts</td>
</tr>
<tr>
<td></td>
<td>- Loeriehof Old Age Home</td>
</tr>
<tr>
<td></td>
<td>- Youth for Christ Knysna</td>
</tr>
<tr>
<td></td>
<td>- Knysna Tourism</td>
</tr>
</tbody>
</table>
In addition, the municipality has not provided any proof that the above organisations were unable to comply with section 67(1)(a).

Consequently the municipality did not comply with Sections 67(1)(a) and 67(4)(b) of the MFMA.

**Internal control deficiency**

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

Management did not ensure that adequate controls over the monitoring of transfers to the various organisations were implemented.

**Recommendation**

Management should ensure that they monitor transfers to all organisations before and after a transfer is made in order to ensure compliance with the MFMA.

**Management response**

<table>
<thead>
<tr>
<th>Management comment on the audit finding:</th>
</tr>
</thead>
<tbody>
<tr>
<td>We agree with the findings as contained in the above report.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Management comment on the root cause identified within the audit finding:</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Grant in Aid Ad Hoc Committee consists of Political member as per attached Council resolution.</td>
</tr>
</tbody>
</table>

Only the said Committee has the authority to make the final decision on which organisation/applicant can be awarded Grants in Aid funding in most cases the Policy, which clearly outlines the qualifications required for all successful applicants is frequently overlooked.

The GIA Policy as Annexure C, has Section 67 (1) (a) & (4) (b) of the MFMA clearly set out, but the applicants do not adhere to it and the Ad Hoc Committee does not hold the Applicants accountable.

<table>
<thead>
<tr>
<th>Management comment on the recommendation:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management has a Grants-in-Aid Policy in place that its Applicants receive attached to the application form. The Policy clearly points out guidelines to be followed and the GIA Ad Hoc Committee must ensure that their selected of successful GIA to be awarded is in line with the attached guidelines.</td>
</tr>
</tbody>
</table>

Upon the awarding phase, each successful applicant signs a Memorandum of Agreement, within which the above mentioned sections/clauses are contained and agreed upon by the Applicants and
the MM.

**Policy**

<table>
<thead>
<tr>
<th>What actions will be taken:</th>
<th>By whom:</th>
<th>By when:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Propose an amendment of the GIA Policy to have a clause that clearly states that All Applicants that do not comply or adhere to the Policy will forfeit the opportunity to receive Grants in Aid.</td>
<td>Manager Administration</td>
<td>July 2017</td>
</tr>
</tbody>
</table>

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

| YES | NO |

Please give an indication of whether the correcting journal entry shall be processed:

| YES | NO | N/A |

If yes, please indicate the accounting entry:

N/A

If no, please provide the reason why such a conclusion:

N/A

**Auditor’s conclusion**

Management’s comments noted. This matter will however remain as an “other important matter” in the management report. This matter will be followed up during the quarterly key control visits.

**Management Response for Audit Plan Purposes (OPCAR)**

**Responsible Directorate/Department:** (Corporate/Administration)

**Deadline** – April 2017

**Action:** An item to amend the GIA Policy shall be submitted to the next F, G & ED Committee regarding COMAF 13. (27/02/2017)

**Verified by:** To be verified once policy has been approved by Council expected to be by June 2017.
25. Information technology governance - ISA COMAF 1

Audit Finding

The following findings have been identified with regard to IT Governance:

- As reported in the prior year, Service Level Agreement (SLA) monitoring of the performance of service providers was completed on an informal basis. Minutes of the meetings held had not been completed.

- There was no Master Systems Plan or IT Strategic Plan in place and the Integrated Development Plan (IDP) did not outline the planned IT project expenditure.

- It was noted that the IT steering committee did not assist in developing the IT Strategic Plan and ensuring that the IT Strategic Plan was delivered within the agreed budget and timeframes.

- No established process was in place to manage the commitment of funds (budget) for IT specific projects, spending, approval and amount spent to date. A budget is in place and spend was in line with the budget, but the process of authorising budgets and linking the budgets allocated to the IT strategy is not in place.

Without formal mechanisms in place to monitor performance of IT vendors, the effectiveness, efficiency and consistency of the IT services delivered cannot be reviewed and measured against agreed targets. In addition, the municipality may not obtain the required support from the service providers or hold them accountable for unsatisfactory service. This may lead to degraded services not being identified in a timely manner and could result in increased costs incurred for poor delivery of services.

If the IT Strategic Plan is not formally documented, approved and implemented there is a risk that IT goals and objectives might not be met. Inadequate linking of the IT project spend to the strategic plan (or equivalent plan) could make it difficult for management to confirm the IT projects that were approved for the financial year, and the budget allocated to each. This could result in IT spending their budget on projects that were not identified and prioritised through the municipality’s strategic discussions.

If the IT Steering committee does not assist with developing the IT Strategic Plan, there is a risk that IT goals and objectives might not be correctly formulated according to business needs and that the goals and objectives might not be met. Furthermore, there may be a lack of accountability of compliance with the goals and objectives of the municipality and unnecessary IT expenditure may not be defined and attained.

Inadequate processes surrounding the IT budget could result in over or under allocation of the budget and make it difficult for management to confirm IT projects that were approved for the financial year, and the budget allocated to each. The budget should also be authorised and approved as failing to do so could result in IT spending their budget on projects that were not identified and prioritised through the municipality’s strategic discussions.

Internal control deficiency

Management had been in contact with the service provider on a daily basis and therefore the meetings had not been formalised. Management considered the informal processes in place for monitoring IT vendor performance to be sufficient.
The current IDP does not focus on Information Technology (IT). With the absence of a dedicated IT manager, IT focus as part of the IDP was not prioritised.

- The vacant IT manager position resulted in the IT steering committee not focusing on the activities around the IT Strategic Plan and IT spend above.
- Due to the IT manager position being vacant for the full financial year, the IT project budget and spend procedures were not prioritised.

**Recommendation**

Management should implement a service level management process to ensure that the levels of service rendered by external service providers are continually identified, monitored and reviewed against those specified in the SLAs. Evidence of the monitoring, such as minutes of meetings, should be maintained.

Management should expedite the Master Systems Plan or IT Strategic Plan and the approval of the IT Strategic Plan. IT management should ensure that the IT Strategic Plan is aligned to the overall business strategy by engaging other business units during the review of the IT Strategic plan to clearly state the IT projects approved and the budget that has been approved for each for the financial year. The IT Strategic Plan should also be regularly monitored to ensure alignment to the municipality’s strategic goals and achievement of IT strategic goals.

The IT Steering Committee should play a more strategic role in the development of the IT Strategic plan and budgeting process in order to ensure that IT goals, objectives and IT project budgets are correctly defined and attained. The IT steering committee should identify the key business objectives, and ensure that they establish a strategic plan that assists business in achieving these objectives.

Management should ensure that a formalised process is in place to ensure that budgets are correctly identified and allocated in order to commit funds for IT projects, spending, approval and amount to be spent more accurately.

**Management comments**

Management agrees with the findings.

The IT Manager will start on 1 December 2016 and will ensure that the correct controls are in place relating to SLA monitoring (Lezelle Plaatjies – Acting IT Manager – 30/06/2017).

Attention to IT project expenditure and the link to the IDP will be provided via the new mSCOA process for the new financial year 2017/18. (Lezelle Plaatjies – Acting IT Manager – 30/06/2017).

Attention to the IT Steering committee assistance will be provided via the new mSCOA process for the new financial year 2017/18 and the appointment of a dedicated IT Manager in December 2016. (Lezelle Plaatjies – Acting IT Manager – 30/06/2017).

Attention to IT project budgets and spending will be provided via the new mSCOA process for the new financial year 2017/18. (Lezelle Plaatjies – Acting IT Manager – 30/06/2017).
**Auditor’s conclusion**

Management comments are noted. An assessment of the corrective actions agreed upon by management will be performed during the next information systems audit.

### Management Response for Audit Plan Purposes (OPCAR)

**Responsible Directorate/Department:** (Finance/IT)

**Deadline** – 30 June 2017

**Action:** The audit findings relate to IT Governance control deficiencies. The municipality is currently in the process of implementing the CGICTPF\(^4\) which includes the implementation of appropriate policies and an ICT Strategy. Specific actions that are in progress or will be planned to address these findings will include:

- Requesting service providers to provide monthly service delivery reports (Collaborator, Promun, Mimecast, Community)
- Holding at least 6 IT Steering Committee meetings for the financial year
- Make every effort to ensure that the IT Steering Committee review and approves the draft CGICTPF policies before being submitted to Council for approval
- Make every effort to ensure that the IT Steering Committee drafts, reviews and approves a 5 year ICT strategy before being submitted to Council for approval

**Verified by:**

---

\(^4\) Corporate Governance of Information Communications Technology Policy Framework
26. Security management - ISA COMAF 2

Audit Finding

Security management is the process of preventing unauthorised access to the application systems that generate the information used to prepare the financial statements. It includes the processes of anti-virus management, patch management and firewall management. It also includes password configuration settings.

The following repeat findings have been identified during the audit relating to security management:

- A shared firewall administrator account was used to make changes to the firewall. In addition, management had not reviewed firewall administrator activities.
- Periodic reviews of the firewall rule configuration were not performed to provide reasonable assurance that dormant rules and vulnerabilities are identified and removed on a timely basis.

Management may not be able to trace firewall maintenance actions if the firewall administrator account is shared by more than one individual. As a result, it may not be possible to hold individuals accountable for any unauthorised actions performed on the firewall.

If regular reviews of the firewall rule configuration settings are not performed, management may not be aware of existing firewall vulnerabilities within the rule configurations and underlying operating system of the firewall, which increases the risk of firewall breach attempts being successful.

Internal control deficiency

The IT department did not have the required skills to manage and monitor the firewall. A Head of Technical position had been included in the IT organisational structure for review by the board, however, it has not yet been approved.

Recommendation

Management should consider training existing staff to manage the firewall, or utilise the services of a third party to assist in this regard.

Management comments

Management agrees with the findings.

The new IT Manager will ensure correct controls are in place around firewall administration (Lezelle Plaatjies – Acting IT Manager – 30/06/2017).

Auditor's conclusion

Management comments are noted. An assessment of the corrective actions agreed upon by management will be performed during the next information systems audit.
Management Response for Audit Plan Purposes (OPCAR)

**Responsible Directorate/Department:** (Finance/IT)

**Deadline** – 30 June 2017

**Action:** The following actions will be completed by the deadline above:

- The Administrator password will be changed by C Mitchell and the password will not be shared with anyone else.
- The firewall ruleset will be reviewed at least every 6 months to ensure that open ports are limited to needed services.
- Changes to the firewall will be required to follow a standardised change control procedure to limit modifications to the firewall ruleset.

**Verified by:**
27. User account management - ISA COMAF 3

Audit Finding

User account management (UAM) is the systematic process of managing the access of users to an application. The process includes the creation, review, disabling and removal of user accounts.

The following key audit findings were identified:

- As reported in the prior year procedures for managing user access to the IGNITE and PROMUN systems had not been documented or approved.
- As reported in the prior year the system administrators responsible for adding, removing and amending user access also have access to transact on the financial application. In addition the activities of the PROMUN system administrators were not independently reviewed to ensure that all user ID maintenance activities performed by the system administrator related to valid and approved user ID requests.
- As reported in the prior year the IGNITE and PROMUN password settings were not in line with the password policy.
- Evidence that user access reviews were carried out for all users of the PROMUN application could not be obtained during the audit. Currently all departments are selected per month where the section heads/managers are required to review and approve that all users are correct and that users have the correct access to the PROMUN application. This process was not always completed as not all section heads/managers approve the user reviews to confirm the accuracy and completeness of the users and the user’s access.
- The IGNITE application access of individuals who have left the municipality was not terminated in a timely manner. User access was terminated in bulk batches on two dates for the entire period under review, with two users being deleted on one day and 38 users being deleted on a second day.

Without adequate procedures and clearly defined responsibilities for the management of user accounts, accounts might not be properly managed and controlled, which could give rise to unauthorised access to the application, excessive functions assigned to users and unauthorised activities performed by system administrators not detected in a timely manner.

If regular reviews do not take place, users may perform functions not in line with or beyond their job requirements, resulting in potential system breaches and/or fraudulent activities.

If user access is not removed from applications in a timely manner, unauthorised users might still be able to gain access to the system. This could result in unauthorised transactions/functions which could result in potential system breaches and/or fraudulent activities.

Internal control deficiency

Management had prioritised day to day operational activities above the documentation of policies and procedures.

System administrator activities for the applications were performed by the business departments at the municipality, which resulted in consistent processes not being implemented.
The system administrators did not have the access to amend the password settings of the applications. Furthermore, they were unaware of the password policy in place.

A process to review user access is in place but the process is not operating effectively as the section heads/managers do not always respond since the reports are not easy to understand and therefore not user friendly to review.

The IT department is not always made aware of when individuals leave the municipality. The user administration policy/procedure also does not provide the detail on the process to be followed to timely remove a user’s access after they have left employment of the municipality.

**Recommendation**

Management should ensure that user account management procedures for the IGNITE and PROMUN systems are documented and approved. The user account management standards and procedures should include the following:

- Request for access (setting up of new users).
- Approval of requests.
- Resetting of passwords and Change of access.
- Termination of access and inactive accounts.
- Monitoring of the actions of the administrators responsible for the management of user accounts on the operating and application systems.

Management should consider centralising the system administrator processes for both the IGNITE and PROMUN applications to ensure consistent processes are implemented and password settings are configured to comply with existing policies and procedures.

The user reviews should be performed on a bi-annual basis (or more frequently if required) and all section heads/managers must approve the user reviews to confirm the accuracy and completeness of the users and the user’s access.

A process should be put in place to ensure that users are removed in a timely manner from the IGNITE application in order to avoid potential system breaches and/or fraudulent activities.

**Management comments**

Management agrees with the findings.

- The new IT Manager will ensure correct controls are in place around the user administration procedures documentation including administrator activity reviews and password settings (Lezelle Plaatjies – Acting IT Manager – 30/06/2017).
- The new IT Manager will ensure correct controls are in place around the review of user access (Lezelle Plaatjies – Acting IT Manager – 30/06/2017).
- The new IT Manager will ensure correct controls are in place around the timely removal of user access (Lezelle Plaatjies – Acting IT Manager – 30/06/2017).
**Auditor’s conclusion**

Management comments are noted. An assessment of the corrective actions agreed upon by management will be performed during the next information systems audit.

<table>
<thead>
<tr>
<th>Management Response for Audit Plan Purposes (OPCAR)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Responsible Directorate/Department:</strong> (Finance/IT)</td>
</tr>
<tr>
<td><strong>Deadline</strong> – 30 June 2017</td>
</tr>
<tr>
<td><strong>Action:</strong> This finding relates to the activities of Administrators that are not under the direct supervision of the IT Manager. Therefore guidance / requirements can be communicated to the Administrators but the responsibility for carrying out the control activity rests with the individual system Administrators.</td>
</tr>
<tr>
<td>To address this finding, IT has performed the following:</td>
</tr>
<tr>
<td>- Met with the Administrators of Promun and Ignite to explain that audit findings as well as suggested remedial actions</td>
</tr>
<tr>
<td>- Reported the audit report findings to the IT Steering Committee</td>
</tr>
<tr>
<td>- Met with HR to discuss formalising the Joiners / Movers / Leavers process</td>
</tr>
<tr>
<td>In order to achieve the deadline of having new processes in place (note: due to the timing it cannot be guaranteed that audit samples for the period 1 December 2016 – 30 June 2017 will be compliant with a new process), IT will continue to assist with the following:</td>
</tr>
<tr>
<td>- Make every effort to ensure that User Access policies included in the CGICTPF are approved by Council</td>
</tr>
<tr>
<td>- Meet with the Administrators of Promun and Ignite as well as HR to formalise the new Joiners / Movers / Leavers process</td>
</tr>
<tr>
<td>- Guide the Promun and Ignite Administrators in performing a user access review</td>
</tr>
<tr>
<td>- Engage with 3rd party service providers to align password settings to the municipalities password policy requirements</td>
</tr>
<tr>
<td>- Meet with relevant stakeholders to identify potential compensating controls for the identified segregation of duties related control deficiencies.</td>
</tr>
</tbody>
</table>

**Verified by:**
Audit Finding

IT service continuity is the process of managing the availability of hardware, system software, application software and data to enable an organisation to recover/re-establish information systems services in the event of a disaster. The process includes IT continuity planning, disaster recovery plans and backups.

The following audit findings were identified with regard to IT service continuity:

- As previously reported, the disaster recovery plan (DRP) had not been tested during the year under review. The disaster recovery (DR) site was still located within 200 meters from the Knysna municipality.
- The ICT Disaster Recovery Action Plan has not been reviewed or updated since May 2013.

If the DRP is not tested according to documented requirements it may not be possible to ensure that critical applications and data is recovered in a timely manner. This could result in financial losses, reduced productivity and/or prolonged unavailability of critical business operations.

If the DR site is not located within a minimum of 10 km away from the municipality, a single destructive event could destroy both the municipality and the DR site resulting in the loss of all data, including backups and copies of data.

The procedures detailed in the ICT Disaster Recovery Action Plan could be outdated and may not reflect the current backup solution and disaster recovery procedures.

Internal control deficiency

Management had planned and budgeted to perform the DR tests, however due to budget constraints the budget was reallocated and the DR was therefore not tested. This also impacted the move of the DR site.

Due to capacity constraints in the IT department, and the absence of an IT manager, focus was not placed on updating the ICT Disaster Recovery Action Plan.

Recommendation

Management should prioritise testing the approved DRP to ensure that critical business services and operations can be restored within the time frames required by the business. The test should performed annually or when changes to the IT environment occur to ensure that the municipality would be able to recover critical services, systems and data adequately and effectively when required to do so.

Management should investigate the move of the DR site to a suitable location.
The municipality should update the existing ICT Disaster Recovery Action Plan or develop and implement a new ICT Disaster Recovery Action Plan and procedures. The policy and procedures should include the following:

- Disaster definitions.
- Objectives of the plan.
- Scope of the plan (including applications, operating systems, databases).
- Plan for IT disaster recovery (including DRP team roles and responsibilities).
- Disaster notification and plan activation.
- System and business unit recovery procedure.
- Primary site procedure.
- Re-establishment of normal operations.
- Plan maintenance and testing (including frequency of DRP tests).
- Business impact analysis (BIA)

Management comments
Management agrees with the findings.

The new IT Manager will ensure correct controls are in place relating to the update of the DRP and the test of the DRP (Lezelle Plaatjies – Acting IT Manager – 30/06/2017).

Auditor’s conclusion
Management comments are noted. An assessment of the corrective actions agreed upon by management will be performed during the next information systems audit.

Management Response for Audit Plan Purposes (OPCAR)

**Responsible Directorate/Department:** (Finance/IT)

**Deadline** – IT DR Plan 30/06/2017

IT DR Solution 2017/2018 financial year (subject to budget approval)

**Action:** An ICT DR business impact and risk analysis template as well as a template ICT Disaster Recovery Plan are included in the requirements for CGICTPF compliance by 30 June 2017. It will make every effort to ensure that these will be completed with the assistance of the IT Steering Committee and be noted / approved (where relevant) by Council by 30 June 2017.

The location and capabilities of the IT DR Solution are subject to the outcome of the completion of the ICT DR business impact and risk analysis template and a timeline can therefore not be determined at this time. It can however be noted that the municipality does not have another ‘data centre ready’ facility which will result in a requirement for significant capital budget to be assigned to remediating this finding.

**Verified by:**

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5 Information and Communication Technology Disaster Recover
29. Change management - ISA COMAF 5

Audit Finding

Change management is the process of ensuring that change management controls, which should ensure that any proposed changes to the existing information systems environment are coordinated, scheduled, authorised and tested have been adequately designed and implemented. The purpose of change management is to prevent unnecessary disruptions, erroneous changes and unauthorised and inappropriate access to the information systems environment.

As previously report, a change management policy for the municipality had not been formally documented and approved.

Without a formal documented process in place for logging, approving and tracking the implementation of changes, the municipality may not be able to trace whether requested changes have been appropriately authorised, tested and implemented. This may result in unauthorised changes being implemented without being detected, which could lead to system instability or failure, with an adverse effect on the integrity, availability and confidentiality of the system and the financial data it contains.

Internal control deficiency

Change management activities were performed by the application administrators who were non-IT personnel. Consistent processes were therefore not documented in the form of a change management procedure.

Recommendation

Management should ensure that change control procedures are documented and approved. This should include at least the following:

- The definition of roles and responsibilities.
- Classification (e.g. between infrastructure and application software) and prioritisation of all changes.
- Assessment of impact, authorisation and approval (User Acceptance Testing); and
- Use of emergency change processes.
- The procedure should be approved and communicated to all relevant staff members.

Management comments

Management agrees with the findings.
The new IT Manager will ensure correct controls are in place relating to change management activities (Lezelle Plaatjies – Acting IT Manager – 30/06/2017).

**Auditor’s Conclusion**

Management comments are noted. An assessment of the corrective actions agreed upon by management will be performed during the next information systems audit.

**Management Response for Audit Plan Purposes (OPCAR)**

**Responsible Directorate/Department:** (Finance/IT)

**Deadline** – 30 June 2017

**Action:** IT has a draft Change Management process in place and is currently in the process of testing the process with a variety of change requests. This process will be submitted to the IT Steering Committee for formalisation as a standard operating procedure.

**Verified by:**
30. Roads and Infrastructure performance - COMAF 38

Audit Finding

During the audit of roads and infrastructure, we noted the following:

1. The municipality does not have an approved policy in place for the planning, management and reporting of road infrastructure.
2. The approved Road Maintenance Plan (RMP)/priority list does not provide for renewal of roads infrastructure allocated to the municipality.

Lack of an approved RMP by the council may result in inadequate commitment by the management to maintain roads in a structured manner.

Internal Control Deficiency

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

Council has approved the Roads Infrastructure policy with the required provisions and plan for renewal of roads infrastructure.

Recommendation

In order to address the backlog of roads infrastructure, policies and procedures should be approved to ensure consistent implementation.

Management response

Management comment on internal control deficiencies

1) I agree that there is no document with that heading. We however have a PMS, which is our guiding document for planning road maintenance/rehabilitation, etc. We also present a plan to Council annually, which on acceptance, becomes the policy. We also use that same templet and report to Council on progress with the said plan.

2) The finding is incorrect. The RMP which is a subset of the PMS does contain renewal but the correct term is rehabilitation, which the PMS uses. Council has decided not to do rehabilitation due to funding constraints.

We have no comment on the comment of the auditor re the Internal Control deficiency.
Management comment on recommendation

We don't understand the term backlog as it relates to roads infrastructure. As housing projects are undertaken, roads get build?

If backlog refers to maintenance/rehabilitation of existing roads, there is no set plan because Council allocates a pot of money and we use it to save roads from reaching total collapse.

According to the auditors Council has approved the RMP/priority list. We have an approved PMS that list all types of road maintenance interventions, prioritizes them and estimates the cost and nothing more can be done in that regard besides pump in more funds.

Council has a policy and procedure and it entails us informing Council of what will be done with the budget based on the approved RMP/PMS. Council then decides to workshop it. Following the workshop Council approves the RMP.

Remedial action
We will contact other municipalities to find out whether such a policy exists. Maybe the AG can guide us to a Municipality that has one and as a result complies.

<table>
<thead>
<tr>
<th>What actions will be taken</th>
<th>By whom</th>
<th>By when</th>
</tr>
</thead>
<tbody>
<tr>
<td>We will continue with our approach until the RAMMS project is implemented</td>
<td>Shaun Maree</td>
<td>2017</td>
</tr>
</tbody>
</table>

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’s response is noted and the finding will remain in the management report as an administrative matter.

Management Response for Audit Plan Purposes (OPCAR)

Responsible Directorate/Department: (Technical/Director)

Deadline – To be determined

Action: Please state what you are putting in place to prevent a repeat finding during the 2016/2017 audit.

Verified by:
REPORT FROM THE DIRECTOR FINANCIAL SERVICES

PURPOSE OF THE REPORT

To update the Municipal Council on the current position regarding the implementation of mSCOA.

BACKGROUND

- Change of mSCOA Project Structure.
- Updating with the applicable legislation for mSCOA
- Updating of current mSCOA developments

RELEVANT LEGISLATION

- Government Gazette 37577 dated 22 April 2014: Municipal Regulations on
  Standard Chart of Accounts
- mSCOA Circular No 1 – 30 July 2015
- mSCOA Circular No 2 – 21 September 2015
- mSCOA Circular No 3 – 2 November 2015
- mSCOA Circular No 4 – 2 March 2016
- mSCOA Circular No 5 – 15 July 2016
- mSCOA Circular No 6 – 2 August 2016
- MFMA Circular 80 – 8 March 2016

RECOMMENDATION OF THE ACTING MUNICIPAL MANAGER

[a] That the mSCOA Progress Report, be noted;

[b] That MFMA Circular 80 and Addendum thereof and mSCOA Circular 1 – 6, be noted;

[c] That the Chief Financial Officer be appointed as the mSCOA Project Sponsor;

[d] That the compilation of the mSCOA Steering Committee, be noted;

[e] That compilation of the 15 Business Stream Leads, which were restructured to 10 Working Groups, to make it more effective, be noted;

[f] That the status of the ICT Due Diligence Review, be noted; and

[g] That the status of the submission of the IDP aligned Budget submission on NT Portal by 31 March 2017 in order to be mSCOA compliant, be noted.
APPENDIX / ADDENDUM

Annexure 1 – Summary of mSCOA Progress
Annexure 2 – MFMA Circular 80 and Addendum thereof
Annexure 3 – mSCOA Circulars 1 – 6
Annexure 4 – mSCOA Steering Committee
Annexure 5 – mSCOA 10 Working Groups (incorporates the 15 Business Streams)

File Number: 9/1/2/9
Execution: Acting Municipal Manager
Director: Financial Services
Manager: Supply Chain Management
Municipal SCOA Circular 3 – Implementation

**mSCOA is a business reform - it is therefore important that this circular is distributed to all senior managers and other relevant officials throughout the municipality**

This circular introduces the Municipal Regulations on a Standard Chart of Accounts (mSCOA) to non-pilot municipalities in preparation for full mSCOA compliance by the outer implementation date of 1 July 2017. This is the third in a series of mSCOA circulars. Municipalities can use the Municipal SCOA Circulars to assess whether they are on track in achieving mSCOA implementation.

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1. Introduction

The Municipal Regulations on a Standard Chart of Accounts, 2014 (mSCOA), requires a significant change in municipal business processes. Consequently, mSCOA implementation involves system conversion and/or re-implementation with all the typical risks associated with any system conversion or implementation. Implementing mSCOA therefore requires organisational change across the municipality since not only financial and budget orientated practitioners are involved. A common misconception among municipalities and other stakeholders relates to the fact that the mSCOA Regulation is perceived to be a finance reform only, an extremely dangerous assumption.

This content of this circular address:
- the role, responsibility and involvement of the Auditor-General in the mSCOA project;
- confirms the role of risk management and internal audit;
- provides clarification on mSCOA and the impact on municipal entities;
- provides a synopsis of frequently asked questions and explains the use of the FAQ Database;
- clarifies roles and responsibilities as it relates to project management support within the municipality and provincial treasury;
- dismisses the notion of ‘early adoption’; and
- provides guidance on mSCOA training.

2. mSCOA and the audit value chain:

2.1 Internal Audit, the Audit Committee and Risk Management

“A conversion to a new system is one of the highest risks that any organisation can face.”

Internal auditors should evaluate both the information technology (IT) and organisational aspects of the mSCOA system conversion projects. Auditing these conversions provides assurance to management and the municipal council that ‘all that can be done is being done’. The internal auditor’s involvement and independent assessment of mSCOA project plans provides value that far outweighs the audit’s costs.

---

1 The Institute of Internal Auditors.
Internal audit has an important role to play in ensuring good mSCOA project governance, including achieving mSCOA project goals and to create and maintain particular organisational values. It does so through the appropriate accountability and by evaluating processes that contribute to the achievement of these goals and values, specifically the communication of the goals and values and the processes used to monitor their achievement.

Risk management is a key responsibility of management and the accounting officer (municipal manager). It is crucial that the municipality manages its mSCOA project risks as part of its normal risk management processes, including assigning clear responsibility for the management of mSCOA project risks. Internal auditors assist both management and the audit committee by examining, evaluating and reporting on the adequacy and effectiveness of the municipality’s overall and particularly mSCOA project risk management process.

Risk management is an essential part of effective mSCOA project governance and whilst it is a management responsibility, management can expect the audit committee to oversee and provide advice on the risk management of such a significant reform in the municipality. The audit committee needs to review:

- Whether management has a comprehensive risk management framework guiding the management of mSCOA project risks;
- Whether a sound and effective approach has been followed in developing the strategic risk management plan for the mSCOA project;
- The impact of the municipality’s risk management framework on particularly the control environment of the mSCOA project; and
- The municipality’s “mSCOA project’ - fraud prevention plan to be satisfied that the municipality has appropriate processes and systems in place to capture, monitor and effectively investigate any fraudulent activities related to the project.

Management is responsible for ensuring the establishment of effective risk management in the municipality and in this case, also specifically for the mSCOA project. The approach followed provides a mechanism of formalising the responsibility and establishing accountability for management activities. For this project, it is crucial that either the established “Risk Committee” function or alternatively, the mSCOA steering committee oversee the mSCOA project risk management. These committee(s) efforts should identify further actions that may be needed to reduce mSCOA project risk to an acceptable level.
National Treasury is in the process of developing an mSCOA position paper providing guidance to internal auditors of piloting and non-piloting municipalities on specific areas of importance in the context of a municipality’s annual audit plan. The position paper will formally be communicated to all municipalities once it is finalised.

2.2 The External Audit Process

Depending on the system application used by a municipality, the implementation of mSCOA may result in a system conversion/ or re-implementation. Furthermore, mSCOA implementation impacts significantly on the municipality as a whole as well as the business processes developed to assist in the smooth running of the municipality. These changes pose a high risk to the municipality if the contributing risk factors are not responsibly addressed by management. These risks will be considered by the Auditor-General when planning and conducting the annual audit of municipalities and their entities.

Municipalities, system vendors and consultants raised concerns on how mSCOA implementation will affect the audit process and potentially audit qualifications:

The Auditor-General prepared a position paper to explain their external audit consideration in the context of their Constitutional Audit Mandate. The main conclusions from the paper are that:

- The auditing process before and after mSCOA remains the same;
- Data conversion will be a risk and main focus in audits conducted during mSCOA implementation. As in the case of all systems changes, the Auditor-General will look in its IT grouping at access controls and general controls;
- mSCOA should not have an impact on GRAP reporting requirements;
- the Auditor-General does not foresee that mSCOA will have any impact on audit opinions, unless the entire system conversion/ or re-implementation is done in a manner that eliminates any audit trail. Also “Incorrect information” input into the system, before or after mSCOA will result in “incorrect output” and consequently have a possible negative impact on the audit outcome. As in the past, what an auditee does and the manner it conducts its business results in its audit opinion; and
- It is crucial that all municipalities now already map their respective
business processes to align with mSCOA requirements and processes.

The mSCOA project team will soon release a National Treasury mSCOA Position Paper to formally communicate the position taken by the Auditor-General towards auditing the implementation, system application and way forward on auditing municipalities.

2.3 Reporting

One of the key design principles of mSCOA is to enable a central point of access for all local government information for usage by/ reporting to various stakeholders. Furthermore, mSCOA, being a classification framework for financial information, will improve data quality and integrity, by requiring the classification of transactions consistently across municipalities and from one financial year to the next. mSCOA necessitate the modernisation of existing systems, also those that produce/ contribute to municipal reports.

As part of mSCOA, the Local Government Database (LG Database) plays a crucial role to host and present (report) local government information. The mSCOA work stream: LG Database and Reporting is currently conducting a review of existing internal and external local government reporting.

The review follows a staged approach and only minimal changes will be effected during phase 1 of the ‘report design phase’. Major mSCOA required changes, will only affect reporting in phase 2 of the reporting review. This approach provides municipalities the opportunity to fully adopt the mSCOA tables prior to the introduction of mSCOA aligned, revised reporting requirements. Any proposed updates to the various reports, including their content and presentation will be consulted on, before release.

Currently, only reports containing primarily financial information are being reviewed and include:

- Budget reporting formats 2015/16;
- In-year reporting formats as at 31 March 2015;
- Monthly section 71 returns;
- Illustrated annual financial statements (as published on the ‘Office of the Accountant-General’s (OAG)’ – website on www.treasury.gov.za);
- Cities Infrastructure Delivery Management Systems (CIDMS);
- NERSA reporting tables (2012);
DWA reporting tables (December 2013); and
Management reports (defined by municipalities) to be customised by the various system developers.

Once the review is completed, the National Treasury will issue a position paper on reporting.

3. mSCOA and municipal entities:

In 2003, the MFMA established minimum financial management practices and reporting requirements for municipalities and municipal entities. Over-and-above the MFMA requirements, all the requirements of the mSCOA regulations apply to a municipal entity with effect 1 July 2017. When preparing to implement mSCOA and when aligning/amending any system(s) specifications it is crucial that the parent municipality and its municipal entity(s) consider the following:

3.1 Current system(s) situation in municipal entities
The mSCOA pilot process revealed that most municipal entities have completely separate and often entirely different financial- and other system(s) from those used by their parent municipalities.

The MFMA, amongst other, requires that every municipality with a municipal entity(s) must monthly prepare consolidated reporting reflecting the combined information for the municipality plus all of its municipal entities. The different system(s) used in parent municipalities and their municipal entities significantly complicates consolidated reporting. As a consequence, several municipalities are not adhering to the MFMA and only consolidate the information of its municipal entity(s) annually as part of the annual financial statements. Other parent municipalities do monthly consolidated reporting but are often only able to include the information of their municipal entity(s) by using mapping or other manual techniques. In all these cases there is a high risk that information is incorrectly consolidated and differently classified/reported across the parent municipality and its municipal entity(s).

2 Mapping – often the ‘chart of accounts’ used by the parent municipality differs from the ‘chart of accounts’ used by the municipal entity to classify transactions in their respective accounting records. Mapping means that the municipal entity’s ‘chart of accounts’ is interpreted/translated to the ‘standard chart of accounts’ of the parent municipality to enable consolidation of information into the accounting records of the parent municipality.
The mSCOA regulations provide the platform for parent municipalities and municipal entities to resolve this challenge. In this regard, the mSCOA regulations specify that the ‘standard chart of accounts’ of both the parent municipality and its municipal entity(s):

- must fully align to mSCOA;
- must accurately record all budget and financial transactions and data in the applicable segments; and
- may not contain data which is mapped or extrapolated or which otherwise does not reflect transactions recorded or measured by the municipality or municipal entity.

This means that the mSCOA regulations requires seamless integration\(^3\) between the system(s) implemented by the parent municipality and those system(s) implemented in the municipal entity(s). Parent municipalities are therefore urged to integrate the system(s) implemented by their municipal entity(s) at a core level to ensure that seamless mSCOA integration is achieved for the municipality as a whole. Below we discuss some questions relating to the integration of system(s) between parent municipalities and their entities, posed during the piloting process:

<table>
<thead>
<tr>
<th>Does mSCOA seamless integration between financial system(s) mean one set of accounting records for the parent municipality and its municipal entity(s)?</th>
</tr>
</thead>
</table>

A municipal entity is a legal entity in its own right, separate from its parent municipality. As such the MFMA requires that every municipal entity keeps and maintains separate accounting records from its parent municipality that meets the prescribed minimum requirements. Seamless integration allows that the parent municipality and municipal entity continue to transact on their separate sets of accounting records (books).

However, the MFMA is clear therein that should a municipality elect to provide services to the community using an external mechanism such as a municipal entity, the parent municipality remains fully accountable to the community for such municipal entity. In this context, the MFMA requires that the parent municipality in its reporting present consolidated positions for the budget, in-year reporting, the annual financial statements and the annual report that includes all the information of its municipal entity(s).

---

\(^3\) All hands out/ no interpretation (mapping) allowed in any communication required between systems.
Integrating system(s) where the parent municipality and municipal entity(s) have the same system(s):

In this case the parent municipality and municipal entity will each run their respective activities as separate businesses / (organisations) on a daily basis. However, monthly, every municipal entity’s separate transactional data (on a high level) has to be rolled up/ integrated to reflect in its parent municipality’s general ledger. The integration would typically reflect in the parent municipality’s accounting records as a system journal.

Since mSCOA explicitly prohibits manual interaction, the detail information of the municipal entity should be accessible (able to be viewed) using the source document number from the municipal entity’s system and/or subsystem.

Integrating systems where the parent municipality and municipal entity(s) have different system(s):

In this case the parent municipality and municipal entity by the nature of using different systems, each, run their respective activities as separate businesses / (organisations) on a daily basis. However, monthly, when integrating/ (rolling up) the municipal entity’s separate transactional data in its parent municipality’s general ledger this will need to be done via web services or/ interface/ or similar technologies since mSCOA outlaws any human intervention.

Most pilot, parent municipalities in this situation elected to consolidate their separate information and that of their municipal entity(s) into one (1) platform / system solution. This allowed for seamless financial integration and also non-financial information such as Human Resources head counts, debtor analysis from sub systems, and asset information.
3.2 Preparing for mSCOA implementation in a municipal entity

When a parent municipality and its municipal entity(s) plan for the implementation of mSCOA across their respective organisations it is important to consider that for mSCOA purposes detailed transactional integration is required. No translation tables may be used between the different charts of entities and core financial systems. The standardised mSCOA chart must be embedded in both/all systems and as such the data string originating from the municipal entity will inform the allocation to the receiving ‘parent municipality’ core system. In addition to this the budget allocations from the parent municipality’s core system will inform the budget level and allocation on its municipal entity’s system(s).

It is crucial that the parent municipality and/or municipal entity’s system specifications is very clear in this regard of what is required.

4. mSCOA Frequently Asked Questions:

To date various mSCOA related queries have been addressed through the mSCOA frequently asked questions (FAQ) database. The query numbers of some important queries and responses raised through the FAQ database are listed in Annexure A for non-pilot municipalities’ consideration. The responses contain valuable information that can assist non-pilot municipalities to better understand the mSCOA tables and how similar challenges have been resolved by pilot - municipalities. All the information can be accessed from the FAQ database.

You can access the database or (if you have not yet registered as a user) register on the FAQ database at the following link: [http://mscoafaq.treasury.gov.za/Main.aspx](http://mscoafaq.treasury.gov.za/Main.aspx)

We have included guidance on how to extract queries or register a new query on the FAQ database in Annexure B to this circular.

5. mSCOA Project Management Support:

5.1 mSCOA Project Sponsor: Role and responsibility

In Municipal SCOA Circular No.1, municipalities were advised as part of the mSCOA project kick off to register a formal mSCOA project in the municipality with a project sponsor, steering
committee (including a terms of reference) and a suitable governance structure to oversee the
implementation. It is of course equally important that the provincial treasury (supporting
municipalities with mSCOA implementation) also has a project sponsor for its “mSCOA
support” - project.

A number of stakeholders have asked us, what is a project sponsor and what does his/ her
responsibilities entail? In this part we will be discussing the generic role and responsibilities of
the mSCOA project sponsor. Depending on the circumstances in your municipality, you may
want to align the project sponsor’s role and responsibilities to your specific circumstances.

Ideally the project sponsor is an active senior manager within the municipality/ or provincial
treasury that is well respected and has a lot of influence within and outside the organisation.
The sponsor ensures that the project remains a viable proposition and that benefits are
realised. The project sponsor will typically resolve any issues outside the control of the project
manager.

The project sponsor is responsible to the municipality/ or provincial treasury for the success of
the mSCOA project. The project sponsor should therefore be a senior executive in the
municipality/ or provincial treasury that understands and can identify the business need to
have mSCOA in the first place. The project sponsor must be a person that can explain the
business problem or current situation (situation ‘as is’ without mSCOA) and the opportunities
or advantages of the project to the organisation (when mSCOA will be ‘business as usual’ in
the municipality after its implementation).

The project sponsor acts as the advocate or lead supporter of the project and also has a role
in the management of the mSCOA project. Usually the project sponsor is a senior member of
the mSCOA project steering committee (often the chairperson).

| Responsibility – The project sponsor acts as the mSCOA representative of the organisation to the world ‘outside’ of the municipality/ or provincial treasury and plays a vital leadership role through:
| • providing ‘championship’ for the project, including selling and marketing mSCOA throughout the organisation;
| • providing business expertise and guidance to the mSCOA project manager;
| • acting as the link between the mSCOA project, the business community |
(internal and external to the organisation) and perhaps most importantly, management decision making groups;
- acting as an arbitrator and making key decisions that may be beyond the authority of the project manager; and
- acting as chairperson of the mSCOA Steering Committee.

The project sponsor has a number of interfaces and responsibilities for the mSCOA project

| Responsibility – The project sponsor is accountable to the municipal council/ or provincial executive (in the case of a provincial treasury project sponsor) for:
| • Providing leadership on culture and values to the mSCOA project;
| • Owning the mSCOA business case;
| • Keeping the mSCOA project aligned with the municipality/ or provincial treasury’s strategy and direction;
| • Governing project risk;
| • Working with other sponsors;
| • Realising the benefits of mSCOA for the organisation;
| • Recommending opportunities to optimise cost/ benefits;
| • Ensuring continuity of sponsorship;
| • Providing assurance; and
| • Providing regular feedback and lessons learnt.

Responsibility – There are several governance activities that should take place between the mSCOA project sponsor and the mSCOA project manager, including:
- Providing timely decisions;
- Clarify the decision making framework for the mSCOA project;
- Clarify the municipality/ or provincial treasury’s business priorities and strategy;
- Communicate business issues;
- Provide resources (funding, human – and other);
• Engender trust;
• Manage relationships;
• Support the mSCOA project manager’s role; and
• Promote ethical working.

Responsibility – In addition, the project sponsor should be involved in the following activities with other stakeholders:
• Engaging stakeholders;
• Governing stakeholder communications;
• Directing client/community relationships;
• Directing the governance of mSCOA users and (ultimately the impact of mSCOA on the service delivery to) the community;
• Directing the governance of suppliers (impacted by mSCOA); and
• Arbitrating between stakeholders as challenges may arise with the implementation of mSCOA.

The project sponsor definitely has a ‘problem solving’ role within the mSCOA project and often needs to be able to exert pressure within the municipality/or provincial treasury to overcome resistance to the mSCOA project. For this reason a successful project sponsor will ideally be a person with five personal attributes - understanding, competence, credibility, commitment and ability to engage.

“Appointment of an mSCOA project sponsor –
To assist municipalities and provincial treasuries, an example “mSCOA project sponsor” – agreement is included in Annexure C. It is important that any municipality/provincial treasury that uses the example, aligns the example to the specific circumstances in the particular organisation.

Additional information – There is a host of information available on the role of “project sponsors”, and you may also wish to refer to these, including for example the following link:
http://philrichardson.co.uk/pa450/teamwork/sp_inout.htm
5.2 Charter for each work stream

From the pilot process, it is recommended that the mSCOA implementation project in every municipality should, as a minimum, include nine (9) work streams to support the project manager and execute the implementation of mSCOA in the municipality. In this regard the proposed nine (9) work streams are:

- Commissioning an mSCOA steering committee (governance structure);
- IT infrastructure and network;
- Verification of current vote structure to mSCOA segments;
- Data cleansing;
- Human Resources (HR) & payroll;
- Planning (Integrated Development Plan (IDP), Budget, Service Delivery- and Budget Implementation Plan (SDBIP), Performance Management (PM));
- Core system, additional or sub systems;
- Real estate, land use and grant management; and
- Document management.

Every work stream should have a charter. A charter for the work stream establishes the work stream’s authority and right to make decisions; execute the activities necessary to deliver agreed work and communicates support from the steering committee and project sponsor. The charter does not have to be a complicated document and should contain the following minimum information:

5.2.1 The name and purpose of the work stream, and a statement of support from the issuer (Municipal Manager);
5.2.2 A short description of what needs to be done by the work stream;
5.2.3 The benefits to be achieved by the deliverables;
5.2.4 Who will need to be involved/ has been assigned to this work stream;
5.2.5 How and when the activities will be undertaken; and
5.2.6 The quality expectations or acceptance criteria for the deliverables.

The work stream charter is not a detailed work plan for the team, but rather represents the mandate for this team to become involved and initiate the assigned work activities.
5.3 mSCOA Project Governance Structure

Project governance ensures that the mSCOA project is done well and includes policies, regulations, functions, processes, procedures and responsibilities that generally should define the establishment, management and control of projects. In this regard the municipality’s mSCOA steering committee play an important role in executing project governance and this can be illustrated as follows:

![Figure 1: Project Governance](source: www.gov.uk/government)

The main project governance activities include:
- Providing direction to the project;
- Project ownership, sponsorship and oversight;
- Ensuring the effectiveness and efficiency of the project management functions; and
- Reporting and disclosure (including consulting with internal and external stakeholders).

These activities, together with the size and complexity of the mSCOA project in the municipality, should inform the mSCOA steering committee structure in your specific municipality.

The project governance structure (a temporary structure established for the duration of the mSCOA project within the mSCOA steering committee) should ideally be chaired by the project sponsor. As discussed above the project sponsor could be the Municipal Manager or a Councillor or other senior person in the municipality. Furthermore, the project governance
structure should include members of senior management (heads of departments) and portfolio committee members.

The project manager should attend meetings of the project governance structure to report progress with the implementation of the mSCOA project. The Chief Internal Auditor and Risk Manager should provide advisory and assurance services to the project governance structure. It is crucial that the project governance structure is adequately trained to perform the duties required of them.

The Treasury Department of the United Kingdom published: “Project Governance: a guidance note for public sector projects”, which can be accessed at www.gov.uk/government for further reading on this topic.

6. Early Adopting of mSCOA

The National Treasury received several requests from non-pilot municipalities wanting to early adopt mSCOA. During the pilot phase some municipalities that requested this were supported. However, we have passed the stage where “early adopting” is a possibility since all municipalities are by the nature of the current timing in the stage of “preparing for mSCOA implementation”. It is therefore crucial to understand that 1 July 2017 is the outer compliance date for going live with mSCOA across the municipality’s organisation and in its IT system(s). All municipalities are therefore urged at this stage to prepare for their implementation of mSCOA and to do so at an earlier date to ensure all implementation challenges are resolved by 1 July 2017.

While it is acknowledged that the positioning of the various financial systems (vendors/service providers) in support of the mSCOA classification framework is an important consideration, it is only one aspect in creating an enabling environment for mSCOA implementation. Municipalities are strongly advised to revert back to Municipal SCOA Circulars No. 1 and 2 for guidance as to what can be done immediately and not hold the project at ransom on the premise that the current status of financial systems is unknown.

The National Treasury is in the process of releasing a follow-up circular to MFMA Circular No. 57 which will provide the necessary business process requirements as it relates to the financial system functionality.
To support municipalities, the National Treasury are training officials and issuing Municipal SCOA Circulars in anticipation of the work that municipalities are required to conduct prior to being able to “go live” with mSCOA across the organisation and on the respective IT system(s).

7. mSCOA Training: what is available

It is important that officials across the business of the municipality as well as broader role players understand the usefulness of standardising the classification framework in local government (mSCOA). Consequently, as part of mSCOA project phase 4: Change Management and Transition, both non-financial and financial officials are prioritised for training. Training initiatives rolled out to date to: (a) create mSCOA awareness across all nine (9) provinces and (b) prepare pilot municipalities for mSCOA implementation, have been discussed in previous Municipal SCOA Circulars. It is important to note that none of the training provides for or include IT system based training.

Currently a three (3) day non accredited training programme is offered specifically to non-pilot municipalities. This training programme is funded by the National Treasury and is clustered around municipal districts. 44 of these training sessions are currently being rolled out since 13 October 2015 until 4 February 2016. The respective provincial treasuries will contact municipalities (the chief financial officers) to nominate individuals for the training. Municipalities are urged to make use of this opportunity as it will not be repeated.

It is envisaged that accredited mSCOA training (fitting within the existing competency framework) will be available from February 2016. The National Treasury has partnered with the Institute of Municipal Finance Officers (IMFO) for this purpose. Once the unit standards have been finalised and the accreditation process of trainers’ institutionalised municipalities will be guided on training in future Municipal SCOA Circulars.

Although the National Treasury recognise the significant interest to capacitate officials in mSCOA, municipalities are again urged, to only make use of existing National Treasury non-accredited training as explained in Municipal SCOA Circular No. 2. Municipalities can liaise with their respective provincial treasuries to facilitate the necessary arrangements for these training sessions.
Contact

J H Hattingh
Chief Director: Local Government Budget Analysis
02 November 2015
Municipal SCOA Circular 4 – Implementation

mSCOAs is a business reform - it is therefore important that this circular is distributed to all senior managers and other relevant officials throughout the municipality

This circular introduces the Municipal Regulations on a Standard Chart of Accounts (mSCOAs) to non-pilot municipalities in preparation for full mSCOAs compliance by the outer compliance date of 1 July 2017. This is the fourth in a series of mSCOAs circulars. Municipalities can use the Municipal SCOAs circulars to assess whether they are on track in achieving mSCOAs implementation.

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4. SELF-ASSESSMENT TOOL: MUNICIPALITIES AND PROVINCIAL TREASURIES ....................... 17
1. Discussion - Frequently Asked Questions (FAQ)

We updated the mSCOA website and it now includes a direct link to the mSCOA Frequently Asked Questions (mSCOA FAQ) Database “04. mSCOA FAQ”:


In this section we discuss a selection of questions from the mSCOA frequently asked questions (FAQ) Database. We selected questions dealing with posting level detail to guide you and ensure a common understanding of the mSCOA requirements.

<table>
<thead>
<tr>
<th>What is a posting level?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Each mSCOA segment has a classification structure. Every transaction is captured/‘posted’ in this structure at a specific level. These specific posting levels (defined in the classification structure) have been designed to provide for consistent information for reporting purposes: for example the budget reporting tables; annual financial statements prepared in compliance with the Standards of GRAP; and specific stakeholder requirements such as NERSA or DWA.</td>
</tr>
</tbody>
</table>

The mSCOA classification framework defines the posting level accounts (supported by definitions) to assist users in selecting the applicable account. The definition set is commonly known as “Metadata or Core”. Municipalities are required, in certain instances and depending on the particular Segment, to add detail to mSCOA Tables through “breakdown required”. This implies that the municipality must add the posting level and give a description for the account as per the guidance given in the Project Document relevant to the Segment and Group of Accounts.

In summary, detail can be added to the mSCOA table for a specific municipality in the following cases:

- **Project Segment** – defines operational and capital projects within the classification structure provided. The municipality is responsible for defining the project, expanding the code structure and the account description.
- **Item Segment** – adding detail related to Cash and Cash Equivalents, Investments, Borrowings and Bank Overdrafts. In addition, also information for adding posting level
accounts for agency services within the revenue component of the Item Segment. Similar to the above requirements the posting level relates to a specific account and institution.

- Fund Segment - adding detail related to Cash and Cash Equivalents, Investments, Borrowings and Bank Overdrafts. Similar to the above requirements the posting level relates to the specific account and institution.
- Function Segment – adding sub-sub-function to the existing sub-function in the case where the Municipal Standard Classification is not in use.

It is important to note that additional classification detail not provided for in the above breakdown required detail, must be submitted to the FAQ Database (as a request) for consideration by the National Treasury.

For transfers and subsidies made by provincial government and district municipalities, posting levels have not been fully and comprehensively defined in Version 5.4 of the mSCOA Tables (with the exception of information provided by the pilot municipalities). The structure (within which the posting level detail needs to be set-up/ structured) provides for classification comparison across all municipalities, provincial government and district municipalities. Unless the National Treasury collects this information, incorporates it into the mSCOA classification framework, and defines the posting levels, it means that a broad spectrum of municipalities will not be able to transact at this level. Please refer in this regard to the detailed discussion in the paragraphs to follow:

1.1 Posting Levels (currently not defined owing to limited detail): Transfers and Subsidies - from provincial departments to municipalities

<table>
<thead>
<tr>
<th>mSCOA segments relevant here:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Item Segment</td>
</tr>
<tr>
<td>Item Segment</td>
</tr>
<tr>
<td>Item Segment</td>
</tr>
<tr>
<td>Funding Segment</td>
</tr>
</tbody>
</table>
The classification (reporting) structure of mSCOA applies the ‘purpose’ or ‘nature’ (function served) to determine the posting level of a transfer and/or subsidy within the structure (refer to the table above). This classification (reporting) structure provides criteria that enable comparison across municipalities and provinces:

Example 1:
Collecting information (according to this classification/reporting) structure enables a comparison across provinces and district municipalities. Through the utilisation of the classification (reporting) structure we obtain statistical information that will inform decision making, planning and whole-of-government reporting requirements.

For example – if all provinces and municipalities use the same classification (reporting) structure we can collect the:

(i) actual Rand value of transfers made by each province to health services; and
(ii) actual Rand value of transfers made by different provinces to all the district municipalities.

The criteria (categories) currently included in the reporting structure (Local Government Database) for transfers and/or subsidies from provincial departments to municipalities are:

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health</td>
<td>Maintenance of Road Infrastructure</td>
</tr>
<tr>
<td>Public Transport</td>
<td>Maintenance of Water Supply Infrastructure</td>
</tr>
<tr>
<td>Housing</td>
<td>Maintenance of Waste Water Infrastructure</td>
</tr>
<tr>
<td>Sports and Recreation</td>
<td>Capacity Building</td>
</tr>
<tr>
<td>Disaster and Emergency Services</td>
<td>Other</td>
</tr>
<tr>
<td>Libraries, Archives and Museums</td>
<td></td>
</tr>
</tbody>
</table>

Provincial departments therefore have to provide their specific allocations (detailed specifications) to the National Treasury, which is then included annually or in the next mSCOA release (whichever is earlier). mSCOA Version 5.4 already includes information provided by municipalities relevant to KwaZulu-Natal, Western Cape and the Eastern Cape.

Every provincial department is requested to urgently provide its specific allocations (detailed specifications) to the National Treasury by no later than Thursday, 31 March 2016 to lgdocuments@treasury.gov.za, for inclusion in the next mSCOA release. In this regard, each provincial treasury must coordinate this effort in the province and extend this
request to the relevant official(s) in every provincial department. A formal letter to this effect will be issued in due course.

1.2 Posting levels (currently not defined owing to limited detail): Transfers and Subsidies – from district municipalities to other municipalities

<table>
<thead>
<tr>
<th>mSCOA segments relevant here:</th>
<th>Revenue</th>
<th>Non-exchange Revenue/ Transfers and Subsidies District Municipalities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Item Segment</td>
<td>Assets</td>
<td>Current Assets Receivables from Transfers and Subsidies/ District Municipalities</td>
</tr>
<tr>
<td>Item Segment</td>
<td>Liabilities</td>
<td>Current Liabilities unspent from Transfers and Subsidies/ District Municipalities</td>
</tr>
<tr>
<td>Funding Segment</td>
<td>Fund</td>
<td>Transfers and Subsidies/ District Municipalities</td>
</tr>
</tbody>
</table>

The design principles for transfers from district municipalities are based on the same classification (reporting) structure as applied to transfers and subsidies from provincial departments; namely purpose or nature (function served). The collection of information according to this classification (reporting) structure enables, among others, a comparison across provinces and district municipalities. This classification (reporting) structure enables statistical reporting through the Local Government Database (LG Database) which in turn informs decision making, planning and whole-of-government reporting requirements.

The criteria (categories) currently included in the reporting structure (Local Government Database) for transfers and/or subsidies from district municipalities to other municipalities are:

<table>
<thead>
<tr>
<th>Community and Social Services</th>
<th>Public Safety</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Protection</td>
<td>Road Transport</td>
</tr>
<tr>
<td>Executive and Council</td>
<td>Sport and Recreation</td>
</tr>
<tr>
<td>Finance and Admin</td>
<td>Waste Water Management</td>
</tr>
<tr>
<td>Health</td>
<td>Water</td>
</tr>
<tr>
<td>Housing</td>
<td>Planning and Development</td>
</tr>
</tbody>
</table>

To ensure completeness of the mSCOA classification framework district municipalities must provide the required detail relating to transfers and subsidies to the National Treasury, which will then be included annually or in the next mSCOA release (whichever is earlier). mSCOA
Version 5.4 already includes classification information provided by some district municipalities in KwaZulu Natal, Western Cape and the Eastern Cape.

District municipalities are requested to urgently provide their specific allocations (detailed specifications) to the National Treasury by no later than Thursday, 31 March 2016 to lgdocuments@treasury.gov.za, which will be included in the next mSCOA release.

2. mSCOA Project Implementation – Support

2.1 Change Management and mSCOA:

The National Treasury has received numerous requests for support from municipalities to get their broader organisations on board with the mSCOA reform. This section of the circular discusses how a municipality can go about change management by themselves. Firstly, we will be discussing the psychology of change and what should be considered to make a successful change. Then we will elaborate on available tools and support that can be used during the change involved or the process of implementing mSCOA.

2.2 The Psychology of Change

People are complex individual beings, operating simultaneously from at least three (3) levels namely, the physical (body), through feelings/emotions and by thinking (mental/reasoning). All these impact on one another and are interrelated. When required to make a change, as a minimum, these three (3) levels have to be involved and integrated to ensure a person:
(a) understands the change (thinking/mental/reasoning);
(b) feels that the change is achievable. In other words, the person feels that he/she is able to make the change and actually wants to achieve the change (feelings/emotions);
and
(c) actually change. Act or do something to change (physical body).

In the mSCOA change management process we refer to these matters as the Head, Heart and Hands of every individual in the mSCOA implementation (refer to the illustration below). It addresses cognitive (reasoning/mental) processes, emotions and business execution and/or business processes, including new standard operating procedures (SOPs).
2.2.1 mSCOA: Changing the Head

To address the cognitive processes (Head) we have to create an understanding of mSCOA by stakeholders across the organisation. We do this through (i) mSCOA awareness (introduction) sessions and (ii) by training all municipal stakeholders (municipal councillors, senior management and officials). Training for a municipal councillor will of course be different from the mSCOA training of a finance official and again different for non-financial officials.

Training opportunities and mSCOA awareness sessions offered by the National Treasury have been addressed in earlier mSCOA circulars and include:

1. Awareness training for Councillors facilitated by the South African Local Government Association (SALGA). Please contact your National and/ or provincial SALGA directly in this regard;
2. Three-day non-accredited mSCOA training for non-pilot municipalities. The provincial treasuries are currently facilitating these sessions per municipal district; and
3. Accredited mSCOA training for financial and non-financial practitioners. The Institute of Municipal Finance Officers (IMFO) is facilitating this training in cooperation with the National Treasury from March 2016.

The mSCOA project team of the municipality/ provincial treasury is encouraged to already now embark on mSCOA awareness sessions across the organisation. The “Demystifying mSCOA” presentations used by the National Treasury in the one (1) day training sessions can be used ‘as is’ or aligned to the municipality’s specific needs for this purpose. All the presentations and training material is available and can be downloaded from “03. mSCOA Training” on the following link:
2.2.2 mSCOA: Changing the Heart

Change can be frightening. It is important to guide and support officials through the change (brought about by mSCOA) from project inception till mSCOA has become “business as usual” for the municipality.

The best way to address the emotional aspects related to mSCOA implementation is through constant and positive communication with all the individuals affected by the change.

In this regard it is important to involve all individuals (affected by mSCOA across the organisation) to:
- define and implement their own solutions (create ownership of their part in mSCOA implementation);
- articulate the benefits that implementing mSCOA will have for the individual; and
- celebrate every small victory which is achieved.

The National Treasury mSCOA Project Team also uses self-assessments and ‘competing with oneself’ to facilitate progress in this area. Municipalities and provincial treasuries are encouraged to do the same:

<table>
<thead>
<tr>
<th>How to self-assess mSCOA progress:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Example 2:</td>
</tr>
<tr>
<td>You can use the Municipal SCOA Circulars as well as the ‘non-pilot and provincial treasury self-assessment tool’ (attached in Annexure B1 and B2 respectively) as assessment tools (checklists). We recommend that you compare your progress (every 2 months) with the targeted timeframes for mSCOA implementation explained in the Municipal SCOA Circulars. This will provide a good indication to you, whether you are on track or need to fast track your implementation.</td>
</tr>
</tbody>
</table>

Municipality and provincial treasury teams are welcome to use the slides and templates provided by the National Treasury to articulate the mSCOA messages within the municipality.
or in their mSCOA support. These tools assist to facilitate ownership and progress, towards small victories and eventual successful mSCOA implementation (including compliance).

Municipalities should also attend the provincial Integrated Consultative Forum (ICF) and/ or related provincial forums, including encouraging the broad participation from municipal stakeholders. Municipalities can also call on the National Treasury and the relevant provincial treasury, pilot municipalities and vendors to assist them to articulate correct and inspiring mSCOA messages to communicate across the municipality’s organisation.

What other ideas did pilot municipalities have to communicate mSCOA across their organisation?

Other ideas for mSCOA communication are to:

(i) distribute posters or newsletters in the municipality and/ or province;
(ii) establish a dedicated repository where officials can find information about mSCOA and the project as it relates to the municipality. Communicate widely where this repository can be found;
(iii) distribute regular mSCOA information snippets through the intranet/ or e-mail to officials; and/ or
(iv) open brown bag information sessions ¹ in the municipality.

We attach an example “mSCOA information” presentation in Annexure A. The presentation basically sets out the role of the municipality and provincial treasury and high-level activities of both during this phase four (4) of mSCOA implementation. Stakeholders are welcome to use and customise the presentation for their specific meeting(s) and/ or municipal forums.

2.2.3 mSCOA: Changing the Hands

The hands in the proposed change management strategy refer to doing things, getting involved and taking action. mSCOA is an organisational reform and as such, includes all employees, departments and functions in the municipality. Individuals should be encouraged not only to review their own business activities to identify the changes brought about by mSCOA implementation, but also to get involved in the municipal project implementation.

¹ A ‘brown bag session’, refers to an informal mSCOA discussion over lunch. Everyone brings their own lunch (brown bag) and there are mSCOA knowledgeable officials present to address questions/ guide the discussion. It can take place anywhere. It is an informal exchange of mSCOA knowledge.
If the mSCOA project activities are broken down into small deliverables, these become easily manageable and nobody is overloaded or over-worked. To this end, the municipality’s mSCOA project implementation team should break down their respective work stream activities into smaller actions and nominate officials from the various user departments to help with these.

2.3 mSCOA - Project Risk Management:

Risk, or the uncertainty of outcome, is inevitable and a part of life, also of the mSCOA project. The project team and all the municipal officials must manage, control and contain risk, and limit the exposure of the municipality including, taking action to ensure the success of the project. Risk management at the project level focuses on keeping unwanted outcomes to an acceptable minimum. Where project partners such as vendors are involved, it is important to gain a shared view of the risks and how these will be managed.

Risk management in the context of the mSCOA project, involves:

- Access to reliable and up-to-date information related to project risk;
- That management make decisions informed by and considering the regular risk analysis and evaluation;
- Risk ownership. This involves assigning risks to a specific individual(s) to manage;
- Processes to contain and monitor risk; and
- A balance between mitigation measures, cost and benefits.

The municipality’s mSCOA project steering committee should consider the amount of risk they are prepared to tolerate, before they can decide what to do about the mSCOA project risks that were identified. The risk and audit committee of the municipality, based on the risk policies of the municipality should provide guidance to the municipality’s mSCOA project steering committee.

The risk tolerance (how much risk are we prepared to tolerate) of a municipality can vary according to the perceived importance of every risk. Risk should also be related to a tolerance parameter like the risk of completion within the set timeframes and budget, the acceptable quality of the completed project, the project scope, the risk of political embarrassment and the consequences of project failure. Factors like these can influence the risk tolerance for certain risks.
The municipality should compile a risk register for every key project in the municipality. All these project risk registers, inform the municipal risk register. The municipality has to identify both strategic and operational mSCOA risks for inclusion in the project risk register. However, it is important to fully investigate and analyse project risks before including such in the project risk register.

An example of a project risk register (Annexure C1) and examples of project risks (Annexure C2) have been included for your consideration. When a municipality compiles its mSCOA project risk registers, the examples and mSCOA risk template (Annexure C3) should be considered for guidance. Once in place, these risk registers should:

- Regularly be reviewed by the municipality’s mSCOA project steering committee;
- On/before Thursday, 31 March 2016 (and thereafter every six (6) weeks) be –
  - submitted to the relevant provincial treasury for review; and
  - to ledocuments@treasury.gov.za for uploading on the local government (LG) database and mSCOA risk matrix.

2.4 mSCOA Project Issue Log

Every project, including the municipality’s mSCOA project should have an issue log. Key decisions made during the execution of the project should be captured in the project issue log. The issue log forms part of the ‘project knowledge’ which is captured and documented for future use and understanding of the project implementation rationale. Internal- and external auditors use the issue logs during their audit.

Issues differ from risks in their very nature. A risk refers to a future uncertain outcome, which is mitigated and managed to reduce the possible negative impact it could have. An issue refers to something that is happening at the present time, and needs key decisions in terms of approach and resolution. Once the decisions have been implemented, the issue is closed and recorded for future reference, and the project implementation moves on:

| The examples below illustrate the difference between a risk and an issue: |
| Example 3: Risk – Will the municipality’s general ledger be capable of accommodating all seven (7) of the mSCOA segments?  |
| Issue – The municipality’s existing general ledger can only accommodate four (4) of the mSCOA segments. How will we change our general ledger |
to accommodate all seven (7) of the mSCOA segments?

Example 4:
Risk – Will the municipality be able to integrate the human resources (HR) system with the core financials as required by the mSCOA Regulations (compliant)?
Issue – During the system’s testing we realised the HR system does not integrate with the core financials. How should we integrate the HR system with the core financials to meet the mSCOA requirements (compliance)?

It is clear from these examples that in many cases, risks are addressed by key decisions of the project team (issue resolution). The success of the action which was taken, determines the outcome of the project (in other words was the risk successfully mitigated). This is however, not always the case.

To support municipalities and provincial treasuries, an example project issue log is included in Annexure D to this Circular.

2.5 mSCOA - Data Purification:
2.5.1 System(s) conversion/ migration

The mSCOA pilot process taught that mSCOA implementation in a municipality does not necessarily result in a system conversion/ migration. A system conversion/ migration refers to:
(a) An extension or renewal or upgrade of an existing system(s); and/ or
(b) Procuring a new system(s).

The National Treasury will soon replace MFMA Circular No. 57 with updated minimum business processes and system specifications that must inform a municipality’s system(s) conversion/ migration. However, once a municipality has followed due process in terms of the National Treasury’s guidance and decide on a way forward in its system(s) conversion/ migration, the transfer of information (between system(s)) is crucial:

2.5.2 mSCOA conversion - transferring information between system(s)
Before any municipality transfers its information from its existing system(s) to its mSCOAs aligned system(s), it is crucial to make sure that the information (to be transferred) is correct and of good quality.

The process to prepare the municipality’s information (ensuring it is correct and of good quality) is referred to as “Data Purification”. Data purification is an ongoing process of updating and/or maintaining information and removing redundant, aged and inaccurate information.

mSCOAs do not fix poor quality ‘input information’. All of the pilot municipalities indicated that the quality of their information was a key challenge in converting to mSCOAs aligned system(s). Where pilot municipalities transferred poor quality information to their (new) mSCOAs aligned systems, the testing of the system(s) proved that: “garbage in – garbage out” was true. The municipality must ensure that the IT controls instituted in the municipality include attending to the data on an ongoing basis. All non-pilot municipalities are urged to start with a process of data purification as soon as possible.

What information needs to be purified?
The municipality should identify all information (balance sheet account balances) related to its:
(i) core financial system(s);
(ii) all sub systems which are to be integrated with the core system(s); and
(iii) all other data affecting any of these systems.

Essentially, all of these data sets have a direct bearing on the audit outcome of the municipality (before and after implementing mSCOAs).

Examples of information that should be ‘purified’:
• Human Resources (HR) information such as the data of employees and individual/personal contractors;
• Asset data (e.g. the GRAP 17 asset register);

2 The exercise should include:
• Checking every position on the organisational structure and comparing it with the function performed; and
• The municipality must conduct a head count that (a) requires every employee to bring a bank account verification letter from their bank; and (b) confirming the level of the person, for example section 57 management or ordinary permanent employee?
• Verifying the nature of contractual arrangements for every contracted employee/service provider.
- Vendor register/supplier database\(^4\);
- Creditors’ data records\(^5\);
- Debtors’ data records\(^6\);
- Valuation roll reconciliation, interim valuations and zoning/use of properties\(^7\);
- Reconciliation of vote/account numbers (balance sheet items);
- Clearing of all suspense/clearing accounts, etc. Resolve any remaining items before take on of balances\(^8\).

**What should be done:**

1. The municipality should review each of these data sets individually. The review must include, scrutinising the information to ensure that it is complete, correct and securely stored;
2. Keep and maintain a document trail of the ‘data purification process’;
3. Keep and maintain a record of all amendments and updates made to information. These records have to be signed by a person authorised to do so in the municipality’s formal delegations; and
4. The closing balances of the municipality’s system(s) before converting to mSCOA, together with a detailed reconciliation with the take on balances of the mSCOA aligned system, duly reviewed and authorised, also needs to be kept.

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3 For this exercise it would be useful to divide the municipality’s assets into different classes of assets and then tackle the ‘classes of assets’ one at a time. The exercise should include (a) the physical verification of assets, (b) checking the correct asset class on the asset register for every asset and assignment aligned to the mSCOA chart, and (c) integration of this information into the financial system if the “asset system” is not on the same core system.

4 Vendor register/supplier database: this would include checking tax certificates, insurance policy details and expiry date, comparing the vendor register/supplier database with the National Treasury black list and remove vendors/suppliers from the list if required, CIPC (old CIPRO) comparison, ID and bank account comparison with employees, check whether any vendor/supplier has outstanding municipal accounts; etc.

5 Creditors: conduct a similar exercise as what was done for the vendor/supplier database. Additionally, assess (a) the top creditors in terms of money - who are they, what are we paying for and is there a contract and service level agreement in place? (b) the top creditors in terms of number of payments - who are they, what are we paying for and is there a contract and service level agreement in place?

6 Debtors: check property, meter numbers, valuation, registration, municipal account and contact details, zoning and consent use, tariff type or class, who are the top debtors and what do their accounts look like? Who is managing the relationship with these debtors?

7 Reconciliation of valuation roll with billing information, review zoning and use of properties to ensure correct tariffs are charged, insure that all interim valuations have been updated on the system.

8 No suspense account can be migrated, for example all control accounts should reconcile before being migrated.
2.6 The Nature and Ethics of the mSCOA Project

Given the strategic nature of the mSCOA project and the close interaction government officials have with system vendors, it is highly recommended that every official who is involved or appointed to an mSCOA committee and/or working group in the municipality, is required to sign a “Code of Ethics” and non-disclosure agreement as these relate to the municipality’s mSCOA project. An example “Code of Ethics” and “non-disclosure agreement” are attached in Annexures E and F.

3. Provincial Treasury Support – mSCOA implementation

In terms of the National Treasury, MFMA delegations to the provincial treasuries, the National Treasury is directly responsible to support the 17 non-delegated municipalities. These include the eight (8) metropolitan municipalities and nine (9) secondary cities. The provincial treasuries are responsible to support the remaining 261 delegated municipalities. The MFMA delegations require financial management support, monitoring and oversight, including for financial management related projects such as mSCOA implementation and compliance.

The National Treasury as part of mSCOA project phase 4 provides extensive support and guidance to all provincial treasuries to enable them to fulfil their oversight, monitoring and support role in terms of the mSCOA project:

3.1 Role and Terms of Reference for Provincial Treasuries

At this stage in mSCOA implementation, the provincial treasury should have:

- an established mSCOA Provincial Steering Committee;
- appointed an mSCOA project sponsor (ideally the HOD or PAG) and project manager for the province;
- established an mSCOA Integrated Consultative Forum (ICF) for the province or identified an existing communication structure/ or forum and amended its Terms of Reference (ToR) to use it as an mSCOA communication forum;
- hosted the launch meeting for its mSCOA ICF/ or related forum; and
- planned and communicated its second provincial mSCOA ICF to take place within March/ April 2016 and thereafter quarterly.

We included example terms of references (ToR’s) for the project steering committee and project implementation team in Municipal SCOA Circular No. 1. An example of a project sponsor appointment letter was included in Municipal SCOA Circular No. 3. The provincial
treasury is welcome to use and align these examples to their specific organisational requirements.

The provincial treasury can freely structure the provincial team to best suit the provincial mSCOA needs and circumstances. A possible mSCOA committee structure could include strategic and tactical committees, district level committees, governance, oversight, technical and audit committees, and municipal manager (MM)-, chief financial officer (CFO)- and municipal councillor committees.

3.2 Provincial Treasuries: Framework for an mSCOA Project Plan

At this stage of mSCOA project implementation and support, the provincial treasury should already have an mSCOA project plan in place. To support provincial treasuries, we have included an example framework for a high-level project plan\(^9\) in Annexure G. The provincial treasury is welcome to use the example and align it to their particular circumstances to guide the mSCOA support activities in the province.

The provincial team should prepare milestone reports and submit these to the provincial mSCOA steering committee for consideration. These records must be maintained for audit purposes.

Provincial mSCOA teams must also compile an mSCOA project risk register (similar to what was discussed in paragraph 2.3 above). The provincial treasury must, on/ before Thursday, 31 March 2016, submit the provincial mSCOA project plan and provincial mSCOA project risk register to the National Treasury, lgcdocuments@treasury.gov.za.

3.3 Provincial Treasury mSCOA Advisors

National Treasury procured the services of technical advisors to support provincial mSCOA teams with change - and transition management, oversight and capacity building in the provincial treasury and municipalities.

Candidates were interviewed and contracted from January 2016. The candidates participated in an extended induction and training programme, before being deployed to the various provinces. These advisors are not intended to do the work on behalf of the provincial treasury

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\(^9\) The detailed project plan of the KwaZulu-Natal provincial treasury mSCOA team informed this example.
teams, but to provide additional capacity and a direct link to the National Treasury mSCOA project team as may be required. It is the firm intention of National Treasury to create a legacy through this initiative, up-skilling officials and providing opportunity to shadow technically competent resources in an attempt to increase the capacity across government.

Provincial Treasuries are urged to welcome the additional mSCOA provincial treasury advisors and to intensify their efforts to build capacity within the province, attend the training which is being provided and use every opportunity to learn through personal involvement and commitment to the mSCOA project.

4. Self-Assessment Tool: Municipalities and Provincial Treasuries

National Treasury developed two (2) self-assessment tools to assist provincial treasuries and municipalities to evaluate their progress in terms of their role and responsibilities with mSCOA implementation. The assessments, in the form of excel-based tools, were already presented, demonstrated and distributed to the provincial mSCOA teams during the Integrated Consultative Forum (ICF) of 8 and 9 September 2015. The tools are included in Annexure B1 (the self-assessment tool for a non-pilot municipality) and Annexure B2 (the self-assessment tool for a provincial treasury).

It is crucial that provincial treasuries roll out this municipal readiness assessment to the municipalities in their province. The provincial treasury should explain and demonstrate the assessment to every municipality in the province. Provincial treasuries should also complete their own self-assessment which provides a benchmark of where the provincial mSCOA support team is in capacitating itself for mSCOA support. The National Treasury will do a separate (independent) assessment of the provincial mSCOA teams’ progress during the first quarter of 2016.

The provincial treasury must review every municipality’s completed municipal readiness assessment, together with the municipal mSCOA project plan and mSCOA project risk register. Once the municipality has aligned the documents with the provincial treasury input, the municipality must submit its municipal readiness assessment, together with the municipal mSCOA project plan and risk register, on/ before Friday, 15 April 2016 to the National Treasury, ledocument@treasury.gov.za

The National Treasury confirms that 1 July 2017 is the outer compliance date for going live with mSCOA across the municipality’s organisation and in its system(s). All municipalities are
therefore urged at this stage to prepare for their implementation of mSCOA and to do so at an earlier date to ensure all implementation challenges are resolved prior to 1 July 2017.

Contact

JH Hattingh
Chief Director: Local Government Budget Analysis
03 March 2016
Municipal SCOA Circular No. 5 – Implementation

mSCOA is a business reform - it is therefore important that this circular is distributed to all senior managers and other relevant officials throughout the municipality.

This circular provides support to all municipalities to implement the Municipal Regulations on a Standard Chart of Accounts (mSCOA) in preparation for full mSCOA compliance by the outer compliance date of 1 July 2017. This is the fifth in a series of mSCOA circulars. Municipalities can use the Municipal SCOA circulars to assess whether they are on track in achieving mSCOA implementation.

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1. The Regional Segment

1.1 Background and purpose

The budget reform process includes that government and parliament require information on the allocation of resources at a regional level and also actual spending that occurs at a regional level to improve its allocation of resources and the monitoring thereof nationally. To enable this, the regional indicator was introduced on 1 April 2008 for national and provincial government resource allocation and spending. In 2014, the Municipal Regulations on a Standard Chart of Accounts (mSCOA) introduced the same requirement (regional indicator) for local government resource allocation and spending. The purpose of the regional indicator is to enable government and/or Parliament to actually identify the communities that benefit from government spending.

What is the core-principle and intention of the Regional segment?

- To ensure that expenditure is assigned to a geographic area.
- To identify the lowest relevant geographical region of the intended beneficiaries of the service or capital investment that is being financed by the particular expenditure.

The mSCOA Regional segment therefore requires a municipality (at its discretion) to budget for (assign) some revenue to the lowest relevant geographical region to identify the communities that benefit from the municipality’s spending.

This means that actual expenditure must also be recorded against this regional indicator so that the final impact of such spending is measurable by region in order to get a regional view of the economic impact of government spending.

When a municipality captures its budget and actual spending against the mSCOA Regional Segment, it provides information that will enable and improve the analysis of:

- Whether the municipality provides its services impartially, fairly, equitably and without bias, as envisaged in the Constitution;
- The municipality’s progress in addressing regional backlogs in social infrastructure and access to services;
- Whether government spending by different departments (national and provincial) and municipalities are being properly sequenced and coordinated;
- Whether actual spending by government is aligned to the relevant plans of the three spheres of government;
- Assist councillors and mayors to account to their communities for the allocation of resources and actual spending of the municipality to specific communities and wards; and
- Provide specific ward information to councillors to assist in decision-making.

1.2 Presentation of the high-level classification inherent to the mSCOA Regional Segment
1.3 Unpacking the high-level classification structure of the Regional Segment

1.3.1 No Regional Indicator

Use this classification to record transactions that are not relevant to this segment. The account is at a posting level with no further breakdown required by National Treasury.

Examples of transaction types that will default to the "No Regional Indicator" classification are assets (excluding capital expenditure), liabilities and net assets. The municipality currently has a discretion on whether to allocate Revenue to region (it is not a current mSCOA requirement).

1.3.2 Regional Identifier

This classification provides "regional" indicators to record transactions and distinguish at the highest-level between national, provincial or local government. This is a non-posting level account with the underlying classification structure fixed unless otherwise indicated.

1.3.2.1 National Functions

- A national function is the posting level for all transactions made within the borders of the Republic of South Africa.
- The use of this category is restricted to areas specifically identified and accepted as such by the mSCOA Technical Committee to be "municipal functions" performed as part of a national strategy and executed as co-operative government. At present the only such identified function is "Implementation of Environmental Policy Impact".
- This is a non-posting level account. If a posting-level is required the municipality has to submit its motivated request to the National Treasury.

1.3.2.2 Provincial Functions

- Provincial functions are the posting level for all transactions made within the provincial borders and not contributing to a specific community.
- The use of this category is restricted to areas specifically identified and accepted as such by the mSCOA Technical Committee to be municipal functions performed as part of a provincial strategy and executed as co-operative government, for example the non-core functions provided for as agency services in the Function segment.
- This is a non-posting level account. If a posting-level is required the municipality has to submit its motivated request to the National Treasury.
1.3.2.3 Local Government by Province

- The Regional segment indicators relevant to beneficiaries at a local government-level are set-up by province. The classification structure makes provision for the nine provinces with their metro’s and municipalities.

- **This is a non-posting level account** with the underlying classification structure fixed unless otherwise indicated. The underlying classification structure further breaks down into the following posting levels:

(i) Metropolitan Municipalities

- This classification provides for the metropolitan municipalities within the boundaries of the province.

- The regions set-out for metropolitan municipalities as part of this classification, provide for the service-delivery arrangement introduced by the respective municipalities that might be a service area, geographical area, regional area or townships and settlements.

- Metropolitan municipalities have the discretion to provide regional information or even if needed, regions by functions or service delivery.

- **This is a non-posting level since a metropolitan municipality has to provide the posting levels that it requires to the National Treasury for inclusion.** If the municipality did not provide information, the set-up for posting-level will be default according to the demarcated wards.

(ii) District Municipalities

- District municipality’s set-up for posting-level is default in accordance with the municipal demarcated areas and code structures. Local municipalities (within the district municipality area) are also listed here for recording of capital and operational expenditure to the direct benefit of communities within these local municipalities.

- The Demarcation Board Classification for 2014 was used to include wards by municipality as posting level. It is recognised that these boundaries may change every 5 years due to demarcation changes done for municipal elections. An alternative to using ‘ward’ may be to use townships or the logistical area defined by the municipality for providing services to the community.

- **District Municipalities** -- this category is set-up to provide a structure for the respective local municipalities with a break-down for: administrative or head office, wards and whole of the municipality. Accordingly, the requirements for this section can be customised for the municipality based on the information the municipality provided.

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1 mSCOA Project Summary Document - Design Principle 18.
- **Ward**\(^2\) - Allocation to “wards” have been provided for as a standard although recognition is given to changes in the demarcation area over time.

- **Whole of the Area for Wards, Metro, Municipality and District Municipality or Municipality**\(^3\) – this category provides a classification for recording transactions not to the benefit of a specific community but the “whole of an area”. Accordingly, the requirements for this section need to be customised for the metro/municipality based on the information the municipality provided.

(iv) **Metro, District or Local Municipality: Administrative or Head Office**

1. Some expenditure (both capital and operational), contributes to the effective running and management of the municipality throughout the demarcated area. The smooth operation of the municipality necessitates the use of a head/administrative office for co-ordination and management of the municipality, with a contribution from various cost-drivers, such as building maintenance, water, electricity, sanitation, waste removal, staff compensation, insurance cost, consumption of stationery, cleaning materials, etc.

2. These allocated costs do not necessarily benefit any specific region or ward and these are considered to be to the benefit of the whole of the metro/municipality. Therefore, these transactions are recorded within this account, for example the municipality appointed an external computer services company to update the Information Technology: Back-up and Recovery Policy. The development of this policy is considered to be part of the risk management strategy of the municipality in protecting the “information technology of the municipality” but not directly to the benefit of a specific regional area or ward and is considered to be of a purely administrative nature.

3. Transactions directly relating to the administration of the municipality and to the direct benefit of the community.

4. Metropolitan municipalities have the discretion to make use of a single indicator or may expand the indicator.

5. **Administrative or Head Office**\(^4\) – this classification provides for the set-up of satellite offices within the Service/Function or Area structure based on the needs of the metro, district or local municipality. Accordingly, the requirements for this section can be

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\(^2\) mSCOA Project Summary Document - Design Principle 19.
\(^3\) mSCOA Project Summary Document - Design Principle 20.
\(^4\) mSCOA Project Summary Document - Design Principle 17.
customised for the district, local or metropolitan municipality based on the information the municipality provided to the mSCOA Technical Committee. Flexibility is allowed to give justice to the respective size of the municipality, sophistication of system application and the logistical arrangements in place at a municipality.

(v) Metro, District or Local Municipality: Whole of the Area

1. A posting-level breakdown (whole of the metro, district or local municipality) is provided to be used in instances where transactions should be classified to specific municipalities or wards, but not enough information is available to effect such a breakdown. Furthermore, this category will include all transactions that benefit more than one service area.

2. Allocation to this posting-level account should be distinguished from the “administrative or head office” being transactions specifically associated with the running and operation of a municipal administrative office or head office structure versus the “benefit of the transaction being to the whole of the municipality”.

3. Metropolitan municipalities have the discretion to expand this indicator to provide for multiple administrative centres or service points.

1.4 The Regional Indicators – Way Forward

It is clear from the information above that the Regional Indicator will be expanded as mSCOA implementation and transacting refines. It is therefore important to note that the Position Paper explains that: Reporting attention will be given in phase 2 of the report development process to specific reporting requirements to provide emphasises on regional indicators. The local government budget reform process will also further expand on the regional indicator to monitor resource allocation and spending at the local sphere of government along the same design principles for national and provincial government. This perspective is not yet fully provided for by the analysis of the “Function” and “Item” segments in mSCOA.

2. Discussion- Frequently Asked Questions (FAQ)

The mSCOA website includes a direct link to the mSCOA Frequently Asked Questions (mSCOA FAQ) Database “04. mSCOA FAQ”: 

...
In this section we discuss a selection of questions from the mSCOA frequently asked questions (FAQ) Database, relating to the regional segment.

Why is regional segment information required from Local Government, and what is the relevance and use of the regional indicators?

- The regional indicator enables government and/ or Parliament to identify the communities that benefit from government spending.
- Assigning government expenditure in line with the regional indicators identifies the lowest relevant geographical region of the intended beneficiaries of the service that is being financed by the particular expenditure.

- ‘The lowest relevant geographical region’ refers to the province, metro, district or ward where the intended beneficiaries normally live or are located. Note that the ‘lowest relevant geographical region’ is not necessarily restricted to the municipality where the service or capital investment is located, since the intended beneficiaries may be from neighbouring municipalities, even neighbouring provinces, depending on the nature of the service or investment (for further details see below).
- ‘Intended beneficiaries’ refer to the individuals or entities (such as businesses) that are intended to benefit directly from the given service or capital investment.
- The service or investment refers to the output that is being delivered or produced by the government department; and
- ‘The particular expenditure’ refers to the expenditure that is being captured. Note that in nearly all instances this expenditure will only constitute a part of the cost of the service or capital investment.

To assist municipalities to use the Regional Segment consistently when allocating expenditure at a regional level, the National Treasury has developed allocation principles. The allocation principles are included in the Project Summary Document and include guidance on the following specific matters:

- Service benefiting multiple regions or wards;
- Methods of allocating expenditure to multiple regions;
- Allocating personnel expenditure;
Head office expenses;
Regional office expenses;
Allocating bulk purchases; and
Allocating expenditure in capital.

Why is the regional indicator for ward at a non-posting level?
Only once the municipality or metro provide the National Treasury with the information, can the posting-level be defined. As a consequence, for municipalities that did not provide information (refer Municipal SCOA Circular No. 4) the next mSCOA version release include as a posting-level, the default wards for these municipalities, as defined in the Demarcation Act.

3. Linking Projects to the Budget and IDP

The mSCOA research, underpinning the development of the chart, included a review of the information municipalities submitted to various stakeholders. The research revealed that municipalities, historically, combine various detailed accounts for project related expenditure in various line-items with differentiation made in the account description. This resulted in duplication of accounts for the purpose of extracting project related information. This made it difficult for the municipality itself, and even more so for other spheres of government and other stakeholders, to obtain and analyse financial information on important or strategically relevant projects using the existing account structure of the majority of municipalities.

Furthermore, the Municipal Systems Act, 2000 requires a municipality to develop an integrated development plan (IDP) that directly impacts on the development of the municipality’s budget. The MFMA, 2003 strengthens this requirement in that the MFMA also requires the municipality’s IDP and budget to be directly linked. Despite these enabling clauses few municipalities can demonstrate that their budgets are strategically linked to their IDP’s.

For amongst other, to address these challenges, the mSCOA Project Segment enables a municipality to set-up operational and capital projects by way of linking its integrated development plan (IDP) with its annual budget. This provides in-time management information on project performance, spending against the annual budget, including to report on project funding.
For this reason, a municipality is urged to (when preparing its budget in the mSCOA classification) commence with populating the Project Segment. This means that all activities of the municipality has to align to “projects” including institutional costs associated with the functioning of the municipality such as administration and staff.

3.1 Linking Projects: challenges across municipalities (operational projects)

3.1.1 Authorisation of expenditure

As municipalities progressively transact in mSCOA, driven from a project perspective, operational projects can be problematic when the ‘authorisation of expenditure’ levels sits with more than one function (department) in the municipality. For example:

A particular Constitutional function (such as electricity distribution) vests across various municipal functions, including marketing and communication, public safety, emergency management and recreational facilities but the actual project enlightenment is (in terms of the IDP) the responsibility of the ‘office of the Mayor’.

A municipality needs to review its system of delegations and the ‘authorisation – responsibilities’ therein, to ensure that, irrespective of where a particular project resides in the municipality, all functions that should be consulted for approval, are required to be consulted according to the municipality’s system of delegations.

3.1.2 The relationship between the Project-, Function- and Item Segments

The piloting phase revealed that the relationship between the Project-, Function- and Item Segments can be challenging for a municipality when it must identify its operational projects. The current way most municipalities budget, means that they make use of a function/ cost centre and item when developing the budget.
The municipality should identify each and every one of its projects in relation to its strategic objectives (set out in the integrated development plan (IDP)). mSCOA allows for breakdown of project level and the specific project name can then be used on that level to suit a specific municipality. For example:

Currently, the Expanded Public Works Programme (EPWP) can be budgeted for on a line item. However, mSCOA regards the EPWP as a project (to be budgeted for in the Project Segment).

Consequently, the EPWP-project (going forward) for example may include basic salaries, uniforms (overalls) gloves, brooms, etc. (as line items). The project itself (‘EPWP-project), can however not be a line item anymore, but should be reflected as a project in the Project Segment.

Budgeting should also enable the analyses of project performance. This means that the project activities should be catered for (broken down) in the item segment (for all item expenditure within this project).

The following question was raised on the FAQ Database and relates to budgeting, using the Project Segment:

Special social projects are not a function of the Sunrise Municipality. These special projects consist of various expenditure line items, including event management, printing and stationery, the transport of people to events, catering, travelling and subsistence, donations to people/ organisations for specific purposes. The municipality generally funds these social projects from its equitable share allocations. Please advise how other municipalities links these projects on mSCOA?

It is clear from the question that the municipality identifies these as special projects but do not relate/ link these projects to specific strategic objectives of the municipality.

Municipalities have to ensure that any project, identified in its mSCOA Project Segment, links to a specific strategic objective in the integrated development plan (IDP) of the municipality.
To further assist municipalities, the mSCOA Project Segment allows for a further breakdown from the parent level (of each identified project). The municipality can use this breakdown option to choose/reflect meaningful and informed project names, relevant to the municipality. In the above example, the typical work stream could be used to identify this operational project.

3.1.3 More examples – linking the IDP, Budget and Project

<table>
<thead>
<tr>
<th>Example 1</th>
<th>IDP objective in the 2016/17 Budget (MTREF)</th>
<th>Operational Project identified in the Project Segment</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDP objective 5 – The creation of sustainable jobs through municipal service delivery.</td>
<td>Linked to IDP objective 5</td>
<td></td>
</tr>
<tr>
<td>11. Expanded Public Works Programme (EPWP):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Project 11.1 - Local economic development (LED) initiatives to involve street collectors in recycling and re-use activities.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| IDP objective 6 - Promote good governance and active citizenry. | Linked to IDP objective 6 |
| Project 33 - Mayoral campaign to improve public participation in wards 23 and 58 in the budget process. | |
| Project 34 – Mayoral project: Freedom Day campaign | |

<table>
<thead>
<tr>
<th>Example 2</th>
<th>An example operational project in the mSCOA classification, that involves various activities across functions</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDP objective 6 - Promote good governance and active citizenry, is linked with Project 34 – Mayoral project: Freedom Day campaign:</td>
<td></td>
</tr>
<tr>
<td>Sunrise Municipality has the following project under the Mayor’s Office: Freedom Day campaign, involving a celebration of Freedom day on 27 April 2017. The project includes various activities across functions, including:</td>
<td></td>
</tr>
<tr>
<td>(a) The event will be communicated via the local newspapers.</td>
<td></td>
</tr>
<tr>
<td>Project</td>
<td>Operational: typical work stream: Communication and Public participation: Freedom Day campaign</td>
</tr>
<tr>
<td>Function</td>
<td>Core function: Marketing, Customer Relations, Publicity and Media Co-ordination</td>
</tr>
<tr>
<td>Item</td>
<td>Advertisement, newspaper, graphic designer</td>
</tr>
<tr>
<td>Fund</td>
<td>Revenue: non exchange: property rates: levies</td>
</tr>
<tr>
<td>Region</td>
<td>Regional identifier: local government by province: district: local municipality: ward 1</td>
</tr>
</tbody>
</table>
(b) On the day of the event, internal security services (of the municipality) will ensure the safety of participants:

<table>
<thead>
<tr>
<th>Project</th>
<th>Operational: typical work stream: Communication and Public participation: Freedom Day campaign</th>
</tr>
</thead>
<tbody>
<tr>
<td>Function</td>
<td>Public Safety: Core Function: Police Forces, Traffic and Street Parking Control</td>
</tr>
<tr>
<td>Item</td>
<td>Default</td>
</tr>
<tr>
<td>Fund</td>
<td>Revenue: non exchange: property rates: levies</td>
</tr>
<tr>
<td>Region</td>
<td>Regional identifier: local government by province: district: local municipality: ward 1</td>
</tr>
<tr>
<td>Costing</td>
<td>Activity Based Recoveries: Security Services</td>
</tr>
</tbody>
</table>

(c) The municipality will avail free transport to all citizens wanting to participate in the event:

<table>
<thead>
<tr>
<th>Project</th>
<th>Operational: typical work stream: Communication and Public participation: Freedom Day campaign</th>
</tr>
</thead>
<tbody>
<tr>
<td>Function</td>
<td>Finance and Administration: Core Function: Fleet Management</td>
</tr>
<tr>
<td>Item</td>
<td>Transport provided by department activities: events</td>
</tr>
<tr>
<td>Fund</td>
<td>Revenue: non exchange: property rates: levies</td>
</tr>
<tr>
<td>Region</td>
<td>Regional identifier: local government by province: district: local municipality: ward 1</td>
</tr>
<tr>
<td>Costing</td>
<td>Default transaction</td>
</tr>
</tbody>
</table>

(d) The event will include refreshments and performing artists and a big screen for people that are not close to the stage.

<table>
<thead>
<tr>
<th>Project</th>
<th>Operational: typical work stream: Communication and Public participation: Freedom Day campaign</th>
</tr>
</thead>
<tbody>
<tr>
<td>Function</td>
<td>Executive and Council: Core Function: Mayor and Council</td>
</tr>
<tr>
<td>Item</td>
<td>Contracted Services: Contractors: Catering Services</td>
</tr>
<tr>
<td></td>
<td>Contracted Services: Contractors: Stage and Sound Crew</td>
</tr>
<tr>
<td></td>
<td>Contracted Services: Contractors: Artists and Performers</td>
</tr>
<tr>
<td></td>
<td>Contracted Services: Contractors: Audio-visual Services</td>
</tr>
<tr>
<td>Fund</td>
<td>Revenue: non exchange: property rates: levies</td>
</tr>
<tr>
<td>Region</td>
<td>Regional identifier: local government by province: district: local municipality: ward 1</td>
</tr>
<tr>
<td>Costing</td>
<td>Default transaction</td>
</tr>
</tbody>
</table>

(e) The Sunrise Municipality would like to hire a large soccer stadium for the event from its neighbouring municipality:

<table>
<thead>
<tr>
<th>Project</th>
<th>Operational: typical work stream: Communication and Public participation: Freedom Day campaign</th>
</tr>
</thead>
<tbody>
<tr>
<td>Function</td>
<td>Community and Social Services: Core Function: Community Halls and Facilities</td>
</tr>
<tr>
<td>Item</td>
<td>Market Related: Rental of fixed assets. (<em>If the rental is not market related, the item should be: Non-Market Related: Rental of fixed assets.</em>)</td>
</tr>
</tbody>
</table>
### 4. Data set preparation – general considerations

Data purification is not a once-off event, but an on-going process to ensure the quality and integrity of the municipality’s information.

However, for successful mSCOA implementation, municipalities are advised to put immediate focus on those aspects, that have a direct impact on mSCOA. This includes the identification of areas in the municipality’s current data set that requires alignment, and that will ensure reliable and accurate information when translating to mSCOA. For example, high-priority data purification tasks at this stage should include at least:

- Linking tasks/ activities to the GFS functions and allocating these functions to an approved position(s) on the organogram (which should link to an employee(s) in the payroll);
- Non-current assets should be aligned to the Function Segment. This will assist to ensure that depreciation of these non-current assets is correctly allocated to the respective function areas and relative projects;
- Emphasis on the correct ‘category of use’ in the valuation roll will lead to the accurate allocation of property rates tax to the Item Segment; and
- mSCOA does not cater for suspense accounts, therefore all suspense accounts need to be correctly allocated and closed-out.

The mSCOA implementation team of the municipality plays a crucial role in data-set preparation:

Each work stream in the implementation team should focus on the preparation of the dataset (for which that particular work stream is responsible), and which will be migrated to the mSCOA platform. The end deliverable is to produce, a dataset within each work stream that has accurate attributes and is able to be translated to the mSCOA segments. In our experience, strong skills in navigating the mSCOA chart and Excel are important to prepare the data-set of each work stream successfully.

The municipality’s purified data set (consolidated from the effort of each of its work steams) will form the basis for the conversion of the municipality’s trial balance into the mSCOA classification and subsequently feed in to produce its 2017/18 MTREF.
It is therefore also advisable that a municipality do a trial run of its 2016/17 budget in the mSCOA classification to early-on detect and resolve any challenges.

5. Impact of local government elections on mSCOA implementation

With the imminent local government elections scheduled for the 3rd of August 2016 and subsequently new municipal councillors being elected, such councillors may not necessarily have the required understanding of the mSCOA Regulation or the processes undertaken by the municipality, to date, in readiness for the implementation of the Regulation. It is crucial that the newly elected council does understand this to enable informed oversight functions and responsibilities to enable successful transacting in the mSCOA classification by 1 July 2017.

Municipalities, together with their municipal entities, are therefore urged to prepare a detailed report on the implementation of mSCOA for tabling at the first meeting of the newly elected council.

Municipalities and their municipal entities are advised, as a minimum, to address the following as part of the mSCOA detailed report and presentations to council:

- Establishment of an mSCOA project steering committee and the effective functioning of this Committee, including resolutions taken by the Committee to date;
- The project implementation plan and progress made in terms of deliverables in the project plan;
- The risk register and implementation of mitigating strategies to address such risks;
- Change management strategy to implement the required knowledge of mSCOA within the organization;
- Comparison of the current chart of accounts to mSCOA and the breakdown of general ledger account balances into mSCOA requirements;
- Data cleansing and reconciliation of long outstanding balances and suspense accounts;
- Assessment of system functionality of current financial management and internal control systems and the status of system implementation;
- Current challenges and assistance required in order to resolve such challenges; and
- The draft report for tabling to the new Council on mSCOA implementation.

6. Training support
It should be noted that there is a host of available material on the topics of change management and project management. Municipalities and Provincial Treasuries are welcomed to develop themselves using the methodology(s) and/or material they find best suited to their circumstances. However, to support municipalities and provincial treasuries, the National Treasury change team work stream has developed training that can be customised to suit your organisation’s specific mSCOA needs, should you wish to make use thereof:

6.1 Change Management training
In essence the proposed training addresses organisational issues, the nature of change and how to lead others through change.

6.2 Project Management training
This training discusses the project life cycle from project inception till project closure and how to ensure a successful project.

The Change Management- and Project Management training slides is not mandatory and may be customised by the municipality or Provincial Treasury should it wish to make use of such. The training is included in Annexure A (Change Management) and Annexure B (Project Management), respectively. Municipalities can also contact their Provincial Treasury should it specifically require any of this training, over-and-above what is currently being rolled-out in their province.

7. MFMA Circular 80 – request to conduct an ICT due diligence: all municipalities

Few months remain for all municipalities to prepare the 2017/18 MTREF in the mSCOA classification. The majority of municipalities make use financial systems as enablers to transact, including capturing their budgets in the mSCOA classification.

MFMA Circular 80 - Municipal Financial Systems and Processes, replaces MFMA Circular No. 57, with effect 8 March 2016, and formalises the minimum system functionality and business process requirements a municipality’s financial management and internal control system(s) should meet to enable successful transacting in the mSCOA classification by 1 July 2017.

MFMA Circular 80, to prevent fruitless and wasteful expenditure, requires a municipality to evaluate the system functionality and business process requirements of its current
package of financial management and internal control system(s) before it enters into any agreement(s) with any system vendor to upgrade or change system(s). This is irrespective of whether the existing service provider(s) was included in the RT25 transversal panel of service providers.

Every municipality, to effectively evaluate its current financial management and internal control system(s), must:

- Assess its current systems in accordance with MFMA Circular 80 (Annexure B). However, Annexure B includes the system requirements for all categories of municipalities. To support municipalities we attach a modified Annexure C (Annexure C)\(^5\) that reflects for each category of municipality, the specific requirements.
  - In the case of amalgamating municipalities, each of the individual municipalities must conduct this ICT due diligence of its package of existing ICT systems against the requirements of the category of the amalgamated municipality (NOT the category of the individual municipality (before amalgamation)).

  - Task its mSCOA project steering committee (representing senior officials from the respective business units) to evaluate (conduct a due diligence) of the municipality’s current financial systems. The role of this committee for this activity, is to evaluate the system functionality of the municipality’s current system vendor(s) in accordance with the system and business processes functionality assessment (Annexure C):
    - The municipality, to complete the ICT due diligence may request all its existing service provider(s) to complete Annexure C for the municipality, including to workshop and demonstrate such functionality to the municipality, but at no additional cost to the municipality; and
    - Where any item is a mandatory minimum for the category of municipality and is not available in the existing package, the service provider should clearly indicate the way forward (using the options in Annexure C, including indicating any cost (initial and thereafter) to the municipality/ (amalgamated municipality) to procure such additional functionality(s) from its existing package of service provider(s).

<table>
<thead>
<tr>
<th>Due to the significant number of requirements, municipalities are advised to involve/ request its current system vendor(s) to complete the attached Annexure C by indicating for each requirement one of the following options:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. “Comply – Demo is available”</td>
</tr>
</tbody>
</table>

\(^5\) The National Treasury thanks the KwaZulu-Natal Provincial Treasury’s support in modifying MFMA Circular 80 (Annexure B) to reflect the minimum specifications, per category of municipality.
<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2. “Third Party Integration – Demo is available”</td>
<td>System vendors will select this option when they are utilising a third party system to perform the function, and a demonstration is available in this regard.</td>
</tr>
<tr>
<td>3. “Proof of Concept is available – Implemented by 30 June 2017”</td>
<td>System vendors may have the proof of concept available, however, full functionality may still be currently ‘work-in-progress’. However, the functionality shall be fully implementable by 30 June 2017.</td>
</tr>
<tr>
<td>4. “Future Development – Proof of Concept by December 2016”</td>
<td>In this instance, system vendors may still be in the process of developing a proof of concept, and such will be completed by December 2016. Full functionality will be in place by 30 June 2017.</td>
</tr>
<tr>
<td>5. “Not available”</td>
<td>System vendors may have not considered the required functionality, and cannot implement the functionality by 30 June 2017.</td>
</tr>
</tbody>
</table>

7.1 Process after completion of the ICT due diligence

Once the municipality and/or its vendor(s) has completed the ICT due diligence (Annexure C - assessment), the municipality’s mSCOA project steering committee (in the case of amalgamation: the joint mSCOA project steering committee) must:

(i) Assess whether the municipality’s existing system(s) as a package, meets the majority of the functional requirements for its category/ (amalgamated municipality’s category) as per Annexure C;

(ii) Consider the cost of any additional functionality the municipality/ (amalgamated municipality) will have to procure from its existing package of service provider(s) to be able to conduct the minimum mSCOA transacting for its category by 1 July 2017 and the affordability thereof to the municipality/ (amalgamated municipality) considering its 2016/17 MTREF;

(iii) Compare the total cost of its existing ‘package of system(s)’, including the cost for any additional functionality (refer to paragraph (ii) above) with the other available service offerings for its category/ (amalgamated municipality’s category), included in the RT25-panel of service providers;

(iv) Determine whether its existing ‘package of service provider(s)’ will be able to provide and implement any and all of the outstanding functional areas by 1 July 2017, including upskilling affected municipal officials (in the case of amalgamation, across all the municipalities that are amalgamating);

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Municipal SCOA Circular No. 5 – Annexure C.
(v) Consider any penalties and reason(s) for contract termination in any of its contract(s) with existing service provider(s); and

(vi) The project steering committee must document its decision and recommendation(s) on the way forward for the municipality (on the municipality’s ‘package of existing system(s)’), clearly setting-out its findings on each of the above five points it considered.

Every municipality must, before Monday, 1 August 2016, submit to the National Treasury LG.SCOA@treasury.gov.za and to the relevant Provincial Treasury, a request for their comments, supported by:

1. The municipality’s completed system(s) functionality assessment (ICT due diligence), as per Annexure C;
   a. The file should be submitted to LG.SCOA@treasury.gov.za using the following naming convention:
      For example: LIM 332_Greater Letaba_Annexure C – 1 August 2016; and

2. The municipality’s mSCOA project steering committee’s (amalgamation: the joint project steering committee’s) recommended decision on whether the municipality/ (amalgamated municipality) should remain with its current system(s) or change system(s).

A municipality must consider the feedback of the National Treasury and Provincial Treasury before making any final decision to remain with its current system(s) or to change system(s).

A copy of the feedback must be placed on the municipality’s audit file.

Municipal SCOA Circular no. 6 (soon to be released) will provide further guidance on the process after soliciting the comments of the National Treasury and Provincial Treasury.

7.2 National Treasury and Provincial Treasury assistance to conduct an ICT due diligence

Should any municipality require assistance to complete the attached system functionality assessment (Annexure C) or related support, you can request the Provincial Treasury
(delegated municipalities) and the National Treasury (Non-delegated municipalities and pilot municipalities) to assist your municipality.

It should be noted, however, that Provincial Treasury and National Treasury will play an advisory role limited to functionality requirements of the current systems in this regard, and cannot proclaim or pronounce compliance by any system vendor. The decision to remain with the current systems or change systems remains the responsibility of the municipality.

It is important to note that failure to submit the completed ICT due diligence (Annexure C) together with the project steering committee’s decision in this regard, may cause a delay in the transfer of the municipality’s equitable share tranche.

Contact

<table>
<thead>
<tr>
<th>Post</th>
<th>Private Bag X115, Pretoria 0001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phone</td>
<td>012 315 5009</td>
</tr>
<tr>
<td>Fax</td>
<td>012 395 6553</td>
</tr>
</tbody>
</table>

JH Hattingh
Chief Director: Local Government Budget Analysis
15 July 2016
Municipal SCOA Circular No. 6 – Implementation

mSCOA is a business reform - it is therefore important that this circular is distributed to all senior managers and other relevant officials throughout the municipality

This circular provides support to all municipalities (pilots and non-pilots) to implement the Municipal Regulations on a Standard Chart of Accounts (mSCOA) in preparation for full mSCOA compliance by the outer compliance date of 1 July 2017. This is the sixth in a series of mSCOA circulars. Municipalities can use the Municipal SCOA circulars to assess whether they are on track in achieving mSCOA implementation.

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  1.2 WAY FORWARD.............................................................................................................2
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1. ‘mSCOA Chart version 5.5’ and the way forward

1.1 High level key changes in ‘version 5.5’ compared to version 5.4

**mSCOA Version 5.5** was approved by the National Treasury mSCOA Project Steering Committee. This version was released on the National Treasury mSCOA website to stakeholders for technical review before it will be locked-down as mSCOA Chart Version 6.0 to guide the 2017/18 MTREF budget preparation process. mSCOA Chart Version 6.0 will be available on the National Treasury mSCOA website from early August 2016.

‘mSCOA Chart Version 6.0’ can be accessed at the following link:

The table included in Annexure A of this Circular, provides a high-level summary of the changes made in ‘mSCOA Chart Version 5.5’ compared to the previous ‘mSCOA Chart Version 5.4 take 5’. This version of the chart is the precursor to ‘mSCOA Chart Version 6.0’, which includes queries raised up to 31 July 2016¹ and which were logged on the FAQ.

The FAQ Database can be accessed as “04. mSCOA FAQ” at the following link:

Municipalities should make use of this opportunity to acquaint themselves with the final version as it will be used for budget preparation in October/ November 2016, and transacting as from 1 July 2017. Queries can still be logged on the FAQ and updates will be considered for release with the annual budget circular.

1.2 Way forward

The National Treasury confirms that ‘mSCOA Chart Version 6.0’ (as released on the National Treasury web page) is the final version in lieu of compliance by 1 July 2017. (NO further changes will be made for implementation purposes at this stage).

Municipalities must prepare their integrated development plan (IDP) and Budget as part of the 2017/18 MTREF process, already in October/ November 2016 using ‘mSCOA Chart Version 6.0’.

¹ All queries raised until 31 July 2016 were included in this version update, except queries that have not been completed or where consultation (relating to the query) is still in progress.
The issue of FURTHER updated mSCOA Chart Versions during 2016/17?
When the National Treasury:
(i) Revises the various reporting formats; and
(ii) Completes a final review of mSCOA's capacity to provide sufficient information to extract financial statements (fully compliant to the Standards of Generally Recognised Accounting Practice (GRAP)).

There may arise matters requiring additional changes to ‘mSCOA Chart Version 6.0’. This could result in an updated version to be released with the MFMA Budget Circular towards the latter part of 2016.

The future annual maintenance of the mSCOA Chart, if applicable, will follow on the release of the annual MFMA Budget Circular to coincide with the guidance for the budgeting process for every year.

It is therefore important that every municipality continues to post any requests and clarifications relating to mSCOA, to the mSCOA Frequently Asked Questions (FAQ) Database, since the National Treasury will periodically consider all such to effect any necessary changes/improvements to the mSCOA CORE for release once a year in time for municipalities’ budget preparation.

1.3 The use of mSCOA Chart Versions older than ‘mSCOA Chart Version 5.5’
To date various versions of the mSCOA Chart have been issued as part of the piloting process to refine and improve the chart through a rigorous process of testing. This means that different municipalities, already transacting on the chart, may be using any of the older versions issued to date. In this regard it is crucial to note the following general guidance:

A municipality must use the exact same version of the ‘mSCOA Chart Version’ for transacting throughout the year, (including for reporting, conclusion of reporting and the restatement of audit figures), in which it prepared its budget.

- This means that generally pilot municipalities that are transacting ‘live’ are doing so on mSCOA Chart Version 5.3 (There are a few exceptions that the National Treasury is aware of);
- All municipalities that went ‘live’ on 01 July 2016, prepared their budgets using ‘mSCOA Chart Version 5.4 take 5’ and should, for the full 2016/17 financial year continue to transact on this version; and
- All other municipalities (that are not transacting ‘live’ as at 01 July 2016), including all the newly demarcated municipalities, must budget for the 2017/18 MTREF on ‘mSCOA Chart Version 6.0’.

Prohibition on the use of ‘mSCOA Chart Version 5.5’ for transacting during 2016/17

It is clear from this discussion that NO municipality may use the ‘mSCOA Chart Version 5.5’ for transacting purposes during 2016/17 or any year thereafter. Municipalities should transact in the version of the chart that they budgeted in.

Since ‘mSCOA Chart Version 5.5’ was not available during the 2016/17 MTREF budget process, no municipality would have been able to prepare its budget using this version and therefore also cannot use it to transact during 2016/17.

The National Treasury Local Government Database has to consistently upload all municipalities’ information irrespective of the mSCOA Chart Version used. To facilitate a smooth process in this regard, the transitional arrangement will include that a municipality (when uploading its information to the portal), will in its upload file, communicate the mSCOA Chart Version it used, via the data string. This will alleviate any challenges across versions in this final testing phase before the locked ‘mSCOA Chart Version 6.0’ is issued for use by all municipalities for the 2017/18 MTREF.

Municipalities will be asked to identify the version of mSCOA used during the uploading of the batch files through the LG Upload portal but will also be required to state the version used to prepare the batch files as an additional parameter in the file. The National Treasury will communicate the final instruction when the reporting package is released with mSCOA version 6.0.
2. Local Government integrated financial management and internal control systems – the RT25 transversal procurement process and what it means

MFMA Circular 80 (issued on 8 March 2016), advised municipalities and municipal entities that the National Treasury, through the Office of the Chief Procurement Officer, advertised a Request for Proposal (RFP) on 4 March 2016 for the appointment of service providers for an integrated financial management and internal control system for local government (RT25-2016 on page 115 of Tender Bulletin No. 2906).

The procurement process was structured as a transversal contract and differentiation applied to the technical specifications and business process in accommodating for all categories of municipalities i.e. metropolitan municipalities, secondary cities, large towns, small towns, district municipalities with billing, and districts without billing.

We confirm that the procurement process has been completed and the outcome is available at the following link:  

Vendors have been successful per category of municipality as follows:

<table>
<thead>
<tr>
<th>Bidder Name</th>
<th>Municipal Categories</th>
<th>Guideline pricing</th>
</tr>
</thead>
<tbody>
<tr>
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<td>R 13 831 376.17</td>
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Municipalities should take note that this was a PROCUREMENT process and not an accreditation of systems or vendors.

**What does it mean if a service provider is on the panel or is not on the panel of service providers awarded the RT25 transversal contract?**

*It is crucial to note that the RT25 – 2016 transversal process was a procurement process and NOT an accreditation process. The purpose of the RT25 – 2016 transversal process was to procure a panel of mSCOA enabling systems that a municipality may use to fast track and simplify its system(s) procurement process (should it be in the municipality’s best interest to procure a new system or components thereof or upgrade its existing system(s)). The RT25- 2016 transversal process was not concerned with ensuring that municipalities have the minimum system(s) or components they need to operate, but rather to ensure that they have the right system(s) and components that meet the requirements of the municipalities. Municipalities should ensure that they have the correct system(s) and components in place to meet their needs and that they are aware of their system(s) and components’ capabilities and limitations. The process was designed to provide municipalities with a panel of systems that they could choose from to meet their needs and to ensure that the systems were compatible with each other and with the fired system(s) in place.*
### 1. Mandatory requirements

To be appointed to the RT25-panel of service providers, a provider 1st had to meet the mandatory requirements of the bid specification.

- A valid tax certificate was submitted;
- Attend the compulsory briefing session; and
- The technical response and pricing were submitted in the prescribed format; etc.

If a provider did not meet any of the mandatory requirements, the provider was disqualified from the entire procurement process already in this 1st phase. For example, if the bidder did not attend the briefing session or did not respond in the prescribed formats.

**Conclusion** — No stakeholder is able to state that a service provider’s offering enables or does not enable mSCOA transacting, if the service provider was disqualified from the procurement process because it did not meet any of the mandatory RT25-requirements.

### 2. Functional evaluation

If a service provider passed the ‘mandatory requirements’ of the procurement process:

- The provider (to be appointed to the RT25-panel of service providers), had to be successful in a functional self-evaluation (that had to be submitted as part of the bid documentation) and a desk-top evaluation considering municipal experience and implementation methodology).

For example:

- The proposed system offering meets all the mandatory requirements and minimum business processes (in terms of RT25) for the category of municipality it wants to service;
- The system will be available for purchase by a municipality of that category;
- It is more beneficial if the vendor has experience in IT implementations in municipalities in South Africa; and
- The vendor has proposed an implementation methodology which clearly indicates a good understanding of the challenges within municipalities and the requirements of mSCOA; etc.

If the proposed solution did not meet any of the mSCOA functional self-evaluation criteria, the provider was disqualified from the entire procurement process.

If a proposed solution passed all the mSCOA functional self-evaluation criteria but is not for sale to municipalities outside its existing customer base, it was also disqualified from the process.

**Conclusion** — No stakeholder is able to state that a service provider’s offering enables or does not enable mSCOA transacting, if the service provider was disqualified from the procurement process because it did not meet any of the RT25-functional evaluation requirements, at the time of the RT25-functional evaluation.

Some of the service providers (disqualified at the time of evaluation) have
since made significant investment to enable mSCOA transacting and there is a possibility that these do actually NOW enable mSCOA transacting. These service providers will NOT be included in the RT25-panel of providers, since at functional evaluation phase, the required functionality was not present.

Or, for example:
The service provider was disqualified because it only intends to serve its existing customer base, rendering it futile to be on a 'panel of potential providers’ available to municipalities. However, its service offering could possibly enable mSCOA transacting but is NOT included in the RT25-panel of providers.²

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<th>3. Practical demonstrations</th>
<th>What does this mean?</th>
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<tr>
<td>If a service provider passed the ‘functional evaluation (2nd phase)’ of the procurement process:</td>
<td>If a provider failed to demonstrate practically, in a live systems environment, that its service offering meets the functional self-evaluation criteria, the provider was disqualified from the entire procurement process.</td>
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<td>The provider (to be appointed to the RT25-panel of service providers), had to practically demonstrate the minimum functional self-evaluation criteria in a live systems environment, to successfully pass this phase of the procurement process. For example:</td>
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<td>(i) In the live environment the service offering allows budgeting, transacting and reporting in addition to the hosting of the mSCOA chart in all seven (7) mSCOA segments; and</td>
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<td>(ii) In the live environment the service offering enables transacting in mSCOA without mapping/ extrapolating/ any manual intervention; etc.</td>
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**Conclusion** – At the time of the RT25-practical demonstration phase, the provider’s offering could not demonstrate that it enables mSCOA transacting in a live systems environment. However, some of the service providers (disqualified at the time of this phase) have since made significant investments to enable mSCOA transacting in a live environment and it is possible that these systems can actually NOW enable mSCOA transacting in a live systems environment. These providers are NOT included in the RT25-panel of providers (because at the time of evaluation they could not demonstrate such).

<table>
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<tr>
<th>4. Pricing negotiations</th>
<th>What does this mean?</th>
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<td>If a service provider passed the ‘practical demonstrations in a live environment (3rd phase)’ of the procurement process:</td>
<td>Some service providers were disqualified from the procurement process due to them not being able to adequately address the concerns raised by the</td>
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<td>The pricing per category as proposed by the provider (to be appointed to the RT25-panel of</td>
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² Some service provider’s offerings were identified as not being for sale to new municipalities clients, during the demonstration phase and were disqualified from proceeding further with the procurement process.
service providers) was compared to the current market prices, utilising a pricing bell curve (statistical evaluation) for the relevant category(s).

For example:
(i) Some service offerings were priced significantly above or below the bell curve of the price range for that category of service offerings;
(ii) Such service providers were requested to reconsider their bid(s) for completeness/accuracy; etc.; and
(iii) Make the necessary updated proposal(s)/clarification/confirmations to the evaluation panel for consideration.

**Conclusion** – No stakeholder is able to state that a service provider’s offering enables or does not enable mSCOA transacting, if it was disqualified from the procurement process because it did not pass the pricing negotiations phase.

This is because this step of the process may have revealed that the offering is incorrectly priced and this could not be adequately addressed during the negotiations in this 4th phase.

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<th>5. Bid Adjudication Committee (BAC) evaluation</th>
<th>What does this mean?</th>
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<tr>
<td>If a service provider passed the ‘pricing negotiations (4th phase)’ of the procurement process:</td>
<td>Service providers could have been disqualified from the procurement process by the Bid Adjudication Committee (BAC), during its final review, if they were not convinced that a service provider passed any one/some/all of the abovementioned procurement phases of the evaluation process.</td>
</tr>
<tr>
<td>The provider was recommended to be appointed to the RT25-panel of service providers by the Bid Evaluation Committee (BEC). The Bid Adjudication Committee (BAC), based on the submission and recommendations of the Bid Evaluation Committee (BEC), evaluate all the supporting evidence and make a final decision on the award of RT25 to every individual service provider that submitted a bid. The BAC may also disqualify service providers at this stage of the process for various reasons.</td>
<td>Conclusion – No stakeholder is able to state that a service provider’s offering enables or does not enable mSCOA transacting, if they were disqualified from the procurement process and therefore was not included in the panel of RT25-service providers. This is because the Bid Adjudication Committee (BAC) may have disqualified the offering based on any/some/all of the evaluation phases discussed above.</td>
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<td>A service provider may also have, since being disqualified, addressed the shortcomings that disqualified it at that stage of the evaluation in the procurement process. These providers are not included in the panel, because at the evaluation they could not demonstrate such.</td>
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Based on the conclusions above, it is crucial that every municipality, going forward, note and follow in detail the process, set-out in Annexure B, step-by-step, including maintaining relevant supporting documentation (evidencing each step of the process) as part of its audit file.

*Annexure C to this circular, includes an example mSCOA systems decision tree to assist municipalities.\(^3\)

The process in Annexure B applies to:

- All municipalities (pilot, non-pilot, and amalgamating municipalities);
- A ‘municipality’, including all its municipal entities;
- The procurement of a new system(s), procurement of components of additional functionality and/or an upgrade of an existing system(s); and
- A municipality that will remain with its package of existing system(s) with or without requiring components of additional functionality.

3. mSCOA - Training

3.1 Accredited mSCOA Training

The National Treasury, in partnership with IMFO have developed accredited mSCOA training. This process included the accreditation of service providers that may provide the mSCOA accredited training, with effect 1 August 2016.

The accredited training material provides an introduction and theoretical information on the Municipal Standard Chart of Accounts and includes testing of a candidate on these aspects. A person that participated in this training will have a good grounding knowledge of the mSCOA chart but will not necessarily be practically equipped to implement the entire mSCOA project in a municipality.

Please note that the panel of accredited training providers can be accessed from the IMFO website, [www.imfo.co.za](http://www.imfo.co.za)

\(^3\) The decision tree was adapted from the information developed by the KwaZulu-Natal Provincial Treasury.
All municipalities interested in accredited mSCOA training can contact:
Ms. Lindi Nolte
Institute of Municipal Finance Officers (IMFO)
Tel: +27 11 394 0879
Fax: +27 11 394 0886
Email: lindi@imfo.co.za
Website link: http://www.imfo.co.za/

3.2 Non-Accredited Training
The National Treasury mSCOA project team, as part of its project implementation support to Provincial Treasuries and municipalities is continuously developing training material and rolling it out across the affected environment. This material and training initiatives are not accredited, but are practical support geared specifically to assist and guide municipalities in their mSCOA project implementation. For example, how to convert the municipality’s existing trial balance into the mSCOA classification. It is therefore different and not a duplication of the accredited training (or covered in the accredited training).

If your municipality has not already been involved in non-accredited training, please contact your Provincial Treasury mSCOA Coordinator for more information and availability.

3.3 System(s) Training
There are numerous systems available in local government. Each of these may be quite unique with different operating rules, requirements and how modalities and function(s)/interact.

It is important that, subject to the municipality’s decision on the way forward with its system offering, it involves all affected officials across its environment in relevant systems training offered by its service provider(s). This means (a) training from its existing systems providers (if it will remain with such provider or a systems upgrade thereof) or (b) training on the system functionality by its new system provider(s) should it be changing systems.

The mSCOA reform included that all piloting vendors must include budgeting functionality across all the regulated (6) six segments from an integrated development plan (IDP) perspective. This reform was incorporated into the minimum mSCOA compliance requirements.
Utilising the vendor-developed functionality instead of the antiquated excel templates\(^4\), across its entire municipal departments will be very useful, especially considering that the municipality must capture its integrated development plan (IDP) and budget in the mSCOA classification on its system as soon as October/ November 2016 to enable the municipality to follow a public consultation process and tabling of an mSCOA compliant budget in March 2017 for full mSCOA transacting with effect 1 July 2017.

The municipality should contact its system provider(s) in this regard.

4. What should a municipality (pilot and non-pilot) be doing during August/ September 2016

Every municipality, during August / September 2016, should:

1. Download ‘mSCOA Chart Version 6.0’, review the chart, and familiarise itself with the content, for implementation by October/ November 2016 for use in budget compilation;

2. Familiarise itself with the content of Municipal SCOA Circulars 5 and 6 and implement these circulars;

3. Participate in non-accredited training with its Provincial Treasury, geared at converting its existing trial balance to the mSCOA chart;

4. Unpack its “repairs and maintenance” and “all new capital projects” into the mSCOA Project Segment;

5. Identify officials that should attend the accredited and non-accredited mSCOA training and make arrangements for such;

6. Submit all mSCOA related information, requested by the National Treasury in Municipal SCOA Circulars 5 and 6 to the National Treasury and Provincial Treasury;

7. Conduct the assessment (due diligence) of the existing package of systems used by the municipality and all its municipal entities to make a final decision on whether to remain with its existing package of systems or to upgrade systems or to change systems (Annexure B); and

8. Submit any mSCOA related queries to the mSCOA Frequently Asked Questions Portal:
   http://mscoafaq.treasury.gov.za/Main.aspx

\(^4\) This refers to the practice of some municipalities to budget in excel. This does not refer to the Annexure A1 schedules of the Municipal Budget and Reporting Regulations (MBRR), 2009.
You can access the FAQ Database or (if you have not yet registered as a user) register on the FAQ database at the link provided in the discussions above (also refer to Municipal SCOA Circular No. 3 in this regard).

Contact

Private Bag X115, Pretoria 0001
Phone 012 315 5009
Fax 012 395 6553

JH Hattingh
Chief Director: Local Government Budget Analysis
02 August 2016
Municipal Financial Systems and Processes requirements in support of the Municipal Standard Chart of Accounts (mSCOA).

This is a follow-up Circular to MFMA Circular No. 57 that replaces MFMA Circular 57 (financial systems and processes) and updates municipalities and municipal entities on the review of local government financial systems and business processes subsequent to the ‘piloting’ of the mSCOA classification framework. It is important to read this Circular in conjunction with MFMA Circular No. 57, all the Municipal SCOA Circulars, and all documentation posted on the National Treasury website as it relates to mSCOA (i.e. project summary document, presentations of the mSCOA Integrated Consultative Forum etc.).

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ANNEXURE A – LIST OF ALL MUNICIPALITIES AND THEIR RESPECTIVE SYSTEM VENDORS (SERVICE PROVIDERS) WHICH ACTIVELY PARTICIPATED AND CONTRIBUTED DURING THE MSCOA PILOTING PHASE ..................................................16
1. Introduction

National Treasury issued MFMA Circular No. 57 with a specific view to stabilise the overall systems of financial management and internal control operationally functional within municipalities; this position necessitated among others:

- Pending regulation of the Municipal Regulations on a Standard Chart of Accounts (mSCOA);
- Varying levels of deficiency in the functionality of systems of financial management and internal control which would in all probability impede the implementation of the Regulation on the Standard Chart of Accounts by municipalities; and
- Possibility that municipalities could in the interim be investing in systems of overall financial management and internal control that do not necessarily meet the minimum system functionality in support of a multi-dimensional chart as prescribed by the Municipal Regulations on a Standard of Accounts (mSCOA).

The Municipal Regulations on a Standard Chart of Accounts (mSCOA) was gazetted by the Minister of Finance on 22 April 2014. The National Treasury then commissioned mSCOA Project Phase 4 (Change Management and Piloting). Primary objectives of the piloting phase included:

a) Piloting of the mSCOA classification framework in selected municipalities to refine the Segments and associated detail,

b) Reviewing and assessing the existing system functionality of service providers operating within municipalities against the broader business requirements of the mSCOA Regulation; and

c) Determining minimum system and business process requirements to effectively operate the multi-dimensional structure of mSCOA as envisaged and prescribed by the Regulation and address certain limitations with the implementation of the entire financial management accountability cycle.

The piloting phase of mSCOA Project Phase 4 has proved most useful in that detail transactional findings based on the actual piloting has provided for further refinement to the classification framework; since the publication of the Regulation on 22 April 2014, the chart has been revised four times giving rise to mSCOA Version 5.4. The National Treasury is in the process of updating Version 5.4 with slight amendments after which mSCOA Version 6 will be released and locked down for the first year (2017/18) transacting and auditing. It is anticipated that mSCOA Version 6 will be locked down within the next two months; changes between Version 5.4 and Version 6 are anticipated as minimum.
In addition to strengthening the classification framework to meet the transactional requirements of all municipalities, the piloting exercise has also provided an invaluable understanding of the current landscape of systems of financial management and internal control currently operationally functional within municipalities. This research has provided for a clear understanding of what is required from a system of financial management and internal control as it relates to technical and business process functionality in support of mSCOA and the overall local government financial management accountability cycle.

Chapter 3 of the Municipal Regulations on a Standard Chart of Accounts provides that the Minister of Finance may determine minimum business processes and system requirements through issuing a gazette. This MFMA Circular provides guidance as it relates to these requirements as envisaged by Chapter 3 of the Regulation. Guidance supplied in this Circular will provide the basis for determining the minimum business and system requirements to gazette at a future date as envisaged in the Regulation.

This MFMA Circular therefore provides municipalities with guidance relating to:
- Accountability as it relates to mSCOA implementation;
- Outcome of the research into financial management and internal control systems;
- Minimum business processes and system requirements to ensure mSCOA compliancy and address business process requirements across the entire local government financial management accountability cycle; and
- The issuing of a request for proposals (RFP) for the appointment of service providers for an integrated financial management and internal control system for local government.

Annexure A provides a list of all municipalities and their respective system vendors (service providers) which actively participated and contributed during the piloting phase.

2. Accountability for mSCOA implementation and compliance

During the piloting process, the National Treasury’s mSCOA Project Team experienced, to varying levels, a shift of accountability for mSCOA implementation. In some instances, municipalities would shift operational responsibility onto their system vendor; the inverse was also observed. Expectations also include that the National Treasury and provincial treasuries would facilitate the process on behalf of municipalities and even cover the costs associated with mSCOA implementation.
Municipalities are reminded that the National Treasury is constitutionally mandated to set norms and standards to ensure both transparency and internal control of the financial affairs of all three spheres of government. In addition, the National Treasury must execute against its constitutional monitoring and oversight role over municipalities as it relates to adherence and compliance to the legislative framework governing local government. While the National Treasury acknowledges that municipalities would require guidance with the implementation of a strategic financial management reform of this nature, and the National Treasury will continue to provide such, the municipality and municipal entity remains ultimately responsible and accountable to implement mSCOA across its organisation. In this regard, your attention is drawn to Chapter 5 (Responsibilities of Municipal Functionaries) of the mSCOA Regulation of which section 12 and 13 reads as follows:

"Responsibilities of municipal councils and boards of directors
12. The municipal council of a municipality and the board of directors of a municipal entity must take the necessary steps to ensure that these Regulations are implemented by the adoption of any resolutions, policies and budgetary provisions necessary for the implementation of these Regulations.

Responsibilities of accounting officers
13. The accounting officer of a municipality or municipal entity must take all necessary steps to ensure that these Regulations are implemented by at least—
(a) delegating the necessary powers and duties to the appropriate officials;
(b) ensuring that the responsible officials have the necessary capacity by providing for training and ensuring that they attend training or workshops provided by the National Treasury;
(c) ensuring that the financial and business applications of the municipality or municipal entity have the capacity to accommodate the implementation of these Regulations and that the required modifications or upgrades are implemented; and
(d) submitting reports and recommendations to the municipal council or the board of directors, as the case may be, that provide for the adoption of any resolutions, policies and budgetary provisions necessary for the implementation of these Regulations."

In terms of compliance with the Regulation, the ordinary regulatory and oversight bodies (i.e. the Auditor General of South Africa, National Treasury, DCoG, South African Revenue Service, Department of Water Affairs, National Energy Regulator of South Africa, etc.) will
review the municipality’s and municipal entity’s embrace of mSCOA as part of their normal oversight and monitoring activities.

Notwithstanding the accountability that vests with municipalities themselves to ensure compliance with the entire local government legislative framework, including the Municipal Regulations on a Standard Chart of Accounts, many municipalities have requested assistance from the National Treasury and respective provincial treasuries in dealing with some technical aspects of mSCOA implementation. Challenges and concerns relating to financial management and internal control systems have undoubtedly been top of the list. While it is acknowledged that financial management and systems of internal control is a key consideration with the implementation of the mSCOA, it is only one aspect. mSCOA implementation cannot be considered solely an ICT or finance reform; on the contrary it is a complete organisation reform and must be approached as such for it to be successfully implemented at a municipal level.


MFMA Circular No. 57 was released on 20 October 2011 with the primary objective of informing municipalities of the investigation into local government financial systems and processes and to outline the procedure that municipalities need to comply with when considering a replacement of their core financial systems. Importantly, MFMA Circular No. 57 was issued 31 months prior to the gazetting of the Municipal Regulations on Standard Chart of Accounts (22 April 2014) as the National Treasury understood that the mSCOA would have to be supported by appropriate systems of financial management and internal control. This was considered a prerequisite for mSCOA implementation and consequently MFMA Circular No. 57 placed limitations on the replacement of systems of financial management and internal control.

Section 5 of the MFMA enables National Treasury to investigate any system of financial management and internal control in a municipality or municipal entity and recommend appropriate improvements. Since the release of MFMA Circular No. 57, the National Treasury has continued with the commissioning of a project into the research and assessment of various financial applications and related software; this project has culminated into five years’ worth of research and development. Unlike the national and provincial sphere, local government has its own peculiarities, such as operating a host of different systems of financial management and internal control. In dealing with this challenge it was considered appropriate
to review not only the system functionality as it relates to mSCOA compliancy, but also the
business processes required to optimally manage the business of local government.

The outcome of this research, which was aligned and informed by the ‘piloting’ of the mSCOA
classification, has resulted in a comprehensive list of business processes that should be
supported by system functionality (systems of financial management and internal control).
Annexure B (System Specifications) to this Circular includes a detailed list of these
business processes and will be further explained in this MFMA Circular. Importantly,
municipalities need to evaluate the functionality of their current financial management
and internal control systems against these business processes and technical
specifications. If the outcome of the assessment is favourable, then municipalities
would not necessarily need to replace their current financial management and internal
control system. The service provider would however have to provide the municipality
with guarantees to this effect. Municipalities are also urged to make use of the guidance
supplied in Municipal SCOA Circular 2 in undertaking this assessment.

4. What Constitutes Minimum Compliance to mSCOA – Business
   Processes and System Functionality

Municipalities must ensure when examining the functionality of their current systems of
financial management and internal control that it meets the minimum business processes and
system requirements as stated in the objective of the mSCOA Regulation, namely; a system of
financial management and internal control capable of providing for the uniform recording and
classification of both municipal budget and financial information at a transaction level in
the prescribed municipal standard chart of accounts, for both municipalities and municipal
entities.

Systems of financial management and internal control must, as a minimum, comply
with these explicit business process requirements as contained in the mSCOA
Regulation, in that it:

a) Must provide for the hosting of the mSCOA structure and associated detail as
   contained in the seven defined Segments;

b) Be able to accommodate and operate the classification framework across all seven
   segments at a transactional level as defined in the associated detail to the Segments;
c) **Must provide** for the data extraction functionality as per the segmented transactional string and seamless upload to the Local Government Database as hosted by the National Treasury;

d) **May not apply** methodologies of data mapping or data extrapolation\(^1\) to provide for the segmented transactional data string at a transactional level above as explained in point c) above;

e) **Must provide** for full seamless integration between the core financial system representing the general ledger, and any third party system with a direct impact on the general ledger i.e. human resource and payroll third party systems, billing etc.; and

f) **Must have** access to hardware that is sufficient to run the required software solution.

While the above might be considered to be extremely high level in providing guidance to municipalities, municipalities should remind themselves of the overall objective of the Regulation, which is to ensure the consistent classification of municipal transactional information across the entire local government accountability cycle for all 278 municipalities.

Municipalities need to understand the important linkage between business processes and systems of financial management and internal control i.e. financial applications. There are fundamental business processes which cannot be compromised. The business processes active within an organisation play a critical role in supporting management in generating information for management decision making and accountability for service delivery outcomes.

Increasingly, entities are using technology to automate, simplify and streamline particular tasks and functions. In this way, commercial or bespoke solutions are meant to assist officials within an organisation to generate information for management control and decision making purposes. As illustrated in the diagram below there is a direct correlation between management performance and information availability within any organisation.

\(^1\) Manual intervention or interpretation of data.
The following diagram provides an illustrative perspective of the complete information management system and linkage to business processes:

The diagram below provides an illustrative perspective of the linkage between the local government financial management accountability cycle and mSCOA. The diagram clearly demonstrates how business processes, system functionality and management decision making need to be considered in a seamless manner and that these cannot be considered in isolation:

<table>
<thead>
<tr>
<th>Acronym used in the diagram:</th>
<th>Refer to the:</th>
</tr>
</thead>
<tbody>
<tr>
<td>MBRR</td>
<td>Municipal Budget and Reporting Regulations, 2009</td>
</tr>
<tr>
<td>IDP</td>
<td>Integrated Development Plan</td>
</tr>
<tr>
<td>SDBIP</td>
<td>Service Delivery- and Budget Implementation Plan</td>
</tr>
<tr>
<td>IYR</td>
<td>MFMA section 71 and 72 in-year reporting</td>
</tr>
<tr>
<td>AFS</td>
<td>Annual Financial Statements</td>
</tr>
</tbody>
</table>
The Local Government Financial Management Accountability Cycle and linkage with mSCOA:

- IDP: 5 Year Strategy
- Budget: 3 Year Budget
- SDBIP: Annual Plan to Implement
- IYR: Monitoring
- AFS: Oversight
- Annual Report
- Standard Chart of Accounts
- Improved Service Delivery

- mSCOA provides for alignment of the accountability cycle;
- Improved transparency and accountability;
- Classification based on leading practice and international standards;
- Consistent aggregation of municipal financial info across the entire accountability cycle;
- Whole of government reporting

- Budget implementation (transacting) and reporting:
  - MBRR and reporting to LG Database (all 7 segments)
  - Formulation of implementation plan such as regional perspective, funding, cash flow breakdown etc.
  - In-year reporting (focus MBRR), Section 71 & 72
  - Budgeting to directly inform implementation and transactional environment
  - Seamless alignment
  - One version of the truth
  - Evidence based financial management in real time
  - Transactional validation and audit trails

- Accountability Reporting:
  - Incorporation of GRAP
  - Improved standardisation
  - Improved audit process across 278
  - Consistent comparability

Memsa Circular No. 80 - Municipal Financial Systems and Processes requirements in support of mSCOA
8 March 2016
5. **Detail Business Process Requirements and Associated System Functionality**

Any system of financial management and internal control, as a minimum, must comply with the seven main business and process components. The seven components must integrate seamlessly with the mSCOA general ledger and comply at a posting level to the mSCOA Regulations and GRAP. The seven main components are defined as follows:

1. General Ledger;
2. Billing;
3. Supply chain management;
4. Assets management;
5. Inventory and stores;
6. Budgeting and planning; and
7. Human Resources and payroll.

Directly aligned to the defined components as listed above, fifteen major business processes have been defined within Local Government. These fifteen business processes are as follows:

i. Corporate Governance;
ii. Municipal Budgeting, Planning and Modelling;
iii. Financial Accounting;
iv. Costing and reporting;
v. Project Accounting;
vi. Treasury and Cash Management;
viii. Grant Management;
ix. Full Asset Life Cycle Management including Maintenance Management;
x. Real Estate and Resources Management;
xii. Human Resource and Payroll Management;
xiii. Customer Care, Credit Control and Debt Collection;
xiv. Valuation Roll Management; and
xv. Revenue Cycle Billing.

Directly aligned to the research outcomes into systems of financial management and internal control, the outcome of the mSCOA piloting process, and legislative requirements across the entire local government accountability cycle, these fifteen high level business processes have been further defined into sub-processes as contained in Annexure B. These sub-processes represent the business and technical requirements to ensure not only mSCOA compliancy, but also address the broader requirements of a system of financial management and internal control within a South African local government context.

6. Commercial-Off-The-Shelf Tier 1 Integrated Financial Management Systems versus Local, Bespoke and Third Party Systems

Observers have commented that only Commercial-Off-The-Shelf (COTS) Tier 1 Solutions will provide for mSCOA compliancy; the National Treasury position, informed by its five-year research in this regard, is set out below:

The mSCOA pilot process confirmed that traditional locally designed systems and solutions can, similar to COTS, also provide the functionality in dealing with the business and technical requirements associated with mSCOA; in some cases, these locally designed systems also represent what has commonly been referred to as an integrated financial management system and incorporate best-of-breed and internationally accepted standards as it relates to financial management and internal control systems. In addition, some municipalities are operating on a core financial system supported by integrated third party solutions which also achieved the objectives and definition of an integrated financial management system.

However, irrespective of the municipality’s preferred option (COTS/ or locally designed/ and including integrated third party solutions) it is crucial to maximise the cost savings and associated mSCOA implementation benefits offered to the municipality or municipal entity when making a decision in this regard. All municipalities are therefore advised to consider and compare the various service offerings in the transversal Local Government Integrated Financial Management and Internal Control tender, discussed in paragraph 8 below.

In our experience, it is more cost effective for a municipality to use an ICT system(s) solution which support and system updates are Rand based. Furthermore, it appears that local solutions are generally flexible to allow manual and excel integration at municipalities that do
not have the capital and/or skills to operate COTS Tier 1 Solutions with their associated architectural configuration requirements.

7. Legislative Framework – Procurement of Systems of Financial Management and Internal Control

The MFMA (in particular chapter 11), the Municipal Supply Chain Management (SCM) Regulations and the Municipal Regulations on a Standard Chart of Accounts (mSCOA) apply to any system(s) conversion. In this regard, it is important that a municipality and municipal entity note that:

SCM Regulation, Section 31 - allowed the State Information Technology Agency (SITA) to assist a municipality to procure IT related goods or services through a competitive bidding process. Owing to the technical nature of the mSCOA classification framework, associated business processes and system requirements, the National Treasury recommends that municipalities ensure these minimum requirements as contained in this Circular are adequately addressed should they choose to proceed with Section 31 of the SCM Regulations.

SCM Regulation Section 32 - allows for procurement of goods and services under contracts secured by other organs of state but only if:

a) the contract has been secured by that other organ of state by means of a competitive bidding process applicable to that organ of state;

b) the municipality has no reason to believe that such contract was not validly procured;

c) There are demonstrable discounts or benefits for the municipality to do so; and

d) That the other organ of state and the provider have consented to such procurement in writing."

In addition to the explicit requirements indicated above, municipalities need to comply with the following as it relates to SCM Regulation Section 32, namely:

a) The scope of the services or works or the quantities of the goods in terms of specifications must be exactly the same as those included in the contract awarded by the other organ of the State;
b) The contract entered into between the municipality and the service provider/supplier must be exactly the same as the one that was originally secured by the other organ of the State; and

c) The tender price that is included in the contract of the municipality must be exactly the same as the price that was included in the contract secured by the other organ of the State.

A municipality considering using a contract secured by another organ of the State for the procurement of a financial management and internal control system at this point in time would in all probability not meet the criteria as listed above. This owing to the fact that the National Treasury is unaware of any procurement that has recently been successfully concluded based on the business processes and technical requirements that would give effect to mSCOA compliancy. On the contrary, the National Treasury has only recently concluded the piloting of the classification framework which has resulted in the release of mSCOA Version 5.4 in December 2015 as explained in the introduction to this Circular.

To support municipalities in this regard, a transversal contract for the supply of an integrated financial management and internal control system for local government was issued and is discussed below in paragraph 8. Municipalities can use this transversal contract freely in terms of SCM Regulation 32 since it already meets all the criteria as discussed above.

8. Transversal Contract for the Supply of an Integrated Financial Management and Internal Control System for Local Government

As mentioned earlier in the Circular, one of the pressing concerns consistently raised by municipalities with the implementation of the mSCOA has been the functionality of current financial management and internal control systems to effectively operate on the multi-dimensional classification framework as represented by the seven segments and associated detail. Concerns raised have included:

- Limited technical skills within municipalities to effectively assess and evaluate system functionality aligned to the requirements of the mSCOA Regulation;
- It is difficult to determine actual requirements versus nice to haves;
- While municipalities undertake a supply management process, the technical assessment of actual service offerings is difficult owing to the technical nature of system evaluations; and
- Municipalities aren’t necessarily getting value for money in relation to the service offering they receive.

Considering the challenges experienced by municipalities, the National Treasury, through the Office of the Chief Procurement Officer, advertised a Request for Proposal (RFP) on 4 March 2016 for the appointment of service providers for an integrated financial management and internal control system for local government (RT25-2016 on page 115 of Tender Bulletin No. 2906). The process has been structured as a transversal contract and differentiation applied to the technical specifications and business process in accommodating for all categories of municipalities i.e. metropolitan municipalities, secondary cities, large towns, small towns, district municipalities with billing, and districts without billing.

Municipalities are urged to review all the tender documentation in familiarising themselves with the content and structure of the RFP. The documentation can be accessed at:


The objective of this tender process is not only to save municipalities’ time and effort with the procurement process, but also to provide clear guidance with the appointment of services providers. Once the tender process has been completed, which is envisaged for the latter part of May 2016, municipalities will be able to make use of the panel of services providers in entering into service level agreements for the supply of financial management and internal control systems.

Importantly, while the National Treasury will facilitate the transversal tender process and provide a panel of service providers for the supply of financial management and internal control systems to local government, municipalities will remain responsible for entering into service level agreements (SLA’s), management of the SLA’s, providing budget and the settlement of all invoices within the legislative framework governing local government. Municipalities are also reminded that ICT, financial management and internal control systems, and associated expenditure already forms part of existing budgets. Municipalities will have to reprioritise existing budget allocations to provide funding for the implementation of this strategic and necessary financial management reform. Municipalities are reminded that the Financial Management Grant (FMG) can also be used over the MTREF to support mSCOA implementation.
The National Treasury acknowledges that metropolitan municipalities and secondary cities, in most instances, have the necessary skills and ability to deal with not only procurement but also highly technical aspects of financial management and internal control systems. In this regard, and with the exception of metropolitan municipalities and secondary cities, all other municipalities are highly recommended to make use of the transversal contract and associated panel of service providers for the supply of financial management and internal control systems once finalised. Should a municipality decide not to do so, it is required of them to formally write to the National Treasury (Chief Directorate: Local Government Budget Analysis) prior to going out on a supply chain management process, supplying clear reasons and motivation in support of the decision after which National Treasury will provide a written response and clear recommendations.

9. MFMA Circular No. 57

This Circular replaces MFMA Circular No. 57 with immediate effect and does not apply retrospectively. Any system changes from 20 September 2011 to date, without following the guidance of the National Treasury could constitute fruitless and wasteful expenditure. The municipality and municipal entity is obliged to investigate any such system procurements/changes and follow due governance in dealing with and reporting such, including appropriate disciplinary measures and recovering the costs of such system changes/procurement from the person(s)/official(s) responsible.

The National Treasury will not entertain any condonation of such fruitless and wasteful expenditure in the context of the clear guidance provided by MFMA Circular No. 57.

Contact

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JH Hattingh
Chief Director: Local Government Budget Analysis
08 March 2016
### Annexure A – List of all municipalities and their respective system vendors (service providers) which actively participated and contributed during the mSCOA piloting phase.

<table>
<thead>
<tr>
<th>Municipalities / Metro’s</th>
<th>ICT System</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buffalo City</td>
<td>Solar</td>
</tr>
<tr>
<td>Camdeboo Local Municipality</td>
<td>Promun</td>
</tr>
<tr>
<td>City of Cape Town Metro</td>
<td>SAP</td>
</tr>
<tr>
<td>City Of Johannesburg</td>
<td>SAP</td>
</tr>
<tr>
<td>City of Tswane</td>
<td>SAP</td>
</tr>
<tr>
<td>Drakenstein Local Municipality</td>
<td>Solar</td>
</tr>
<tr>
<td>Ekurhuleni Metro</td>
<td>eVenus</td>
</tr>
<tr>
<td>Elias Motsoaledi Local Municipality</td>
<td>Munsoft</td>
</tr>
<tr>
<td>eThekwini</td>
<td>JD EDWARDS</td>
</tr>
<tr>
<td>Greater Giyani Local Municipality</td>
<td>Sage Evolution</td>
</tr>
<tr>
<td>Hessequa Local Municipality</td>
<td>Venus</td>
</tr>
<tr>
<td>Knysna Local Municipality</td>
<td>ProMun</td>
</tr>
<tr>
<td>Mangahung</td>
<td>Solar</td>
</tr>
<tr>
<td>Nala Local Municipality</td>
<td>BIQ</td>
</tr>
<tr>
<td>Nelson Mandela Bay</td>
<td>Sebata</td>
</tr>
<tr>
<td>Nkangala District Municipality</td>
<td>Munsoft</td>
</tr>
<tr>
<td>Overstrand Local Municipality</td>
<td>Samras</td>
</tr>
<tr>
<td>Richmond Local Municipality</td>
<td>Abakus²</td>
</tr>
<tr>
<td>Senqu Local Municipality</td>
<td>Sebata</td>
</tr>
<tr>
<td>Settoto Local Municipality</td>
<td>Munsoft</td>
</tr>
<tr>
<td>Sol Plaatje Local Municipality</td>
<td>eVenus</td>
</tr>
<tr>
<td>Tlokwe Local Municipality</td>
<td>Phoenix</td>
</tr>
<tr>
<td>uMngungundlovu District Municipality</td>
<td>Sage Evolution</td>
</tr>
<tr>
<td>uMhlathuze Local Municipality</td>
<td>ProMIS²</td>
</tr>
<tr>
<td>Victor Khanye Local Municipality</td>
<td>Sebata</td>
</tr>
</tbody>
</table>
Municipal SCOA Circular 1 - Implementation

mSCOa is a business reform - it is therefore important that this circular is distributed to all senior managers and other relevant officials throughout the municipality.

This circular introduces the Municipal Regulations on a Standard Chart of Accounts (mSCOa) to non-pilot municipalities in preparation for full mSCOa compliance by 1 July 2017. This is the first in a series of mSCOa circulars.

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   1.1 mSCOA is multi-dimensional in nature .........................................................2
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5. HOW TO GET FAMILIAR WITH mSCOA: .........................................................9
1. What is Municipal SCOA (mSCOA):

mSCOA stands for “standard chart of accounts” and provides a uniform and standardised financial transaction classification framework. Essentially this means that mSCOA prescribes the method (the how) and format (the look) that municipalities and their entities should use to record and classify all expenditure (capital and operating), revenue, assets, liabilities, equity, policy outcomes and legislative reporting. mSCOA is a “proudly South African” project researched by National Treasury based on municipal practices, reporting outcomes, policy implementation and review, etc.

1.1 mSCOA is multi-dimensional in nature

mSCOA is a business reform rather than a mere financial reform and requires multi-dimensional recording and reporting of every transaction across the following 7 segments:

![Diagram of mSCOA segments]

<table>
<thead>
<tr>
<th>Funding</th>
<th>Function</th>
<th>Item</th>
<th>Project</th>
<th>Costing</th>
<th>Regional</th>
<th>Municipal Standard Classification</th>
</tr>
</thead>
<tbody>
<tr>
<td>What source of Funding will be used for the transaction and from which source is the revenue received?</td>
<td>Against which function or subfunctions should the transaction be recorded?</td>
<td>What is the nature of the transactions to be recorded either as an asset, liability, net asset, gain or loss, revenue or expenditure?</td>
<td>Does the transaction relate to a specific project and if so, what type of project?</td>
<td>Impact of the transaction on secondary costing?</td>
<td>What is the relevant geographical location for capital investment or the appropriate service delivery area for operational expenditure?</td>
<td>Against which organisational vote or sub-vote should the transaction be recorded?</td>
</tr>
</tbody>
</table>

This affects municipal officials across the municipality and at all levels (also in user departments). In practice it means that if municipality A classify a transaction in one-way or
another, municipality B would classify the similar transaction in exactly the same way within the item Segment Classification.

mSCOA does not prescribe specific business processes in a municipality. However, purely by way of its design principles (the 7 segments depicted above) mSCOA influences the municipality’s business processes. In a nutshell, all the steps in the municipality’s business processes that receive or draw financial information from the municipality’s system(s) will be affected. It will therefore be impossible for a municipality to successfully implement mSCOA if it does not have business processes in place.

**Example 1**: Municipality A decided to run a one-year electricity project “Know what you use” to convince some customers to change to pre-paid electricity. When selling such pre-paid electricity not only the total value of sales must be recorded as revenue (item segment), but mSCOA also requires that the funding (Electricity tariffs), function (Electricity) and project (“Know what you use”) and region (“poor-paying area 3”) where the sale was made be reflected.

This means that the municipality must put business processes in place to enable it to capture all the 7 segments’ information, if it does not have this information already available.

2. **Why mSCOA:**

The SCOA transaction classification reforms already commenced in 1998 for national and provincial government and since 2004, the Economic Reporting Format (ERF) and SCOA are fully operational and used by all national and provincial departments. Overall, the implementation process has proceeded smoothly without any major hurdles or impediments. The successful implementation of SCOA contributed to growing positive public perception, locally and internationally, and strengthened public sector accountability and reporting. However, when incorporating municipal information for whole-of-government reporting and decision making, the misalignment in municipal reporting (discussed below) prevented informed decision making and affected the credibility of our reporting.

**Example 2**: Municipalities A, B and C each buy food for a function. Municipality A expenses it as “Catering expenses”, municipality B expenses it as “Entertainment expenses” and municipality C expenses it as “Mayoral Special projects – Community Braai”.

**Example 3**: The Municipal Manager travels in his car to a business conference. Municipality A expenses it as “Subsistence and Travel”, municipality B expenses it as “travelling expenses” and municipality C expenses it as “conference fees” and municipality D as “meetings”.

Although each of the three municipalities acquired exactly the same item/travel it is difficult for a user of their financial records to compare or determine how much each municipality spend on the same type of item/travel.
Consider now that each municipality currently manages and reports on its financial affairs according to its own organisational structure and unique classification framework. It is a reality then that this type of misalignment happens throughout the majority of transactions across 278 municipalities. It is very difficult to compare financial information across all municipalities due to them having a non-standardised chart of accounts. The challenge left is how to reliably assess Municipality A, B or C’s financial performance relative to one another? Furthermore it becomes very difficult to determine what government as a whole spent on a particular project if we have to assimilate the information across national departments, provinces and municipalities.

The National Treasury ultimately has the responsibility for compiling national whole-of-government accounts, including consolidated local government information for national policy and other purposes. This information is obtained from all municipalities and their entities. It is therefore necessary for National Treasury to specify a national standard (Municipal SCOA (mSCOA)) that aligns with SCOA used by national and provincial government to enable the collection of local government financial information across municipalities and their entities.

2.1 Benefits of mSCOA

mSCOA -

- **Standardise all municipal- and the whole-of-government reporting.** Seamless alignment in reporting;
- **Relieves reporting fatigue and the cost of reporting.** By enforcing mSCOA from transaction inception to data extraction in a municipality’s systems ensures a credible, reliable and timely database of municipal information at a very detailed level. This information can be used in multi-dimensional reporting. mSCOA therefore focus on data extraction making reporting possibilities endless which will eliminate current excessive user requests to municipalities, resulting in endless templates asking for the same information in different formats. mSCOA does not fix historic information but going forward it forces credible information through its validation principles;
- **Bring officials in the municipality together on topical matters, e.g. engineers and accountants / accountants versus budget office, etc.**

**Example 4:** Historically planning for the budget was done by the budget manager in one office. The engineer (implementing the project) was not necessarily involved. mSCOA brings about a business change and when planning e.g. repairs and maintenance everyone (budget manager, engineer and accountant) will do joint planning.

- **Guides minimum leading business processes in a municipality through the use of multiple segments.** It therefore reforms the business of the municipality and not just its finances. This means:
  - less need for the use of consultants, since municipal officials themselves implement business processes on-the-job;
  - consistent and unique skills development across municipalities that enables transition of resources between municipalities and across spheres of government;
  - the cornerstone of mSCOA is proper planning and budgeting. mSCOA requires a municipality to budget in a particular way (for projects) across the segments, which means that what council approved in the budget and what is implemented (spend) across the municipality’s systems will align ensuring
spending discipline (economy, efficiency and effectiveness). This improves transparency and accountability;

- Modernise financial management through updated systems and technology. There is a general improvement of systems offerings since vendors are upgrading systems to align with mSCOA;
- Improves transparency and accountability leading to a high level of service delivery;
- Brings higher levels of cooperative government. mSCOA makes it easier to navigate across municipal systems to prioritise support. National and provincial government can now provide pro-active and preventative support because we will have credible, reliable and timely municipal information;
- Provides for evidence-based financial management in municipalities. This means improved municipal benchmarking, policy making and interventions;
- Improves the audit process in municipalities. By improving accruals, audit opinions should improve. Furthermore the Auditor-General currently has to audit the multiple charts of accounts of municipalities. Standardising the chart of accounts for all municipalities:
  - Reduces Auditor-General interpretations across multiple charts of accounts;
  - Thereby reducing audit costs and auditing time; and
  - Provides a standard for the Auditor-General to audit consistently across all 278 municipalities;
- Opened discussions around the “same interpretation” of accounting principles between municipalities, vendors and other stakeholders;
- Creates stability and consistency by providing a defined structure in the standard set of accounts.
- Currently there is a mismatch between the municipality’s budget, service delivery and budget implementation plan (SDBIP), in-year reporting (MFMA section 71 and 72) and the annual financial statements. mSCOA because of the multi-dimensional reporting across segments, brings seamless alignment in the accountability cycle of a municipality. This is because all the reports across the accountability cycle will be compiled from the same mSCOA information:
3. **Who must implement mSCOA:**

The Municipal Regulations on a Standard Chart of Accounts (mSCOA) is applicable to all municipalities and municipal entities with effect from 1 July 2017. This means that as of 1 July 2015, a non-pilot municipality still has a 16 month preparation and readiness window remaining to enable it to capture all transactions (at posting level) in accordance with mSCOA within its respective financial applications (systems). This is calculated from the assumption that the municipality should prepare its 2017/18 budget during October/November 2016 as required by the Municipal Budget and Reporting Regulations.

3.1 **Municipality ultimately accountable**

Even when mSCOA is implemented, the municipality remains ultimately responsible and accountable for the capturing and submission of all the legislated information and reports to the National Treasury Local Government Database (the push of information) as was the status before mSCOA.

Additionally, mSCOA will enable the National Treasury and other user departments to pull information directly from the municipality’s system(s). This means that the National Treasury
and any other national or provincial user departments will have one central point of access to the detailed municipal financial information used for monitoring and oversight. This will limit user requests for information in other formats or of different detail levels to municipalities.

3.2 Can the municipality’s system(s) implement mSCOA

Not all existing municipal systems are able to implement mSCOA. The National mSCOA Project Team is currently engaging all systems vendors active in local government to assess their systems’ functionality to accommodate mSCOA. If a specific technology and system solution is assessed as deficient in its functionality of accommodating the mSCOA Regulations, such findings will be communicated to municipalities.

During October and November 2015 the National mSCOA Project Team will engage all non-pilot municipalities on the way forward. It is therefore crucial that a municipality only change its systems or affect any changes to its current systems in accordance with MFMA Circular No. 57 to align with mSCOA once the National mSCOA Project Team’s work is concluded. Premature spending on systems may prove to be in vain.

Please refer to paragraph 4.3 below relating to the funding of any systems development.

4. How to implement mSCOA:

4.1 Piloting municipalities

Piloting of mSCOA has already commenced in 19 local, 2 district and 8 metropolitan municipalities phased over the 2015/16 and 2016/17 financial years. Piloting is done in close cooperation with the National Treasury mSCOA Project Team and the provincial treasuries. Lessons learnt are shared amongst the provinces through the mSCOA National Integrated Consultative Forum (mSCOA ICF) which documentation is available at the below mentioned link to the National Treasury website.

4.2 Non-piloting municipalities

There are a host of immediate activities that all municipalities should do concurrently to the piloting process in preparation for implementation by July 2017. We recommend the following activities be prioritised in July 2015, if it has not been done already by the municipality:

4.2.1 Tabling the Municipal Regulations on a Standard Chart of Accounts in the municipal council to bring awareness;

4.2.2 Engage the provincial forums which will be used to provide feedback on the piloting process. In addition, attend any sessions scheduled by the National mSCOA Project Team, such as the provincial one day mSCOA introductory sessions and two/three day non-accredited training, which will provide further clarity as it relates to the mSCOA classification framework. Attendance of these sessions by relevant officials, including the municipal mSCOA project manager or coordinator, will be essential if the municipality is to proactively manage any hurdles to ensuring most benefit is derived from mSCOA implementation;

4.2.3 Study the Regulation, mSCOA Project Document, associated Segments and Frequently Asked Questions which can be accessed at the below mentioned website;

4.2.4 mSCOA project kick off: Register a formal mSCOA project in the municipality with a project sponsor, steering committee (with a terms of reference) attached as ‘Annexure A’ and a suitable governance structure to oversee the implementation;
4.2.5 mSCOA project implementation: Identify a project manager or coordinator within the municipality (preferably within the finance department at a senior level). Identify a multidisciplinary mSCOA project team for the municipality. The project team should include skills of finance, budgeting, engineering, risk management, information technology and human resources if these skills are available in the municipality:

- Compile a high level mSCOA project plan, including a mSCOA risk register, for the municipality (including any municipal entities and associated activities), that address at least the following activities:
  - Draft a terms of reference for the municipality’s mSCOA project team. Consider the example draft terms of reference attached herewith as ‘Annexure B’;
  - Develop a SCOA project delivery strategy, including the assignment of responsibilities, Key Performance Indicators (KPI’s) and performance targets for the project and provide for regular project monitoring and reporting;
  - Across all the mSCOA project activities ensure proper document management for the mSCOA project and municipal records;
  - Undertake an exercise to match the existing municipal chart to the regulated Municipal SCOA classification framework. Identify and document any anomalies;
  - Matching the existing vote, cost centre and budget structures operational in the municipality to the Function Segment of the Municipal SCOA classification framework. Identify and document any anomalies;
  - Considering mSCOA is a business reform, incorporate all senior managers across the municipality into the project through internal awareness and information sharing;
  - Incorporate the project plan and associated milestones as part of a standing agenda item at senior management meetings;
  - Tabling a progress report, including the updated risk register with the municipal council on a quarterly basis;
  - The municipality is urged to review its IT infrastructure, network and archiving (‘as is’ analysis), but only after the National mSCOA Project Team’s October/November engagement with the municipality as discussed above.

> The following activities should form part of the mSCOA project plan activities and prioritised once the abovementioned activities have been completed. We will elaborate on these in future mSCOA Circulare.

- Establish a position on the municipality’s system(s):
  - (i) who are the key vendors; and
  - (ii) are these seamlessly integrated?

- Calculate the current total cost of ownership of the core system;

- Undertake a data cleansing exercise and effect the relevant reconciliations;

- Undertake a Human Resources and payroll review and allocation verification;

- Review the full planning process and project segments; and

- Review the business process and mSCOA impact on real estate, land use and grant management; etc.

4.3 Submission of mSCOA Project Plan to the Treasuries

Every municipality must submit its mSCOA Project Plan (addressing also mSCOA implementation for all its municipal entities and associated activities) to the National Treasury (Jan.Hattingh@treasury.gov.za) and the relevant provincial treasury for review on/before
Monday, 31 August 2015. The mSCOA Project Plan must clearly identify the name and contact details of the project sponsor in the municipality.

4.4 Funding the implementation of mSCOA

Each municipality is ultimately accountable to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control (section 62 of the MFMA). The National Treasury will not be paying for any systems development. Consequently, over-and-above the municipality’s own revenue the following resources are available to fund the implementation of mSCOA:

4.4.1 The equitable share allocation;

4.4.2 The Municipal Systems Improvement Grant (MSIG) has been amended to enable municipalities to use the MSIG to fund information systems that support the Municipal Standard Chart of Accounts (mSCOA);

4.4.3 The Financial Management Grant (FMG) conditions provide for the acquisition upgrade and maintenance of financial management systems and automated financial management practices including the municipal Standard Chart of Accounts (mSCOA).

For more detail on these conditional grant frameworks, please refer to Annexure W3 of the 2015 Division of Revenue Bill (DoRA Bill No. 5 of 2015) available at:


5. How to get familiar with mSCOA:

Should you have any queries related to Municipal SCOA the following information and assistance is available:

5.1 The following information related to the mSCOA Regulation is available on the National Treasury Website:
- Government Gazette 37577 – Municipal Regulation on Standard Chart of Accounts;
- GFS Classification Framework;
- Project Summary Document;
- Segment Detail – Item, Fund, Function, Project, Regional Indicator, Costing;
- Comments Register; and
- List of Terminology.

All of the abovementioned information can be accessed at: http://mfma.treasury.gov.za/RegulationsandGazettes/MunicipalRegulationsOnAStandardChartOfAccountsFinal/Pages/default.aspx

5.2 A database of Frequently Asked Questions has been compiled and all piloting municipalities have been granted access. Non-pilot municipalities will be provided access to the FAQ Database with the next mSCOA Circular which will include a user manual.

5.3 The provincial MFMA Coordinator or such other person as the province formally communicated can also be approached;

5.4 The lessons learnt from pilot municipalities will formally be shared going forward. Please do not contact these municipalities individually;
5.5 The National Treasury is currently rolling-out a non-registered training programme to 42
district municipalities. It is envisaged that the rollout will commence at the later part of
August 2015 and extend for a period of 8 to 10 weeks. The programme will be 3 days, as
it will be addressing mainly the non-pilot sites and is a programme for participants with
little or no knowledge of mSCOA.

5.6 mSCOA Circulars. This is the first in a series of Municipal SCOA Circulars aimed to assist
municipalities in getting mSCOA ready. The mSCOA Circulars will be issued monthly and
can be accessed at:

http://mfma.treasury.gov.za/Circulars/Pages/default.aspx

The next mSCOA Circular will elaborate on mSCOA available reading material, how to
structure the municipality’s mSCOA project and explain the “Function” and “Municipal
Standard Classification” segments.

Contact

JH Hattingh
Chief Director: Local Government Budget Analysis
21 July 2015
Municipal SCOA Circular 2 - Implementation

mSCOA is a business reform - it is therefore important that this circular is distributed to all senior managers and other relevant officials throughout the municipality

This circular introduces the Municipal Regulations on a Standard Chart of Accounts (mSCOA) to non-pilot municipalities in preparation for full mSCOA compliance by 1 July 2017. This is the second in a series of mSCOA circulars.

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1. Municipal SCOA (mSCOA) reading material:

1.1 The Regulations on a Municipal Standard Chart of Accounts

By now you should already be familiar with the Municipal Regulations on a Standard Chart of Accounts (mSCOA). If not, please prioritise reading the regulations that can be located at:


1.2 Project Summary Document (PSD)

Secondly, it would assist any municipal official to be familiar with the Project Summary Document (PSD). The PSD provides background to the mSCOA project since inception and explains the basics of each of the seven (7) mSCOA segments. It also compares the national and provincial SCOA processes and the resultant need for a municipal SCOA.

The purpose of the PSD is to:

- Capture the purpose for having each of the seven (7) segments;
- Explain the key design principles applied when each segment was designed and structured;
- Discuss the high-level classification relevant to each specific segment (with reference to its subject matter); and
- Provide some guidance for the implementation of each segment.

The information provided in the current PSD is supplemented by information shared on the “lessons learned” from mSCOA piloting municipalities. The PSD, issued on 1 October 2014, can be accessed at:


1.3 The National Integrated Consultative Forum (ICF) Documentation

The National Integrated Consultative Forum (ICF) is the platform where piloting municipalities, system vendors, the National and provincial treasuries, and stakeholders such as NERSA, the Department of Water Affairs and Sanitation (DWA) and the South African Revenue Services (SARS) engage. The Auditor-General, Accounting Standards Board (ASB) and the Institute of Municipal Financial Officers (IMFO) attend the ICF’s as observers to the process. The documentation of every ICF is published on the mSCOA website. The idea is that every provincial treasury share these at the relevant provincial ICF or related forum. However, every municipal practitioner can access the ICF documentation from the mSCOA website (refer the link above in paragraph 1.2).

2. Municipal Standard Chart of Accounts Training / Skills Programme:
The National Treasury is developing unit standards for the Municipal Regulations on a Standard Chart of Accounts (mSCOA). Concurrent to this process, the published version of the mSCOA chart is being refined as the mSCOA piloting process unfolds. It is unlikely that the unit standards will be finalised before the mSCOA chart is locked for issuing and implementation to all non-pilot municipalities.

Currently no mSCOA unit standards exist and as a result no institutions are accredited to provide mSCOA training. Once the unit standards have been issued, the National Treasury will issue accredited training material that aligns to these unit standards. This training will address the needs of financial practitioners and non-financial managers. At the same time, the National Treasury will issue criteria for the accreditation of mSCOA (training) facilitators and assessors. Only mSCOA accredited facilitators will be able to provide unit standard aligned accredited mSCOA training to local government.

In this context, we confirm that the National Treasury mSCOA Project Team is currently best placed to provide training to municipalities that are informative, correctly aligned and continuously updated with ongoing mSCOA chart refinements. Municipalities are therefore cautioned to “not waste valuable time and resources” on mSCOA training offerings that are potentially at high risk in misrepresenting mSCOA. A next round of National Treasury mSCOA training will commence soon. The detail will be communicated to all provincial treasuries/ and non-piloting municipalities.

3. How to structure the municipality’s mSCOA Project Plan:

It is important to understand that a project is a temporary ‘structure’ established in the municipality with a specific purpose. A project ceases to exist on completion of the assignment. This means that the municipality’s mSCOA project should not continue forever, but end on completion of successful mSCOA implementation in the municipality. At that point in time mSCOA should be embedded in the daily activities of the municipality and therefore the need for the project support structure would no longer exist.

**Example 1:** mSCOA Implementation will typically be an operational project created within the mSCOA “Project Segment” for tracking operational expenditure against envisaged budgeted resources.

3.1 Piloting municipalities

Pilot municipalities are currently somewhere between project inception and transacting on the seven mSCOA segments. These municipalities should be preparing for the first mSCOA aligned quarterly reports.

During pilot implementations the goal posts are moved as lessons are learnt, issues addressed and risks mitigated. However, this does not mean that healthy project governance should not exist.

Often the leaders and lagers in a group attract the most attention and mSCOA implementation is no exception. Therefore now is an opportune time for all piloting municipalities to address any outstanding governance items in preparation for the annual external audit.
The following are some of the valuable lessons learnt from piloting municipalities:

- mSCOA is an organisational reform involving all departments. It is not limited to the administration and/ or finance and/ or IT;
- Change management within the organisation is crucial. Do not underestimate the emphasis on change management that is required within the municipality to make a success of the mSCOA project;
- Do not underestimate the amount of work needed to successfully own and implement mSCOA in the municipality;
- Each municipality need to develop mSCOA local expertise within the municipality;
- The local expert has to develop his/ her own understanding and be willing to share the information. These are important qualities to consider when assigning officials to your project implementation team;
- Discuss your municipality’s mSCOA challenges regularly with the provincial treasury/ and compare with similar questions/ challenges raised on the Frequently Asked Questions (FAQ) database. If your challenges are not speedily resolved, please address them to the National Treasury mSCOA help desk; and
- Ask for help – that is the reason for the helpdesk being incorporated into the Frequently Asked Questions (FAQ) database.

3.2 Non-piloting municipalities

Municipal SCOA Circular 1 highlighted the need for every non-pilot municipality to compile a high level project plan to implement mSCOA in the municipality. It is important that this plan focus on the responsibilities of the municipality and, as a minimum, include the list of activities already provided for in Municipal SCOA Circular 1.

Ideally the required project plan only needs to cover the activities of the municipality at a high level (not that of its system vendor(s)). The project plan remains a working document for the duration of the project, meaning the project team will update and expand the plan as the project unfolds.

It is recommended that the following activities (additional to those listed in Municipal SCOA Circular 1) be included in the plan:

3.2.1 Commissioning an mSCOA steering committee and project management team:
- if you have not done so already, include appointment of the mSCOA steering committee and implementation teams (work streams) e.g. IT work stream, Change management and transition work stream, etc;
- Draft a charter for each of these implementation teams to clarify their responsibilities and scope; and
- Amend the performance agreements of all officials and senior managers involved in the steering committee and/ or implementation teams to ensure mSCOA is adequately prioritised among other work responsibilities;

3.2.2 Set up the project governance structure and project management office (PMO):
- The ‘governance structure’ refers to the mSCOA steering committee, internal audit and risk management departments, all of whom should:
(a) schedule regular reviews of the municipality’s mSCOA project implementation; and
(b) add a standing mSCOA item to their meeting agendas.

- The project management office (PMO) provides the administrative support to the project. At least one full time resource should be assigned to the PMO as the project takes off. This official will have to provide dedicated support to the project implementation teams (work streams) with administrative duties such as taking minutes at meetings, maintain project documentation, compile consolidated progress reports from the individual work stream progress reports, etc;

3.2.3 Skills development:
- Improve the skills of the project implementation teams by considering and adopting the Kotter or other project management methodology (e.g. search on line for material); and
- Every member of the project implementation teams must familiarise themselves with the mSCOA Regulations and the Project Summary Document (PSD);

3.2.4 Review the current municipal chart of accounts - the purpose of this review is to understand the municipality’s individual municipal chart of accounts structure, current projects and the items frequently used. This will be very important later-on when the municipality embarks on an exercise to break down/ allocate every one of its existing municipal departments to the standardised GFS functions (or sub-functions and sub-sub-functions);

3.2.5 Conduct an “as is” analysis/ or review of IT infrastructure, network and archiving: The work stream assigned with this responsibility should -
- Draw up a list of the current Information Technology infrastructure in the municipality, the municipality’s network capacity, archiving policy, procedures and capability. All of these are impacted by the mSCOA implementation;
- Calculate the current cost of ownership of the core system. This will include a review the current annual license fees, the annual cost of consultants required to maintain these systems, and all additional fees like training, user group attendance, updates and small changes to the system;
- Calculate the current cost of ownership of any additional or sub-systems. Similar to what was done for the core system, identify who are the key vendors, and costs associated with these system(s);

3.2.6 Change management and transition: Appoint a change management/ or communication committee to assist with on boarding of officials across the municipality and its municipal entities;

3.2.7 Document the current business processes in the municipality: During this exercise it will be useful to refer to the mSCOA regulations for guidance on affected business processes;

3.2.8 Start with data purification: mSCOA cannot fix historic incorrect information. This means that if the municipality inputs “garbage” into mSCOA its reporting will still provide “garbage” output. It is therefore important that all data captured in mSCOA are “clean” and that appropriate documentation regarding these corrections are maintained in the audit file for the period under review; and

3.2.9 The mSCOA Frequently Asked Questions (FAQ) database: It is important that every member of the municipality’s mSCOA implementation teams/ work streams register on
the FAQ database (refer paragraph 1.2 above for the website link) to review the questions and answers posted by the pilot municipalities. This is a valuable tool for learning and fast tracking official’s mSCOA implementation.

As part of the National Treasury mSCOA project team’s support, an mSCOA project plan framework is attached (refer Annexure A). The municipality and/ or provincial treasury is welcome to use the framework and to align it with the municipality’s specific circumstances. Should any non-pilot municipality require additional support to develop their mSCOA implementation plan, or assistance to start off in the municipality, we urge you to consult your provincial treasury team, who are coordinating the mSCOA effort in your province. The contact details of the relevant provincial treasury official(s) responsible for mSCOA is attached (refer Annexure B).

3.3 Submission of mSCOA Project Plan to the Treasuries

A number of municipalities have raised challenges in submitting their mSCOA project plans to the Treasuries for review. These challenges are discussed below:

<table>
<thead>
<tr>
<th>It is annual financial statements (AFS) time. There is no time for mSCOA now:</th>
</tr>
</thead>
<tbody>
<tr>
<td>It is the Treasuries’ view that not all senior officials in a municipality are responsible for compiling annual financial statements. It is therefore recommended that the development of the project plan is assigned to a senior official(s) that is not consumed in the annual financial statement process.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Municipalities are hesitant to submit a project plan at this stage. The mSCOA project plan will bind the municipality to a vendor and there is uncertainty regarding the vendor status at this stage:</th>
</tr>
</thead>
<tbody>
<tr>
<td>It is not true that the project plan binds a municipality to a vendor. There are a number of things a municipality can and should do long before any vendor is engaged.</td>
</tr>
</tbody>
</table>

The vendor is responsible for the system. In the municipality's project plan, the "vendor activities", at this stage, only need to be indicated at a high level as "system activities". Whereas, all the other activities that the municipality are required to do, should be unpacked.

It is crucial to understand that a project plan is a living document and as such it will develop as the project progresses. However, every municipality is encouraged and urged to make a start somewhere.

Municipalities that have not yet submitted their mSCOA project plans to the Treasuries are encouraged to do so. A review by the Treasuries is part of the support offered that could assist the municipality to, at an early stage in the process, identify gaps and possible challenges.

As such we confirm that only project plans submitted before Monday, 5 October 2015, will be processed by the Treasuries. After this date, the support will focus on the next phases of mSCOA implementation. Municipalities that do not submit their plans by this extended date
would therefore have lost the opportunity to benefit from the review and could potentially jeopardise their implementation at their own risk.

The municipality’s mSCOA project plan (addressing also mSCOA implementation for all its municipal entities and associated activities) can be submitted to the National Treasury (Jan.Hettingh@treasury.gov.za) and the relevant provincial treasury (refer Annexure B for the relevant contact details). The mSCOA project plan must clearly identify the name and contact details of the project sponsor in the municipality.

4. mSCOA - Project Work Streams:

To ensure adequate support for the successful implementation of mSCOA, the National Treasury mSCOA Project Team’s activities are structured into five (work streams). These work streams are introduced below to create a better understanding amongst municipalities of the mSCOA Project: Phase 4 – Change Management & Transition.

4.1 Work Stream – Technical

<table>
<thead>
<tr>
<th>Purpose</th>
<th>This work stream commenced at inception of the mSCOA project in October 2009, its purpose being to:</th>
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<tbody>
<tr>
<td></td>
<td>• Research, compile and maintain the mSCOA Classification tables;</td>
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<tr>
<td></td>
<td>• Research, draft and finalise “Position and Discussion Papers” on topical mSCOA related matters;</td>
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<td></td>
<td>• Electronically upload SQL mSCOA releases;</td>
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<tr>
<td></td>
<td>• Prepare and continuously update a Project Summary Document (PSD) to support the mSCOA tables. The PSD document incorporates:</td>
</tr>
<tr>
<td></td>
<td>o the design principles applied in the compilation of the mSCOA Tables;</td>
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<tr>
<td></td>
<td>o existing reference source(s) available and the impact of mSCOA on these requirements;</td>
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<td></td>
<td>o the revision of high-level classifications resulting from frequently asked questions;</td>
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<td></td>
<td>o discussions of mSCOA implementation requirements and related matters.</td>
</tr>
<tr>
<td></td>
<td>• Define the necessary changes to the local government reporting requirements that will result in the:</td>
</tr>
<tr>
<td></td>
<td>o optimal use of the mSCOA classification tables; and</td>
</tr>
<tr>
<td></td>
<td>o streamlining of local government reporting to all the identified stakeholders.</td>
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<tr>
<td></td>
<td>• Respond to the frequently asked questions (FAQ), posted to the FAQ database. This function contributes to knowledge management and provides a useful audit trail of changes made to the mSCOA tables as the project progresses;</td>
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<tr>
<td></td>
<td>• Develop relevant proposals relating to the abovementioned activities to the mSCOA Technical Work Group for recommendation to the mSCOA Project Steering Committee for formal adoption into the</td>
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</table>
Progress

Since project inception, this work stream has made significant progress that is documented and explained in Annexure D.

Documentation

This work stream developed:
- the Municipal Regulations on a Standard Chart of Accounts, 2014 (mSCOA); and
- Respond to the frequently asked questions (FAQ) database that can be accessed at:

Going forward

To do - non-pilot municipalities should follow the guidance provided in the Project Summary Document at the end of each of its sections.

This is a standing item that will be addressed ongoing in the forthcoming Municipal SCOA Circulars as each of the seven (7) segments are discussed.

4.2 Work Stream – Pilot and Vendor Management

Purpose

This work stream was the initial mSCOA research team since project inception with ongoing vendor engagement since 2010. Its functional pilot work commenced in April 2014. This work stream is focussed to:
- Determine what is the level of implementation of the mSCOA classification framework; and
- Develop minimum specifications for business processes and system(s) that will enable successful mSCOA implementation.

Progress

Since project inception, this work stream has:
- Evaluated municipalities to determine the most representative and feasible selection of municipalities for piloting mSCOA;
- Engaged system vendors operating in local government to:
  (i) Review the initial findings resulting from the initial municipality review; and
  (ii) Establish a gap probability analysis.
- Presented its work and research at the ICF’s, including an mSCOA Position Paper: Mapping Coding and Short Codes (tabled at the June 2015 ICF).

Documentation

All presentations made by this work stream (to date) can be accessed as part of the 4th and 5th ICF’s at the following link:

Going forward

It is crucial that a municipality obtain a conceptual view of its current ICT infrastructure, including its ‘Core Financials’ and all other solution offerings. This exercise normally reveals massive duplications and gaps.
in the current system(s) environment of the municipality.

For example at several municipalities it was found that a core financial system is in use of which only the General Ledger, Debtors and Cashbook, and creditors modules are used. Despite the system providing for prepaid, supply chain, projects, reporting, etc. the municipality pay extra to 3rd parties to provide these functions separate from the existing core financial system.

To do –
(i) the mSCOA Project Plan must require the municipality’s ICT department to compile a map with descriptions of:
• what functions are included in the current core financial licencing fee;
• what functions of the core financial system is not used; and
• what functions available on the core financial system is outsourced.

To assist with this exercise, a municipality should as a minimum use the template included as Annexure C.

(ii) Each municipality must submit its completed Annexure C to the National Treasury (Jan.Hattingh@treasury.gov.za) and the relevant provincial treasury (refer Annexure B for the relevant contact details) on/ before Friday, 13 November 2015.

4.3 Work Stream – LG Database Development and Reporting

Purpose
The work stream was formally established on 1 June 2015, although research and discussions took place before this date. Its purpose is to:
• Design a new database for mSCOA;
• Define validation rules for datasets;
• Develop the portal for submission of datasets and documents to the local government database;
• Test validation rules on pilot datasets, and
• Translate piloting datasets into old reporting formats for testing and quality checks.

Progress
This work stream has already:
• Designed a new database version 1, to be implemented;
• Defined validation rules, to be refined and formally tested;
• Implemented portal (lguploadportal.treasury.gov.za) for submission of datasets and mSCOA format documents;
• Supported pilot municipalities with registration, access approval and the upload processes for the new portal;
• Mapped and tested the Municipal Budget and Reporting Regulations (MBRR), In-year monitoring (IYM) and annual financial statements (AFS) formats;
• Informally tested municipal SCOAA data received from pilot municipalities and provided feedback to vendors and municipalities;
• Provided support to resolve mSCOA frequently asked questions
(FAQ) website user access queries,
• Finalised the URS of functional changes to the mSCOA FAQ website. These changes are effective from 25 August 2015;
• Requested assistance from National Treasury IT to host an mSCOA Risk Matrix website on the National Treasury server, and
• Provided input to the City Support Portal’s (CSPs) design and assisted with links to the relevant municipal information on the CSP portal.

Documenta\tion
At this stage there are no documents available to municipalities relating to this work stream’s activities. It is suggested that municipalities familiarise themselves with item: “4. mSCOA Guidelines”, provided on the current link: http://mfma.treasury.gov.za/RegulationsandGazettes/MunicipalRegulationsOnASStandardChartOfAccountsFinal/Pages/default.aspx

Going forward
To do –
(i) Once mSCOA is implemented on the municipality’s system(s), non-piloting municipalities are requested to submit data files for mSCOA testing purposes and quality assurance to Igpuploadportal.treasury.gov.za.

(ii) Municipalities are still legally required by the MFMA and must continue submitting the existing in-year reports (MFMA Sections 71 and 72) to Ingdatabase@treasury.gov.za. These reports must be submitted in the format(s) prescribed in the Municipal Budget and Reporting Regulations (MBRR).

The submission of reports (as is) will remain a legislative requirement even once the National Treasury has an open portal to information directly on the municipality’s systems.

4.4 Work Stream – Transition and Change Management

Purpose
This work stream formally commenced on 1 July 2014 with its purpose being to:
• support transition and change management in provincial treasuries;
• enable adequate capacity and support for the roll out and implementation of mSCOA in Non-Pilot Municipalities.

Progress
Over the past seven (7) months, this work stream has:
• Developed a strategy for the roll out of Change and Transition over the duration of mSCOA Project Phase 4;
• Engaged all provincial treasuries extensively;
• Engaged and worked closely with other stakeholders relevant to mSCOA implementation to further change and transition, including SALGA, DCoG, IMFO, ASB, PSAF and vendors, etc;
• Engaged Pilot Municipalities, early adopting municipalities and municipalities requiring additional training, change support and strategic interventions to sustain their mSCOA efforts;
- Weekly mSCOA training of Municipalities with a clear focus on change and enablement so that a municipality (after training) knows what to do next in terms of mSCOA; and
- Ongoing, working closely with provincial treasuries to assist with the on boarding of early adopter municipalities and change and transition interventions in provinces.

**Documentation**
- Documents and examples created by this work stream are available under the Integrated Consultative Forum (ICF) folder on the National Treasury website (refer the link in paragraph 1 above);
- Once the knowledge base on the FAQ database is up and running, the work stream’s documentation will also be made available as part thereof;
- Some documentation has already been circulated as attachments to the Municipal SCOA Circulars.

**Going forward**
*To do* — At this stage all Non-Pilot municipalities should already have in place:
- A municipal council resolution supporting and approving the mSCOA project for the municipality;
- A mSCOA Project Steering Committee and a mSCOA Project Team (both with approved Terms of References (refer Municipal SCOA Circular 1); and
- Be in the process of compiling an mSCOA Project Plan and risk register for the municipality.

### 4.5 Work Stream – Training

| **Purpose** | The training work stream commenced in September 2014 with its purpose being, to:
|             | Demystify mSCOA across all municipalities, municipal entities, national and provincial treasuries;
|             | Train financial practitioners at pilot municipalities and their respective system vendors;
|             | Develop a unit standard based accredited mSCOA training programme aimed at both financial- and non-financial mSCOA practitioners; and
|             | Develop and facilitate an accredited “train the trainer” – mSCOA programme. |

| **Progress** | In the past year this work stream has:
|              | Developed and presented the one (1) day “Demystifying mSCOA” programme across all 9 provinces;
|              | Developed and implemented a two (2) day non-accredited training programme for pilot municipalities and their respective system vendors (focussing on financial practitioners). |

| **Documentation** | This work stream’s documentation can be accessed on the National Treasury website (refer the link in paragraph 1 above):
|                   | Presentations made at the Integrated Consultative Forums (ICF’s);
<p>|                   | The “Demystifying mSCOA” one (1) day training programme. |</p>
<table>
<thead>
<tr>
<th>Going forward</th>
</tr>
</thead>
<tbody>
<tr>
<td>• 3 day non-accredited mSCOA training for non-pilot municipalities. With an expected start date of 28 September 2015 for 10 weeks. Your provincial treasury will soon communicate in this regard.</td>
</tr>
<tr>
<td>• Accredited training - envisaged roll out from January 2016.</td>
</tr>
</tbody>
</table>

Contact

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JH Hattingh
Chief Director: Local Government Budget Analysis
21 September 2015
Municipal Financial Systems and Processes

This circular provides an update to municipalities and municipal entities regarding the ongoing investigation into local government financial systems and processes. This Circular augments the information and guidance provided in MFMA Circular No. 80 and must be read in the context of all the Municipal SCOA Circulars issued to date, and MFMA Circular No. 57 and aims to provide further clarity on the transversal tender RT25-2016.

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1 Background

National Treasury issued MFMA Circular No. 80 on 8 March 2016, which in effect removed the “moratorium on ICT procurement”, put in place through MFMA Circular No. 57. The intention of MFMA Circular No. 80 is to ensure that municipalities going forward, when reviewing and/or considering compliance of systems of financial management and internal control, going forward, are empowered to do so in the most appropriate manner. In this regard it is advised that, given the imminent requirement to comply with the Standard Chart of Accounts for Local Government Regulations, 2014 (mSCOA Regulations), and the recently articulated business processes, municipalities are advised to:

- Avoid wasting public funds on unnecessary and fruitless ICT and internal control system changes;
- Conduct the appropriate level of assessments and/or ICT due diligence, if necessary, as envisaged and guided through Municipal SCOA Circulars No. 5 and 6; and
- Assess the most economically effective approach to ensure that the municipality is compliant, from a systems perspective, with the requirements of the mSCOA Regulations as a first priority. Compliance with the business processes, as envisaged and specified in Annexure B of MFMA Circular No. 80.

In order to avoid unnecessary wastage of state resources, it is strongly recommended that municipalities first consider carefully whether any change of ICT-related systems of financial management and internal control are warranted. In the event that a material upgrade or change to the existing package of systems are indeed warranted, and cannot practically be
addressed economically through engagement with present service providers, then municipalities are reminded that due process should be followed. In the event that procurement is at all necessary, then municipalities are advised to compare system costs against offerings available in terms of the RT25-2016 transversal contract.

Since March 2016, engagement with practitioners revealed large-scale misinterpretation of the following paragraph of MFMA Circular No. 80 (Paragraph 8):

“The National Treasury acknowledges that metropolitan municipalities and secondary cities, in most instances, have the necessary skills and ability to deal with not only procurement but also highly technical aspects of financial management and internal control systems. In this regard, and with the exception of metropolitan municipalities and secondary cities, all other municipalities are highly recommended to make use of the transversal contract and associated panel of service providers for the supply of financial management and internal control systems once finalised. Should a municipality decide not to do so, it is required of them to formally write to the National Treasury (Chief Directorate: Local Government Budget Analysis) prior to going out on a supply chain management process, supplying clear reasons and motivation in support of the decision after which National Treasury will provide a written response and clear recommendations.”

It appears that local government practitioners across the affected sphere interpreted this paragraph to mean that the RT25-2016 transversal contract was an accreditation process of each and every system offering available to local government. Extending this notion further, it appears that local government practitioners also interpreted service providers listed in terms of the RT25-2016 tender process to imply that other established service providers already providing these services to municipalities for several years, to be incapable to continue providing these services. This was neither the intention of the RT25-2016 tender process, nor can the outcome of the process serve as any conclusion of this nature. The National Treasury hereby categorically state that the RT25-2016 tender process was not an accreditation process but a procurement process with various obstacles and disqualifications in terms of normal supply chain management policy, over-and-above ensuring that these systems are enabled for the implementation of mSCOA.

In addition it should be re-iterated that the purpose of the RT25-2016 tender process was to provide a clear set of systems specifications, reference pricing and contracting means for municipalities, where a systems upgrade was determined to be necessary; where other means
of complying with the requirements of the mSCOA Regulations and business process specifications for municipalities are not viable.

At no stage did this Paragraph 8 (of MFMA Circular No. 80 quoted above) imply or can it be construed to imply that the National Treasury requires any municipality to move away from its existing systems simply because such system(s) and/or vendors are not listed on the panel of RT25-2016 transversal contract service providers. On the contrary, Paragraph 3 of MFMA Circular No. 80 specifically guides that:

“The outcome of this research, which was aligned and informed by the ‘piloting’ of the mSCOA classification, has resulted in a comprehensive list of business processes that should be supported by system functionality (systems of financial management and internal control). Annexure B (System Specifications) to this Circular includes a detailed list of these business processes and will be further explained in this MFMA Circular. Importantly, municipalities need to evaluate the functionality of their current financial management and internal control systems against these business processes and technical specifications. If the outcome of the assessment is favourable, then municipalities would not necessarily need to replace their current financial management and internal control system. The service provider would however have to provide the municipality with guarantees to this effect.”

2 What Constitutes mSCOA Compliance

The RT25-2016 technical specification was designed to address not only the mSCOA requirements but also to list all the components needed to fully automate and accommodate the accountability cycle of municipalities (considering the current local government legal environment). Best Practices and optional requirements were discerned in this tender in order to clearly identify only the essential systems functionality. Optional systems features and functions have been identified as non-regulated options / add-ons. RT25-2016 also allowed for 3rd party integration as well as future developments. Through this approach the National Treasury allowed for a municipality to follow an evolutionary systems approach if such is preferred.

For avoidance of doubt, a municipality is not legally compelled or required to employ RT25-2016 when upgrading or replacing financial systems in municipalities. The intent of establishing the panel of vendors is to support interested and/or ill-equipped municipalities in their endeavour to procure these systems. Whether employing the RT25-2016 panel or not, municipalities are required to:
(i) Have a systems-integrated IDP (integrated development plan) Module. All municipalities must submit by end of November 2016 their data strings to the National Treasury reflecting their IDP aligned to the Project, Function and Regional segments of the mSCOA chart version 6. Municipalities must provide proof of their preparations in this regard during October 2016 by means of draft data strings loaded onto the National Treasury LG database. Municipalities will need to utilise system functionality as a first indicator that a system is enabled for the implementation of mSCOA;

(ii) Have a systems-integrated Budget Module. The next critical delivery is the tabling of the budget by 31 March 2017 and will require a municipality’s system(s) to have budgeting functionality including but not limited to:
   a. Organogram Budgeting;
   b. Billing historical trends and new developments;
   c. Asset maintenance plans;
   d. Building rentals;
   e. Fleet costs;
   f. Loans, bonds and repayments;
   g. Grants and subsidies;
   h. Costing allocations; and
   i. Long term forecasting and tariff modelling tools.
   This is the 2nd measurement of whether any system is enabled for the implementation of mSCOA; and

(iii) Enable a municipality, with effect 1 July 2017, to transact across the seven segments of mSCOA with subsystems seamlessly integrating to the core financial system. This 3rd measurement criterion of mSCOA compliance will be tested by the National Treasury through its data extraction (across the 6 regulated mSCOA segments) from the information submitted by the municipality on/ before the 10th working day of August 2017. The municipality is therefore urged to already submit such data strings to the National Treasury to resolve any errors.

Due to these imminent deadlines, all municipalities are urged to consider the guidance on mSCOA compliance (set-out above) and engage with their respective systems vendors to duly conclude on the required processes.

Taking the evolutionary nature of the process into account, municipalities are advised to (where practically possible) consider all alternatives and are reminded that all systems which participated in the mSCOA piloting process, did have a successful piloting municipality. This
is a reminder again that the success of mSCOA compliance is therefore less dependent on the systems capability (many of which have shown the ability to comply with mSCOA requirements) and more dependent on municipalities embracing and ushering in the change with resolve and systematic planning.

3 Application of RT25-2016 – Transversal Awards

Municipalities requesting the National Treasury and Provincial Treasuries’ comments in terms of Municipal SCOA Circular No. 6 (Annexure B) on the proposed way forward with regard to its existing package of system(s) will be required to illustrate, by supplying supporting evidence, that the municipality followed due process in terms of the guiding Municipal SCOA Circulars No. 5 and 6.

Considering that municipalities are required to prepare the 2017/18 MTREF aligned to the mSCOA Regulations in October/November 2016, timeframes for making these decisions are limited. These matters do however, have to be considered and entails:

(i) Tabling considerations and recommendations to the municipal council, in relation to mSCOA and systems compliance. Costs, benefits and risks should be thoroughly deliberated if necessary;

(ii) Consider guarantees of compliance from either the existing or future vendor;

(iii) Consider associated costs and follow due process, where a systems upgrade or replacement is considered the only viable option, when cancelling the existing service level agreement (SLA) including, whether support from the National Treasury and/or Provincial Treasury is needed in this regard;

(iv) We confirm that the municipality may procure directly from the panel of service providers on the RT25-2015 transversal tender. In this regard we advise that the municipality engage the Office of the Chief Procurement Officer in the National Treasury (to guide you, also to ensure due process in terms of the Municipal Supply Chain Management Regulations, the municipality’s policies and minimum requirements for any proposed Service Level Agreement (SLA). This does not preclude a municipality procuring a service using SCM Regulation 32, as long as the service is aligned to the requirements of the Regulation;

(v) Should the municipal council approve the procurement of a system from a service provider not on the RT25-2016 – transversal tender, the National Treasury and Provincial Treasury must be consulted as envisaged in Municipal SCOA Circular No. 6 prior to any such procurement process kicking off, including support in terms of the technical specification, the minimum requirements for any proposed service level
agreement (SLA), and pricing comparisons with the pricing available from tender RT25-2016. Thereafter the municipality must follow its supply chain process to procure the system; and

(vi) Should council approve that the municipality remains with its current system (whether such system is on the RT25-2016 transversal tender of service providers or not), the municipality is advised to ensure comparable or more favourable pricing when compared with reference pricing specified in RT25-2016. The National Treasury and/ or Provincial Treasuries can be requested to assist in negotiating such pricing arrangements.

It should be noted that ensuring compliance of the municipality’s ICT systems represents only one of several important steps step in the wider mS-CoA reform objective of rendering data and business processes of municipalities uniform, transparent, consistent and relevant. These are envisaged to, ultimately, facilitate improved service delivery and community awareness of government’s performance.

Contact

Post
Private Bag X115, Pretoria 0001
Phone 012 315 5009
Fax 012 395 6553

JH Hattingh
Chief Director: Local Government Budget Analysis
18 October 2016
mSCOA Progress Report 10 March 2017

Background

Knysna Municipality has been invited by the Minister of Finance to be a pilot site for the National Treasury Project: ASSIST WITH THE IMPLEMENTATION OF LOCAL GOVERNMENT: MUNICIPAL FINANCE MANAGEMENT ACT, 2003: MUNICIPAL REGULATIONS ON STANDARD CHART OF ACCOUNTS.

The important aspect of the mSCOA Project is that it is a total Business Reform and not only a finance department project. The way of thinking needs to change from the initiation of transactions influencing the following: Integrated Strategic Development Framework, Integrated Development Planning, Spatial Development Framework, Long-term financial planning, Performance Management System, budgeting, etcara.

This project will result in the compliance as at 1 July 2017 with the Municipal Standard Chart of Accounts (“mSCOA”) as well as with the assistance to National Treasury on the implementation difficulties experienced during the piloting phase. R-Data (Pty) Ltd is the program developer of ProMun which is currently being used at Knysna Municipality as the financial software, which will be converted to comply with all the mSCOA requirements.

It should be acknowledged that mSCOA is not just a Finance project and significant change management is required at all levels as this project will impact the whole municipality.

Summary of the relevant MFMA and mSCOA Circulars (Circulars part of the annexures 1 and 2 for your perusal):

- MFMA Circular 80 – (replaced Circular 57) Financial Systems and Processes and Addendum to Circular 80:
  - Systems-integrated IDP Module
  - Systems-integrated Budget Module
  - Compliance with the requirements of the 15 Business Processes.
  - ICT Due Diligence due 07 November 2016
  - Pricing of mSCOA implementation
  - Memorandum of understanding with system vendor

- mSCOA Circulars
  - Circular 1: Implementation
  - Circular 2: Reading material (Regulations, PSD and ICF), training, structure and work streams
  - Circular 3: Audit value chain, Municipal entities, Frequently Asked Questions, project management support, early adopting and training
  - Circular 4: Frequently Asked Questions, Project implementation support, Provincial Treasury support, change management, data cleansing and self-assessment tool
Change to project structure:

The acting Municipal Manager elected to delegate the role of mSCOA Project Sponsor to the Chief Financial Officer.

The mSCOA Steering Committee consist out of all the Municipal Manager, Directors and the 15 Business Stream Leads and vital support officials, standing invitee include representatives of the following: Internal Audit, System Providers, Audit General, Provincial Treasury, National Treasury and Risk management. Detail of the mSCOA Steering Committee will be provided as an Annexure 3.

The mSCOA Steering Committee recommended that due to time constraint that the mSCOA implementation team will be substituted with the 15 Business Stream Leads who will incorporate the work required within their working groups. The 15 business streams were restructured to 10 working groups to make it more effective.

Detail action lists will be compiled and signed off once tested. The progress on the weekly meetings will be provided at the monthly mSCOA Steering Committee meetings in order to make recommendations and take note of issues and challenges.

The current Project Plan will be reviewed and submitted to Council.

Current status on the upcoming deadlines:

mSCOA data is being uploaded monthly to National Treasury for data verification. Knysna Municipality’s status is that the submissions of 2016/2017 Financial year to date have been successfully uploaded.

The 2017/2018 Budget Tabled and submitted on LG upload portal by 31 March 2017. This should be uploaded by utilising a system integrated IDP and Budget Module. Non-submission in this format will result in non-compliance.

Submission of the ICT Due Diligence is currently delayed. Knysna Municipality has submitted the Provincial Treasury review of R-Data, but did not sign-off on the system as there is still some issues that needs to be resolved. This was communicated to D Stuurman (PT) by 28 February 2017. Submission will be dealt with as a matter of urgency and was a meeting held with R-Data on 8th of March 2017 to address current concerns. It is recommended that the signing off of the System Vendor only be done once all the functionality required is tested by the Knysna Municipality.

Implementing the new chart of accounts and carry over of the legacy items opening balances by 1 July 2017.
<table>
<thead>
<tr>
<th>Position</th>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipal Manager</td>
<td>J Douglas (Acting)</td>
</tr>
<tr>
<td>Director Community Services</td>
<td>D Adonis</td>
</tr>
<tr>
<td>Director Financial Services</td>
<td>M Memani (Chair)</td>
</tr>
<tr>
<td>Director Technical Services</td>
<td>M Rhode</td>
</tr>
<tr>
<td>Director Planning and Development</td>
<td>M Boyce</td>
</tr>
<tr>
<td>Director Corporate Services</td>
<td>J Douglas (Acting)</td>
</tr>
<tr>
<td>Business processes</td>
<td></td>
</tr>
<tr>
<td>Revenue cycle, valuation and customer care, credit control and debt collection</td>
<td>W Fillies</td>
</tr>
<tr>
<td>Land use and building control</td>
<td>H Smit</td>
</tr>
<tr>
<td>HR / Payroll</td>
<td>E Sabbat</td>
</tr>
<tr>
<td>Real Estate and resource management</td>
<td>R Hartnick</td>
</tr>
<tr>
<td>Capital Assets</td>
<td>L van Huysteen</td>
</tr>
<tr>
<td>Municipal Budgeting, Planning and Financial Modelling, Project Accounting and Costing</td>
<td>N Fundi</td>
</tr>
<tr>
<td>Treasury, cash and grant management</td>
<td>A Morgan</td>
</tr>
<tr>
<td>SCM, Expenditure Management, Contract Management and Accounts Payable</td>
<td>F Kruger</td>
</tr>
<tr>
<td>Corporate Governance and document management</td>
<td>G Huddy &amp; Walter McCartney</td>
</tr>
<tr>
<td>Financial Accounting</td>
<td>N Barnard</td>
</tr>
<tr>
<td>Additional members</td>
<td></td>
</tr>
<tr>
<td>Data reports</td>
<td>E Petersen</td>
</tr>
<tr>
<td>Financial statement</td>
<td>N Haai</td>
</tr>
<tr>
<td>PT – Standing Invitee</td>
<td>D Stuurman</td>
</tr>
<tr>
<td>NT – Standing Invitee</td>
<td>To be nominated</td>
</tr>
<tr>
<td>AG – Standing Invitee</td>
<td>To be nominated</td>
</tr>
<tr>
<td>Internal Audit and Risk Management – Standing Invitee</td>
<td>Z Gutas and EY</td>
</tr>
<tr>
<td>R-Data – Standing Invitee</td>
<td>R Dunbar and C Barnard</td>
</tr>
<tr>
<td>Moore Stephens – Standing Invitee</td>
<td>W Wessels and H de Jager</td>
</tr>
<tr>
<td>Mubesko – Standing Invitee</td>
<td>K Burger and N de Kock</td>
</tr>
</tbody>
</table>
## mSCOA TEN WORKING GROUPS (INCORPORATES THE 15 BUSINESS PROCESSES)

<table>
<thead>
<tr>
<th>Working Groups</th>
<th>Lead (Chair)</th>
</tr>
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<tbody>
<tr>
<td>Revenue cycle, valuation and customer care, credit control and debt collection.</td>
<td>W Fillies</td>
</tr>
<tr>
<td>Land use and building control.</td>
<td>H Smit</td>
</tr>
<tr>
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<td>E Sabbat</td>
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<tr>
<td>Real Estate and resource management.</td>
<td>R Hartnick</td>
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<tr>
<td>Capital Assets.</td>
<td>L van Huyssteen</td>
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<td>Municipal Budgeting, Planning and Financial Modelling, Project Accounting and Costing</td>
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<td>SCM, Expenditure Management, Contract Management and Accounts Payable.</td>
<td>F Kruger</td>
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<td>G Huddy &amp; Walter McCartney</td>
</tr>
<tr>
<td>Financial Accounting:</td>
<td>N Bamard</td>
</tr>
</tbody>
</table>
7.32

LIST OF EMPLOYEES WHO HAVE OBTAINED THE REQUIRED UNIT STANDARDS PRESCRIBED FOR COMPETENCY AREAS IN TERMS OF THE MUNICIPAL REGULATIONS ON MINIMUM COMPETENCY LEVELS

REPORT FROM THE ACTING MUNICIPAL MANAGER

PURPOSE OF THE REPORT

The purpose of this report is to indicate to the Mayoral Committee which employees are competent in the unit standards prescribed for financial and Supply Chain Management competency areas in terms of the Municipal Regulations on Minimum Competency levels.

BACKGROUND

The Regulations quoted above, stipulates that Municipal Managers, Chief Financial Officers, Senior Managers (Directors), Financial Officers (Managers, etc) and Supply Chain Management Officials must comply with the minimum competency levels prescribed for the following:

- higher education qualification required;
- work related experience;
- be competent in the unit standards prescribed; and
- core managerial and occupational competencies required (only MM, CFO and Directors)

From the above it should be clear that in order to be compliant to the said Regulations the respective official should comply with all three (four in the case of the MM, CFO and Director) levels.

DISCUSSION

Kindly find attached hereto a list of officials who comply with the mentioned unit standards prescribed for competency areas (which is only one of the three or four levels).

RECOMMENDATION OF THE ACTING MUNICIPAL MANAGER

[a] That the report of the list of employees who are competent in the unit standards prescribed in terms of the Municipal Regulations on Minimum Competency levels, be noted;

[b] That the list of employees attached to the report mentioned in [a] above, be noted.

APPENDIX / ADDENDUM

List of Competent Employees MMCL.

File number: 9/1/2/8
Execution: Acting Municipal Manager
Manager: Human Resources
### List of competent employees on MMCL

<table>
<thead>
<tr>
<th>No</th>
<th>Name</th>
<th>Surname</th>
<th>Occupation</th>
<th>Department</th>
<th>Competent</th>
<th>US'S'S</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Johnny</td>
<td>Douglas</td>
<td>AMM</td>
<td>Municipal manager</td>
<td>Yes</td>
<td>AccOff</td>
</tr>
<tr>
<td>2</td>
<td>Louis</td>
<td>Fourie</td>
<td>ACFO</td>
<td>CFO</td>
<td>Yes</td>
<td>CFO</td>
</tr>
<tr>
<td>3</td>
<td>Grant</td>
<td>Easton</td>
<td>Municipal Manager</td>
<td>Municipal Managers Office</td>
<td>Yes</td>
<td>AccOff</td>
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<tr>
<td>4</td>
<td>Michael</td>
<td>Rhode</td>
<td>Director</td>
<td>Technical</td>
<td>Yes</td>
<td>SnrM</td>
</tr>
<tr>
<td>5</td>
<td>Marlene</td>
<td>Boyce</td>
<td>Director</td>
<td>Planning and Development</td>
<td>Yes</td>
<td>SnrM</td>
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<tr>
<td>6</td>
<td>Dawid</td>
<td>Adonis</td>
<td>Director</td>
<td>Community Services</td>
<td>Yes</td>
<td>SnrM</td>
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<tr>
<td>7</td>
<td>Hennie</td>
<td>Smit</td>
<td>Manager</td>
<td>Town Planning</td>
<td>Yes</td>
<td>MidFin</td>
</tr>
<tr>
<td>8</td>
<td>Jacky</td>
<td>Kalani</td>
<td>Manager</td>
<td>Public participation</td>
<td>Yes</td>
<td>MidFin</td>
</tr>
<tr>
<td>9</td>
<td>Melony</td>
<td>Paulsen</td>
<td>Manager</td>
<td>Legal Services</td>
<td>Yes</td>
<td>MidFin</td>
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<tr>
<td>10</td>
<td>Ilse</td>
<td>Van Schalkwyk</td>
<td>Manager</td>
<td>Economic Development</td>
<td>Yes</td>
<td>MidFin</td>
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<tr>
<td>11</td>
<td>Walter</td>
<td>McCartney</td>
<td>Manager</td>
<td>Performance, Risk and Internal Audit</td>
<td>Yes</td>
<td>MidFin</td>
</tr>
<tr>
<td>12</td>
<td>Fredri</td>
<td>Kruger</td>
<td>Manager</td>
<td>Supply Chain</td>
<td>Yes</td>
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<tr>
<td>13</td>
<td>Christopher</td>
<td>Bezeduienhout</td>
<td>Manager</td>
<td>Communications and Customer Care</td>
<td>Yes</td>
<td>MidFin</td>
</tr>
<tr>
<td>14</td>
<td>Luline</td>
<td>Spies</td>
<td>Manager</td>
<td>Human Resources</td>
<td>Yes</td>
<td>MidFin</td>
</tr>
<tr>
<td>15</td>
<td>Rhoydon</td>
<td>Parry</td>
<td>Manager</td>
<td>Technical</td>
<td>Yes</td>
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</tr>
<tr>
<td>16</td>
<td>Xola</td>
<td>Frans</td>
<td>Manager</td>
<td>Libraries</td>
<td>Yes</td>
<td>MidFin</td>
</tr>
<tr>
<td>17</td>
<td>Shaun</td>
<td>Maree</td>
<td>Manager</td>
<td>Public Works</td>
<td>Yes</td>
<td>MidFin</td>
</tr>
<tr>
<td>18</td>
<td>Heidi</td>
<td>Cronje</td>
<td>OHS Officer</td>
<td>Human Resources</td>
<td>Yes</td>
<td>MidFin</td>
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<tr>
<td>19</td>
<td>Nadia</td>
<td>Haai</td>
<td>Chief Accountant:</td>
<td>Treasury</td>
<td>Yes</td>
<td>MidFin</td>
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<tr>
<td>20</td>
<td>Landia</td>
<td>Van Huysteen</td>
<td>Accountant, Assets and Finance</td>
<td>Budget Office</td>
<td>Yes</td>
<td>MidFin</td>
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<tr>
<td>21</td>
<td>Nicolene</td>
<td>Barnard</td>
<td>Accountant: Treasury</td>
<td>Budget Office</td>
<td>Yes</td>
<td>MidFin</td>
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<tr>
<td>22</td>
<td>Anthony</td>
<td>Morgan</td>
<td>Accountant Operating Budget</td>
<td>Treasury</td>
<td>Yes</td>
<td>MidFin</td>
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<tr>
<td>23</td>
<td>Sisanda</td>
<td>Sihoyiya</td>
<td>Principal Clerk Procurement</td>
<td>Supply Chain</td>
<td>Yes</td>
<td>MidFin</td>
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<tr>
<td>24</td>
<td>Raydene</td>
<td>Solomons</td>
<td>Principal Clerk: Treasury</td>
<td>Treasury</td>
<td>Yes</td>
<td>MidFin</td>
</tr>
<tr>
<td>25</td>
<td>Brandon</td>
<td>Stuurman</td>
<td>Principal Clerk: Budgets</td>
<td>Budget Office</td>
<td>Yes</td>
<td>MidFin</td>
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<tr>
<td>26</td>
<td>Mzwanele</td>
<td>Mato</td>
<td>Principal Clerk: Procurement</td>
<td>Expenditure</td>
<td>Yes</td>
<td>MidFin</td>
</tr>
<tr>
<td>27</td>
<td>Shanelle</td>
<td>Pretorius</td>
<td>Chief Clerk: HR</td>
<td>Human Resources</td>
<td>Yes</td>
<td>MidFin</td>
</tr>
<tr>
<td>28</td>
<td>Richard</td>
<td>Meyer</td>
<td>Superintendent: Safety and Security</td>
<td>Law Enforcement</td>
<td>Yes</td>
<td>MidFin</td>
</tr>
<tr>
<td>29</td>
<td>Sandra</td>
<td>Fourie</td>
<td>Chief Clerk: Procurement</td>
<td>SCM</td>
<td>Yes</td>
<td>MidFin</td>
</tr>
<tr>
<td>30 Sipho Mkhathwa</td>
<td>Clerk: Performance and Risk</td>
<td>PRIAM</td>
<td>Yes</td>
<td>MidFin</td>
<td></td>
<td></td>
</tr>
<tr>
<td>31 Jill Lakay</td>
<td>Head: Councill and Committee</td>
<td>Administration</td>
<td>Yes</td>
<td>MidFin</td>
<td></td>
<td></td>
</tr>
<tr>
<td>32 Geneva Botes</td>
<td>Senior Clerk: Performance and Risk</td>
<td>PRIAM</td>
<td>Yes</td>
<td>MidFin</td>
<td></td>
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<tr>
<td>33 Clinton Manuels</td>
<td>Chief Fire Officer</td>
<td>Fire</td>
<td>Yes</td>
<td>MidFin</td>
<td></td>
<td></td>
</tr>
<tr>
<td>34 Wayne Sterndorf</td>
<td>Station Commander</td>
<td>Fire</td>
<td>Yes</td>
<td>MidFin</td>
<td></td>
<td></td>
</tr>
<tr>
<td>35 Jaco Bester</td>
<td>Network and Wireless Engineer</td>
<td>IT</td>
<td>Yes</td>
<td>MidFin</td>
<td></td>
<td></td>
</tr>
<tr>
<td>36 Ian Bezuidenhout</td>
<td>Station Commander</td>
<td>Fire</td>
<td>Yes</td>
<td>MidFin</td>
<td></td>
<td></td>
</tr>
<tr>
<td>37 Marilyn Botha</td>
<td>Legal Adviser</td>
<td>Legal Services</td>
<td>Yes</td>
<td>MidFin</td>
<td></td>
<td></td>
</tr>
<tr>
<td>38 Renwil Hardnick</td>
<td>Senior Clerk: Property Management</td>
<td>Properties</td>
<td>Yes</td>
<td>MidFin</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
7.33

FG33/04/17 COOPERATIVE GOVERNANCE – CIRCULAR 4 OF 2016 – APPOINTMENT OF A PANEL OF SERVICE PROVIDERS FOR COMPETENCY – BASED ASSESSMENTS FOR SENIOR MANAGERS IN LOCAL GOVERNMENT

REPORT FROM THE ACTING MUNICIPAL MANAGER

PURPOSE OF THE REPORT


BACKGROUND

The above-mentioned Regulations stipulated amongst others, that persons recommended for appointment as Municipal Managers, Chief Financial Officers and Directors, must undergo competency – based assessments. The Department of Cooperative Governance (DCoG) has appointed a panel of competency assessors with the capacity and footprint to provide competency assessment services to all Municipalities.

DISCUSSION

Kindly find attached hereto DCoG Circular 4 of 2016, which is self-explanatory.

The list of accredited competency assessment assessors is listed on page 2 of 8 and the assessment centers are mentioned on page 5 of 8 of the said Circular.

RECOMMENDATION OF THE ACTING MUNICIPAL MANAGER

[a] That the report on the appointment of a panel of service providers to provide competency-based assessments for Senior Managers, be noted;

[b] That the Department of Cooperative Governance Circular 4 of 2016, attached to the report mentioned in [a] above, be noted.

APPENDIX / ADDENDUM

Circular 4 of 2016.

File number: 9/1/2/14
Execution: Acting Municipal Manager
Manager: Human Resources
Manager: Office of the Executive Mayor
TO ALL: HEADS OF PROVINCIAL DEPARTMENTS RESPONSIBLE FOR LOCAL GOVERNMENT IN THE PROVINCES; AND

MUNICIPAL MANAGERS

CIRCULAR 4 OF 2016

APPOINTMENT OF A PANEL OF SERVICE PROVIDERS TO PROVIDE COMPETENCY-BASED ASSESSMENT SERVICES FOR SENIOR MANAGERS IN LOCAL GOVERNMENT: IMPLEMENTATION OF THE LOCAL GOVERNMENT: REGULATIONS ON APPOINTMENT AND CONDITIONS OF EMPLOYMENT OF SENIOR MANAGERS ISSUED UNDER GOVERNMENT NOTICE 21 AS PUBLISHED IN GOVERNMENT GAZETTE NO. 37245 OF 17 JANUARY 2014

This Circular applies, mutatis mutandis, to all municipalities in the Republic.

The Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) ("the Systems Act") enjoins the municipal council to appoint a municipal manager as head of the administration of a municipality and the manager directly accountable to the municipal manager, after consultation with the municipal manager. The Systems Act further requires that a person appointed as municipal manager or manager directly accountable to municipal manager ("senior manager") by the municipal council must at least have the skills, expertise, competencies and qualifications as prescribed.

The Local Government: Regulations on Appointment and Conditions of Employment of Senior Managers ("the Regulations") promulgated in terms of sections 72 read with 120 of the Systems Act issued under GN No. 21 and published in Government Gazette No. 37245 of 17 January 2014, set out the criteria for appointment/ minimum competency requirements, competency descriptors and achievement levels for senior managers in fulfillment of the Minister’s regulatory powers cited above.
The Regulations explicitly require a person(s) recommended for appointment to a senior manager position(s) in local government to undergo competency-based assessment. In order to give effect to this legal requirement, the promulgation of the Regulations was trailed by the design, development, pilot and validation of the competency assessment batteries/tools for senior managers, an exercise that was completed during the last quarter of 2014/15 culminating in the appointment of competency assessors.

NOTE: Please note that as this contract was awarded before promulgation of the revised Treasury Regulations, it will be honoured until its full tenure expires. Arrangements are underway to enter into a three-year contract aligned to new transversal contracts as outlined in National Treasury Circular 3 of 2016.

As part of the implementation of the Regulations and Back to Basics (B2B) Programme (i.e. the pursuit of government's resolve to build strong institutional resilience in municipal administration), I have pleasure in informing you that the Department of Cooperative Governance (the DCoG) has completed the process to appoint a panel of competency assessors with the capacity and footprint to provide competency assessment services to all municipalities in the designated assessment centres nationally. Notwithstanding the date of signature hereof, the contract period shall be for a fixed period of 12 months commencing from the date of this circular and automatically terminates on the termination date by effluxion of time, unless terminated earlier or extended in terms of the provisions of this contract.

All competency-based assessments for senior managers contemplated in regulation 9 of the Regulations will effectively from the date of this circular be rendered by the following trained and accredited competency assessment assessors (names and contact details are also provided below):

<table>
<thead>
<tr>
<th>No.</th>
<th>Name of Service Provider</th>
<th>Contact Person</th>
<th>Physical Address</th>
<th>Telephone Number</th>
<th>Facsimile Number</th>
<th>Email Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Gijima</td>
<td>Gertzen Schlemmer</td>
<td>47 Landmarks Ave, Kosmosdal, Samrand</td>
<td>(012) 6755563</td>
<td>0866557569</td>
<td><a href="mailto:Gertzen.schlemmer@gijima.com">Gertzen.schlemmer@gijima.com</a></td>
</tr>
<tr>
<td>2.</td>
<td>Landelahni</td>
<td>Stephen Ferreira-Texeira</td>
<td>1 Venus Road, Corner Glenhove, Melrose Estate</td>
<td>(011) 7509536</td>
<td>(011) 4420924</td>
<td><a href="mailto:assessments@landelahni.co.za">assessments@landelahni.co.za</a></td>
</tr>
<tr>
<td>3.</td>
<td>The Assessment Toolbox</td>
<td>Wea van Heerden/ Claudia Brevis</td>
<td>41 Wessels Road, Datadeal Place, Rivonia, 2191, Johannesburg</td>
<td>(011) 8032905 0871511025</td>
<td>0866133476</td>
<td><a href="mailto:wea@assessmenttoolbox.co.za">wea@assessmenttoolbox.co.za</a> <a href="mailto:claudia@assessmenttoolbox.co.za">claudia@assessmenttoolbox.co.za</a></td>
</tr>
<tr>
<td>4.</td>
<td>Work Dynamics</td>
<td>Nikita Raghunandna</td>
<td>The Vineyards Office Estate, Pinotage House, 99 Jip de Jager Road, Bellville</td>
<td>(021) 9138371</td>
<td>(021) 9136379</td>
<td><a href="mailto:nikita@workdynameics.co.za">nikita@workdynameics.co.za</a></td>
</tr>
</tbody>
</table>
NOTE: An updated list of competency assessment personnel countrywide will be shared with you by the Chief Directorate: Municipal Human Resource Management Systems/ PMO, Department of Cooperative Governance after six (6) months from the commencement of this circular.

Any service provider(s) who has neither received training nor accredited to administer the competency-based assessment for senior managers made in terms of GN No. 21 as published in Government Gazette No. 37245 is neither eligible nor permitted to provide competency-based assessment to persons falling within the scope of the Regulations. Any appointment of a senior manager concluded after the date of issue of this circular based on assessment outcomes from a service provider(s) that is not trained and accredited in terms of the Regulations will render such an appointment null and void ab initio.

The DCoG has entered into a Service Level Agreement with each of the competency assessors, specifying the terms and conditions of this contract. In order to ensure compliance with the procurement processes as outlined in the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) and its Regulations, municipalities must upon receipt of this circular: 1) register the four competency assessors in their supply chain management databases, 2) enter into a Service Level Agreement with the designated competency assessor by signing the attached standard Service Level Agreement, and 3) issue the designated competency assessor with an order number for purposes of implementation of the Local Government: Competency Framework for Senior Managers. Under no circumstances must a competency assessment provider undertake any assessment in any municipality prior to the signing of the Service Level Agreement. A copy of the signed Service Level Agreement must be submitted to the DCoG through the Provincial CoGTA/ Metro Coordinator, as the case may be.

The appointment of the panel of competency assessors is subject to the General Conditions of Contract issued in accordance with the Treasury Regulations. The Special Conditions of Contract are supplementary to the General Conditions of Contract. In the event that the Special Conditions of Contract are in conflict with the General Conditions of Contract, the Special Conditions of Contract prevail.

The competency-based assessments will focus on all potential candidates recommended for appointment to advertised senior manager positions in local government. The objective is to ensure that only candidates who meet the prescribed minimum higher education qualifications, experience and who have achieved a competent rating or higher, are appointed to the relevant advertised senior manager positions.

The competency-based assessors will be responsible for:

- Undertaking logistical arrangements for assessment of senior managers;
• Administering competency-based assessments using the prescribed assessment batteries (this will be completed over a period of 1 and half days);
• Scoring the candidates’ responses (including the competency-based assessment tasks, as well as the psychometric components);
• Analysing of information obtained through the competency assessments, writing integrated feedback report per assessment, including findings and recommendations;
• Providing feedback to the municipality; and
• Ensuring compliance with prescribed standards and ethical assessment practices as stipulated in their Service Level Agreement with the DCoG and the guidelines and regulations outlined by the Health Professions Council of South Africa.

Competency assessors will within three (3) working days from the date of completion of the assessment as contained in the local government competency-based assessment battery, provide a comprehensive written report outlining the assessment results to the relevant municipality and/ or Provincial/ Metro Coordinator. Competency assessors must ensure that consolidated assessment reports of all assessed individuals are submitted to the National Coordinator based within the DCoG in a format to be agreed between the DCoG and the competency assessors. All assessment data must be captured on the reporting template submitted by the service provider to the DCoG on or before the last working day of every month.

The need to assess the capacity needs of municipalities and understand the skills levels of senior managers post the 2016 Local Government Elections is high on government agenda to minimise the unwarranted brain drain that always trail the change of municipal councils. The intent of government is to use competency assessments to maintain a register of profiles of all municipal managers and managers directly accountable to municipal managers nationally with a view to assess institutional stability and maturity in the system of local public administration and human resource systems. Further to the above, the outcome of this process will help municipalities to plan within their available budgeted funds for recruitment, retention and development of human resources according to their specific needs.

This circular constitutes the official pricing and it is binding on all competency assessors. Competency assessors will be paid by the respective municipalities a standard fee structure of R7 224.00 (VAT included) per assessment (i.e. administering the competency assessments, evaluating and scoring of results, report writing and feedback) at the designated assessment centre(s). The fixed fee will also include the following:

• Validated Competency-Based Simulation Exercises;
• Cognitive Process Profile (CPP);
• Fifteen Factor Questionnaire Plus (15FQ+); and
• GIOTTO.
No municipality may unilaterally change the standard fee structure as set out in this circular. Amendments may only be effected on the Service Level Agreements with the written consent of the DCoG.

Competency assessors have been assigned specific province(s)/municipality(s) according to their capacity and footprint. The assessment centres in each province have been designated as follows:

<table>
<thead>
<tr>
<th>No.</th>
<th>Province</th>
<th>Designated Assessment Centre</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Eastern Cape</td>
<td>East London</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Port Elizabeth</td>
</tr>
<tr>
<td>2.</td>
<td>Free State</td>
<td>Bloemfontein</td>
</tr>
<tr>
<td>3.</td>
<td>Gauteng</td>
<td>Johannesburg</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Pretoria</td>
</tr>
<tr>
<td>4.</td>
<td>KwaZulu Natal</td>
<td>Durban</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Pietermaritzburg</td>
</tr>
<tr>
<td>5.</td>
<td>Limpopo</td>
<td>Polokwane</td>
</tr>
<tr>
<td>6.</td>
<td>Mpumalanga</td>
<td>Middleburg</td>
</tr>
<tr>
<td>7.</td>
<td>Northern Cape</td>
<td>Kimberley</td>
</tr>
<tr>
<td>8.</td>
<td>North West</td>
<td>Rustenburg</td>
</tr>
<tr>
<td>9.</td>
<td>Western Cape</td>
<td>Cape Town</td>
</tr>
</tbody>
</table>

NOTE: The DCoG reserves the right to allocate any of the accredited competency assessors to render assessment services outside their designated area if the designated competency assessor fails to honour any obligations in terms of this contract.

In order to keep costs to the absolute minimum, municipalities are urged to send senior managers and potential senior managers to the designated assessment centres within the jurisdiction of their provinces. Any costs incurred by a municipality for competency-based assessments, including additional expenses associated to the administration of the competency-based assessments, such as travel and accommodation outside of the designated assessment centre(s) shall be borne by the relevant municipality. Notwithstanding this, travel, accommodation and subsistence may in exceptional circumstances be reimbursed at standard rates in accordance with the policy of the municipality.

Municipalities will from time to time determine the need for engagement of services of competency assessors and ensure that competency assessors are paid on time (i.e. within 30 days after receipt of an invoice). Notwithstanding this, municipalities must first verify the correctness of invoices made in terms of this contract before processing payments. Should any variances be detected between the invoice and the standard
fee structure as highlighted above, municipalities must engage the relevant competency assessors prior to processing any payment(s).

In order to ensure that assessments for senior managers are effectively coordinated, a three-tier implementation system comprising national, provincial and municipal coordinators will be adopted. The obligations of each coordinating office are highlighted below:

**Obligations of the national PMO within the DCoG**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Policy review and formulation</td>
</tr>
<tr>
<td>2</td>
<td>Oversee the training, accreditation and appointment process of potential service providers</td>
</tr>
<tr>
<td>3</td>
<td>Ensure that the panel of assessment providers is adequately capacitated</td>
</tr>
<tr>
<td>4</td>
<td>Ensure that all providers comply with minimum requirements for assessment</td>
</tr>
<tr>
<td>5</td>
<td>Respond to any queries regarding the assessments centres and providers</td>
</tr>
<tr>
<td>6</td>
<td>Administer and maintain a database of candidates who have been assessed</td>
</tr>
<tr>
<td>7</td>
<td>Compile a report to relevant stakeholders on progress, compliance and related matters</td>
</tr>
<tr>
<td>8</td>
<td>Arrange and engage in knowledge sharing sessions between providers to ensure relevance of services and information</td>
</tr>
<tr>
<td>9</td>
<td>Maintain all service provider Service Level Agreements</td>
</tr>
<tr>
<td>10</td>
<td>Ensure price compliance</td>
</tr>
<tr>
<td>11</td>
<td>Manage processes for contracting and termination of contracts of service providers</td>
</tr>
<tr>
<td>12</td>
<td>Engage in stakeholder management and actively manage the relationship with service providers</td>
</tr>
<tr>
<td>13</td>
<td>Conduct regular inspections on compliance, premise and related matters</td>
</tr>
<tr>
<td>14</td>
<td>Manage the accreditation of service providers with the Independent Accreditation Body</td>
</tr>
<tr>
<td>15</td>
<td>Introduce and direct municipalities to the assessments and the basis on which the assessment services are provided</td>
</tr>
</tbody>
</table>
Obligations of the Provincial/ Metro Coordinators

1. Represent the province in the national PMO
2. Liaison with the national office, introduce and direct the municipality(s) on assessments
3. Capturing and updating of information on the database
4. Liaison with service providers on assessment requirements within area of jurisdiction
5. Follow-up reports with service providers where required
6. Compilation of reports to the PMO
7. Management of queries related to provincial/ metro assessments
8. Review of assessments reports
9. Ensure compliance and assume the supportive administrative functions
10. Establish and preside over functional fora for Municipal Coordinators

Obligations of the Municipal Coordinators

1. Identify the need for competency assessment for recruitment and selection, personnel development or performance management purposes
2. Liaison with the Provincial Coordinator to engage the services of the assessors as and when a need arise
3. Interpret competency assessment results and advise the municipality accordingly
4. Maintain a record of competency assessment results for the municipality
5. Represent the municipality in the provincial structures

Training aimed at capacitating members of the PMO to fulfil their roles and responsibilities (i.e. coordination and overseeing the competency assessment process) has been scheduled as follows:

Date: 6 June 2016
Duration: 1 Day
Venue: 87 Hamilton Street, Boardroom S37, Arcadia, Pretoria

All designated Provincial/ Metro Coordinators are requested to attend this training. Costs for training will be borne by the DCoG with the exception of travel and accommodation. If any member of the PMO fails to attend the training as scheduled above, such member is expected to arrange training with the training provider at the cost of the relevant designating authority.

As part of the implementation support on the Regulations and competency-based assessment for senior managers, Provincial Coordinators are urgently requested to
convene workshops targeting one designated Municipal Coordinator/ Human Resource Manager per municipality as follows:

<table>
<thead>
<tr>
<th>No.</th>
<th>Date</th>
<th>Province</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>20 June 2016</td>
<td>Limpopo</td>
</tr>
<tr>
<td>2.</td>
<td>21 June 2016</td>
<td>Gauteng</td>
</tr>
<tr>
<td>3.</td>
<td>22 June 2016</td>
<td>North West</td>
</tr>
<tr>
<td>4.</td>
<td>23 June 2016</td>
<td>Northern Cape</td>
</tr>
<tr>
<td>5.</td>
<td>24 June 2016</td>
<td>Free State</td>
</tr>
<tr>
<td>6.</td>
<td>27 June 2016</td>
<td>Western Cape</td>
</tr>
<tr>
<td>7.</td>
<td>28 June 2016</td>
<td>Eastern Cape</td>
</tr>
<tr>
<td>8.</td>
<td>29 June 2016</td>
<td>KwaZulu Natal</td>
</tr>
<tr>
<td>9.</td>
<td>30 June 2016</td>
<td>Mpumalanga</td>
</tr>
</tbody>
</table>

The purpose of the workshops is to build the capacity of the Municipal Coordinators to fulfil their role and responsibilities. It is in the interest of municipalities to ensure that the targeted audience attend these workshops.

Should you need any clarity in this regard, you are welcome to contact the following officials within the DCoG:

Mr Jackey Maepa or Mr Tebogo Motlashuping on telephone number (012) 334 4915 or (012) 336 5763 or by email at jackeym@copta.gov.za or TebogoMo@copta.gov.za.

Your cooperation in this regard will be highly appreciated.

Kind regards,

[Signature]

MR K T SIGIDI
ACTING DIRECTOR-GENERAL
DATE: 24 May 2016
8. In committee Items (See separate agenda)

9. Closure

-00o-