



THABAZIMBI LOCAL MUNICIPALITY

DIAGNOSTIC REPORT 2017/18 FINANCIAL YEAR

GETTING THE BASICS RIGHT

| No | Problem Statements | Desired Outcome | What needs to be done |
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| 1 | <ul style="list-style-type: none"> Key account reconciliations not done at all or not done in good time. Daily reconciliations not done. | <ul style="list-style-type: none"> All accounts reconciled. Daily reconciliations are done | <ul style="list-style-type: none"> Key accounts should be reconciled monthly. The reconciling items on the key accounts should be cleared in the following month to which the reconciliation relates. Staff in the budget and treasury division of the municipalities should be trained on preparing key account reconciliations. Workshops to be held where templates for the required reconciliations are shown to the staff. Daily reconciliations should be done. Monthly reconciliations should be done for water and electricity inventories to account for water and electricity losses |
| 2 | <ul style="list-style-type: none"> Suspense accounts such as unknown deposits are not cleared in time. | <ul style="list-style-type: none"> All suspense accounts are reconciled and reconciling items are cleared not more than 3 months from date of origination. | <ul style="list-style-type: none"> An age analysis of suspense accounts should be done with each item on the suspense account indicating a debt on which it originates. No item in the suspense accounts should be aged more than 90 days. In monthly management/Exco meetings, the CFO should report on progress of suspense accounts CFO to be held accountable by the Municipal Manager for suspense accounts not cleared within 3 months from date of origination. |
| 3 | <ul style="list-style-type: none"> Preparation of Annual financial Statements in systems not directly linked to the general ledger resulting in the differences between the figures on the general ledger/trial balance used to prepare the annual financial statements and that on the financial system as journals are passed outside the financial system. This has resulted in the Auditor General of South Africa issuing straight disclaimers on some municipalities' financials. | <ul style="list-style-type: none"> Annual Financial Statements which reconcile to the figures in the general ledger. | <ul style="list-style-type: none"> Before submission of the annual financial statements for audit, the CFO should verify that the final updated general ledger/trial balance reconciles to the annual financial statements By mid- August each year in preparation of submission of the annual financial statements to the AGSA by the 31st of August, all journals should have been processed Should there be need to pass journals between mid-August and the 31st, those journals should only be |

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| | | | <p>processed under the supervision of the CFO.</p> <ul style="list-style-type: none"> Access controls to post year end journals should be limited to only a few personnel and every time a journal is processed on the financial system, the AFS should be updated. |
| 4 | <ul style="list-style-type: none"> Most municipalities have not grasped the fact that if they received a modified audit opinion in the previous year, when the AGSA audits in the following year, the municipality will still receive a modified audit opinion for as long as the opening balances have not been resolved. This is so much applicable to instances where the AGSA did not obtain supporting documents. As such, no concerted effort is done to ensure that opening balances are rectified or that the supporting documents which were not submitted to the AGSA are located and submitted for audit. | <ul style="list-style-type: none"> Corrected opening balances to avoid a repeat modified audit opinion Submission of all supporting documents not previously submitted in the prior year(s) | <ul style="list-style-type: none"> As soon as the AGSA have issued their audit opinion on the 30th of November each year, the Municipal Manager should issue a directive that opening balances for the last audited financial year should be resolved by the 28th of February of the following year The CFO should ensure that by the said date, all the opening balances are resolved Thereafter, the municipality's internal audit should thoroughly audit the corrected opening balances and should there still be anomalies, the CFO and his/her team should rectify by the 31st of March. |
| 5 | <ul style="list-style-type: none"> Sub-ledgers which do not reconcile to the general ledger Sub-ledgers/registers do not exist at all | <ul style="list-style-type: none"> Reconcilled sub-pledgers which enable the generation of regular management reports on time Detailing listings(registers) which support each balance/class of transaction/disclosure in the annual financial statements | <ul style="list-style-type: none"> Sub-ledger and ledger reconciliations should be done monthly for fixed assets, receivables, payables and inventory. Sub-ledgers/listings should be prepared by the municipalities for each balance, class of transaction and disclosure items. As a minimum, the municipalities should have a fixed asset register, detailed debtor age analysis, creditors' analysis and inventory listing. |
| 6 | <ul style="list-style-type: none"> Action plans are not done at all or are only done just before year end with not enough time to address qualification matters and or root causes of qualification matters. | <ul style="list-style-type: none"> An effective audit action plan which is prepared on time and its implementation monitored thereon. | <ul style="list-style-type: none"> The audit action plan should be submitted to the Municipal Manager within 2 weeks of the issuance of the audit report by the AGSA. The Municipal Manager should include the implementation of the audit action plan as an addendum to the annual performance agreements with the other Sec 57 Managers. They in turn should include the effective implementation of the audit action plan in the KPAs of their immediate subordinates. |

| No | Problem Statements | Desired Outcome | What needs to be done |
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| | | | <ul style="list-style-type: none"> The action plan should be clear on whether the municipality has the requisite in-house expertise to address all the AGSA findings and if not experienced and qualified consultants should be appointed to assist the municipality to address the findings where there is no in-house expertise. |
| 7 | <ul style="list-style-type: none"> Internal audit findings not responded to at all and in instances where there are responses, the recommendations are not implemented at all As a result of that, findings noted by the Internal Audit unit also replicate themselves in the AGSA Management report | <ul style="list-style-type: none"> Implementation of internal audit findings | <ul style="list-style-type: none"> Internal audit recommendations should be implemented All Internal audit findings to be responded by the responsible divisional heads Municipal Manager to hold Sec 57 managers accountable for non-implementation of internal audit recommendations and failure to respond to Internal audit findings within the agreed timeframe per Internal audit plan. |
| 8 | <ul style="list-style-type: none"> Non-submission/late submission of information due to poor records management Municipal officials cannot trace exactly where the documents should be and in whose hands are the documents supposed to be | <ul style="list-style-type: none"> Documents requested for audit are submitted to the AGSA within 3 days of the issuing of the request of information by the AGSA | <ul style="list-style-type: none"> All vouchers should be filed in sequentially numbered files The files should be kept in the Municipality's archives A register should be maintained for all documents taken to and out of the archives. When vouchers are taken to the archive room, the register should indicate the name of the official who has submitted voucher to the archive room, the official in the archive room who received the document for filling, the voucher number, date. Unless if the documents are required for the purpose of audit, no vouchers should be taken out of the archive room without the prior authorisation from the Municipal Manager or his/her delegated official. Where vouchers are to be taken out of the archive, the official requesting the documents should sign the register indicating the date when those documents were taken. On a weekly basis, an official in the archives should review the documents register noting dates when documents were taken out of the archive and any |

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| | | | <p>document which has not been returned within 2 working days, the official who took the documents should be formally asked to urgently return the documents.</p> <ul style="list-style-type: none"> • Should the official not return the documents, they should be reported to the Municipal Manager. • With costs permitting, municipalities should consider electronic filling of documents |
| 9 | <ul style="list-style-type: none"> • Journal entries not supported by valid documentation and or explanations. | <ul style="list-style-type: none"> • Journal entries which are supported by valid documentation and explanations | <ul style="list-style-type: none"> • Municipal staff should undergo training on processing of transactions and financial reporting processes. • Staff to know to process transactions correctly first time. • Supporting documents and or explanations should be provided for each journal entry. • Access right to post journals should be limited to only few staff members. |
| 10 | <ul style="list-style-type: none"> • Despite asserting that when the Municipal Manager signs approves the AFS before submission, the financial statements represent a true and fair reflection of the financial affairs of the municipality, CFOs submit a Cash Flow statement which does not balance at all resulting in an audit finding from the AGSA | <ul style="list-style-type: none"> • An accurate Cash Flow statement is presented in the AFS | <ul style="list-style-type: none"> • Municipal Manager to take disciplinary measures against the CFO for misrepresenting the Cashflow Statement. • The CFOs and other finance staff should be trained on how to do a proper cashflow statement. |
| 11 | <ul style="list-style-type: none"> • If management and those charged with Governance do not lead from the front, most municipality staff do not take the audit seriously • A municipality where the Mayor, Municipal Manager and the CFO are involved in the audit process has better chance of an unmodified audit opinion than those where the above officials do not take a keen interest in the audit process | <ul style="list-style-type: none"> • Management to lead from the front during the audit process | <ul style="list-style-type: none"> • During the audit, the Municipal Manager should attend the weekly steering committee meetings • In the meetings, he/she must hold to account officials who delay the audit process by non-submission of information within the stipulated period |
| 12 | <ul style="list-style-type: none"> • In the advent of merging of municipalities due to the demarcation exercise done, this will entail consolidation of figures from more than one municipality. The consolidation could be done incorrectly resulting in the merged municipalities receiving modified audit opinion | <ul style="list-style-type: none"> • Smooth consolidation of the financial records of merged municipalities | <ul style="list-style-type: none"> • Refer to the 'Emerging Risks' table below |

5.2. CURRENT ASSETS

| No | Problem Statements | Desired Outcome | What needs to be done |
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| 1 | <ul style="list-style-type: none"> Municipalities do not assess the provision of impairment in line with GRAP 104 Due to late assessment of provision for impairment, and sheer number of debtors on the age analysis, municipalities end up applying a blanket provision for impairment based on number of days outstanding. No follow up/proof of follow up on long outstanding debts (more than 3 years). Municipalities appoint debt collectors to follow up on debtors on the entire debtors' age analysis and pay them a commission even though there are some debts which have prescribed and will never be recoverable. In the process, municipalities incur fruitless and wasteful expenditure. | <ul style="list-style-type: none"> Provision of impairment after assessing the recoverability of each debtor/class of debtors rather than based on the number of days outstanding Only debts which have not prescribed (i.e. not recoverable in terms of the Prescription Act) are recorded in the debtors ledger. | <ul style="list-style-type: none"> GRAP 104 guidelines should be followed During the year, the payment patterns of each debtor/class of debtors should be assessed to determine the realistic % to be recovered. The municipalities should do a debtor cleansing exercise, identifying all debts which have prescribed. Those debts should be recommended for write off to the Municipal Council. |
| 2 | <ul style="list-style-type: none"> There are Inter-municipal account confirmations which are prepared by local municipalities but the amounts are not confirmed with the district municipality (water and sanitation transactions). Furthermore, these balances are not confirmed monthly but are only sought at the end of the year. Though there are inter-municipal account confirmations, the confirmations are only done to balance the books but are not supported by valid documentations. To show that those amounts are not supported by valid documentation but by mere book entries, subsequent to year end, | <ul style="list-style-type: none"> Inter-municipal balances which are valid and are supported by valid transactions. Inter-municipal account reconciliations which are done monthly and reconciling items resolved during the year. | <ul style="list-style-type: none"> Inter-municipal account reconciliations should be reconciled monthly rather than at year end. Differences should be noted and reconciled to genuine transactions rather than book entries at year end. Subsequent to year end, these balances should be settled i.e. where one entity acknowledges that they owe the other, they must settle the amount in the ensuing year. |

| No | Problem Statements | Desired Outcome | What needs to be done |
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| | <p>there is no movement of cash between the local and district municipalities to confirm that indeed the amounts are valid. As such, those inter-municipal balances have been increasing for over the years.</p> | | |
| 3 | <ul style="list-style-type: none"> Despite most debtors not paying their dues on time, some municipalities' debtors systems do not charge interest on those debtors thus resulting in understatement of receivables and interest revenue. | <ul style="list-style-type: none"> Interest charged on receivables and the interest charged recovered thereon. | <ul style="list-style-type: none"> Debtors systems should be configured such that where interest is supposed to be charged on certain individual or class of debtors, it the interest is applied accordingly. |
| 4. | <ul style="list-style-type: none"> Despite the effort by National and Provincial Treasury, COGHSTA and National and Provincial Departments of Public Works to ensure that historic debts owed by Government and quasi-government entities are recovered, most municipalities because of their poor accounting records, the amounts owed as per municipality's records cannot be recovered because the municipalities could not substantiate those balances. Furthermore, there are instances where municipalities sue the schools through the Limpopo Department of Education for unpaid municipal rates whereas those schools buildings are owned by the Limpopo Provincial Department of Public Works Provincial Government. Apart from the municipality sending the payment summons to an incorrect department, the municipalities would not have exhausted the Intergovernmental relations framework when pursuing debts. | <ul style="list-style-type: none"> Full recovery of government and quasi-government owned entities debts | <ul style="list-style-type: none"> Municipalities should ensure that they use the Inter-governmental relations framework to recover government debts. Municipalities should ensure that government and quasi government entities debts are supported by valid documentation so that they are recovered easily. Municipalities should continuously negotiate payment terms with government departments and quasi government entities |

| No | Problem Statements | Desired Outcome | What needs to be done |
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| 5. | <ul style="list-style-type: none"> • VAT not recovered from SARS because there are no supporting documents. Whereas municipalities are usually net receivers of VAT from SARS and would have already paid the VAT portion of expenses from service providers, when they do their monthly/bi-monthly returns and when SARS perform their annual audits, due to poor records management, SARS does not allow claims for items where the municipality does not have original supporting documents. • VAT refunds not recoverable and had to be written off. • This affects the cashflows of municipalities. • Numerous VAT Control accounts on the ledger (as many as 7 in some municipalities) in which numerous journal entries not supported by valid documentation are passed | <ul style="list-style-type: none"> • VAT owed by SARS as recorded in the AFS is recoverable • VAT Control accounts which are supported by valid documentation. | <ul style="list-style-type: none"> • Original supporting documents for VAT returns should be retained. • VAT Control accounts should be streamlined and only be supported by valid input and output VAT entries and if there are any correcting journal entries, they should be supported by valid documentation. |
| 6 | <ul style="list-style-type: none"> • The debtors age analysis of most local municipalities are not configured in such a way that the balances for water and sanitation (which should be transferred to the District Municipality as the Water Service Authority). As such, when the local municipalities do their provision for bad debts, they use an apportionment formula which has not been tested against any international or local benchmark. • Furthermore, when consumers pay their monthly bills without specifying which services are they paying for, local municipalities do not prioritise the water and sanitation services (which is supposed to be receipts for the district municipality as the water service authority). Instead, they use an | <ul style="list-style-type: none"> • A user friendly local municipalities debtor age analysis from which reports can be extracted from • A fair apportionment formula when allocating receipts from customers | <ul style="list-style-type: none"> • The computer systems for local municipalities from which Debtor age analysis are extracted, should be configured in such a way that the balances for water and sanitation can be easily differentiated from the rest of the debtors. • Local and district municipalities should urgently agree on a fair and equitable formula of allocating receipts to different services • Consumers should also be asked to specify what services they are paying for when they pay for services at the cashiers. |

| No | Problem Statements | Desired Outcome | What needs to be done |
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| | <p>apportionment formula which has not been formally agreed with the district municipality where an insignificant portion of the receipt is allocated towards the water and sanitation services</p> | | |
| 7 | <ul style="list-style-type: none"> • The municipalities do not update their indigent registers periodically resulting in billings being done on consumers who ordinarily should be treated as indigents. • On the inverse, billings at the current rates are not done on consumers who are no longer regarded as indigents. This results in the receivables balances on consumer debtors being understated. | <ul style="list-style-type: none"> • Accurate billing and reversals of billings for Indigent debtors register • Periodic update of the indigent register. | <ul style="list-style-type: none"> • Indigent register should be updated annually. • Incorrect billings/billings reversals for indigent debtors should be corrected monthly. |
| 8 | <ul style="list-style-type: none"> • Municipalities always submit their AFS to the AGSA without categorising the debtors according to economic sector i.e. households, industrial, government etc. | <ul style="list-style-type: none"> • Aged Debtors note which shows debtors categorised according to the following economic sectors namely households, industrial, government and other | <ul style="list-style-type: none"> • To avoid unnecessary findings from the AGSA, the CFO should ensure that the system from which the debtors age analysis is extracted from, categorises each debtor according to economic sector |

5.3 CAPITAL ASSETS

| No | Problem Statements | Desired Outcome | What needs to be done |
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| 1. | <ul style="list-style-type: none"> • One of the most obvious qualification paragraph in AGSA reports is the fact that municipalities do not do annual impairment and asses the useful lives as well as residual values of their Non-current assets. | <ul style="list-style-type: none"> • Detailed report on the annual impairment and assessment of residual values as well as useful lives of assets. | <ul style="list-style-type: none"> • Management should ensure that in the last quarter of each financial year, using the results of the physical verification, a detailed impairment assessment is done. That report should be provided as part of audit evidence to the AGSA • Management should provide evidence why the useful lives and residual values of assets have/have not changed. If they have based their results on industry practice, documentation to such effect should be filled. • Reasoning on the useful lives and residual values should be included in detailed formal report to be send to the Municipal manager. |
| 2 | <p>Due to late appointment of service providers to compile asset registers, municipalities would be given the final asset register in the last weeks of August each year just before the AFS had to be submitted to the AGSA on the 31st. At that time, there is no ample time to interrogate the asset register for apparent errors such as</p> <ol style="list-style-type: none"> a) Duplications; b) Formula errors; c) Missing fields on the registers; d) Negative amounts on the assets register; e) Excessive cost per unit for infrastructure assets; <p>As a result of those numerous apparent errors, the AGSA would not normally allow for adjustment as adjustments will entail resubmission of a new asset register.</p> | <ul style="list-style-type: none"> • Credible asset register | <ul style="list-style-type: none"> • The municipality's asset register whether it was prepared by consultants or in-house, should be completed at least 3 months before year end and only updated for movements in the last 3 months of the year. • The last 3 months of the year should be used to interrogate the asset register for apparent errors so that the consultant/in-house asset manager rectifies those errors. • The asset register should always be reviewed using CAATS by the Municipality's Internal Audit unit. |

| No | Problem Statements | Desired Outcome | What needs to be done |
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| 3 | <ul style="list-style-type: none"> Most consultants who are appointed to compile asset registers by municipalities in the province are also compiling asset registers in other provinces whose costs per unit for infrastructure assets differ from those obtaining in the province. However, rather than ensuring that the conditions prevailing in the province are used in valuing the infrastructure assets, the consultants apply a blanket valuation approach on the values on infrastructure assets. In most cases, the costs per unit assigned to the infrastructure assets are excessive resulting in overstatement of assets values hence qualification from the AGSA | <ul style="list-style-type: none"> Properly valued infrastructure assets | <ul style="list-style-type: none"> The costs per unit for infrastructure assets assigned by consultants should be benchmarked with the most recent costs per unit on infrastructure assets built by the municipality. Excessive costs per unit should be impaired. |
| 4 | <ul style="list-style-type: none"> Work in progress reports are not properly monitored to ensure that work in progress is capitalised when the infrastructure assets are available for use. This is also caused by lumping all the work in progress costs on one spreadsheet rather than maintaining separate sheets for each individual infrastructure assets This results in incorrect depreciation as depreciation is not commenced on the correct dates. | <ul style="list-style-type: none"> Depreciation of assets when they are available for use | <ul style="list-style-type: none"> For each infrastructure asset under construction, a separate work in progress report spreadsheet must be maintained. The report should be reviewed monthly by the Director Technical Services and the CFO to ensure that completed assets are capitalised and moved from WIP thereon. |
| 5 | <ul style="list-style-type: none"> Unqualified and inexperienced Asset Managers in municipalities rely on consultants year in year out for the compilation of the asset register and without the assistance of consultants, numerous errors are noted on the asset register submitted for audit | <ul style="list-style-type: none"> Asset management unit in the municipalities which is self-sustainable | <ul style="list-style-type: none"> Staff in the asset management unit should work closely with consultants and ensure that in the following year(s), they are able to compile the asset register on their own A portion of the consulting fees to be paid to consultants should be contingent upon them showing satisfactory transfer of skills to staff in the asset management unit of the municipality |

5.4 LIABILITIES

| No | Problem Statements | Desired Outcome | What needs to be done |
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| 1 | <ul style="list-style-type: none"> • For infrastructure assets, municipalities are unable to determine at any given point in time how much is the retention owed to contractors. • In most cases, the municipalities only react when the contractor submits an invoice for unpaid retention. • Furthermore, some municipalities do not recognise the unpaid retention amounts in the ledger when they withhold retention amounts on progress payment certificates for contractors • In instances where retention is withheld, when the amount is eventually paid, rather than clearing the retention amounts by debiting the retention ledger and crediting bank account, municipalities will debit asset cost and credit bank thus overstating the asset cost and leaving the retention account with an uncleared balance. • This is caused by the fact that municipalities do not maintain , review and periodically update the retention register . | <ul style="list-style-type: none"> • Retention register which reconciles to the general ledger | <ul style="list-style-type: none"> • For each infrastructure asset under construction, a separate retention list must be maintained. • The report should be reviewed monthly by the Director Technical Services and the CFO to ensure that the retention listing/ledger is updated every time retention on a project is withheld or paid. • The retention list should show the dates when the amount was withheld and since the standard retention period for most infrastructure assets is 12 months, any item on the retention listing which is more than 12 months should be investigated. |

5.5 DISCLOSURES

| No | Problem Statements | Desired Outcome | What needs to be done |
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| 1 | <ul style="list-style-type: none"> Municipalities do not maintain a proper commitment register so as to identify at any given point in time, to what amount are they committed to service providers with whom they have contracts with. As such, a common qualification item by the AGSA is a limitation on quantification of the commitments amount. | <ul style="list-style-type: none"> Commitment register which is periodically updated and depicts the municipality's commitments to service providers. | <ul style="list-style-type: none"> For construction projects, municipalities should maintain a project register where for each item, the original contract amount, variations to the order if any, cumulative costs incurred on the construction project if any to date, any penalties imposed on the service provider are recorded. The register should be updated every time a new award is made, a variation is done, a payment is done or a penalty is imposed. This will assist in the extraction of the commitment listing for the purpose of preparation of the annual financial statements. The municipality should be able to support the contract amounts included on the project register with the original contract signed with the service provider. Where there are variations, a variation order approved by the Municipal Manager should be filed for audit review. The cumulative costs incurred to date should be agreed to the ledger |
| 2 | <ul style="list-style-type: none"> Municipalities normally restate their comparative figures but do not include a note in the annual financial statements to explain the restatement of the comparative figures. For those that disclose in a note the restatement, the disclosure note is usually shallow, i.e. it does not show why the restatement was done and the impact on the account balances and classes of transactions Furthermore, municipalities do not normally distinguish between adjustment which affects prior year classes of transactions and those which affect opening retained earnings. As such, the AGSA normally qualifies municipalities on this regard. | <ul style="list-style-type: none"> Detailed prior period error note in the annual financial statements | <ul style="list-style-type: none"> Before submitting AFS to the AGSA, the CFO should compare the comparative figures to the prior year audited AFS figures and where there is material changes in the balances, the prior period error note should be included in the annual financial statements For each item whose comparative figures have changed, the CFO should provide a narrative why the figures have changed and the account balances/class of transactions which are affected by the restatement. |

5.6 REVENUE

| No | Problem Statements | Desired Outcome | What needs to be done |
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| 1 | <ul style="list-style-type: none"> Municipalities are not compiling complete supplementary valuation rolls. To this extent, there are properties within the municipality's jurisdiction which do not appear on the valuation rolls and are thus not billed for services provided to them by the municipalities. This is despite the fact the municipality's Planning and Spatial Development Directorate would have been involved in approving the building plan of the said properties and in most instances, the municipality will be providing water, sanitation and refuse services to the said properties. When the AGSA do their annual audits by tracing properties within the municipality's boundaries to the billing reports, those properties are not found resulting in qualification on completeness of revenue. | <ul style="list-style-type: none"> Updated supplementary valuation roll. All properties receiving municipal services are billed. | <ul style="list-style-type: none"> The Planning and Spatial Development directorate of the municipality should ensure that every time there is a building plan approved, and where there are completed properties to which municipal services are being provided, such new properties are reconciled with the valuation rolls used by the Budget and Treasury directorates to identify properties which are not being billed for services rendered to them. Supplementary valuation rolls should be reviewed periodically for omissions The municipalities' Internal Audit units should conduct annual audits on completeness of the valuation roll by selecting properties within municipal boundaries and trace them to the valuation rolls and billing schedules. |
| 2 | <ul style="list-style-type: none"> Whereas the different tariffs are approved by council for property rates, water, refuse, electricity for households in the townships, households in the low density suburbs and business, from onset, municipalities apply the incorrect tariffs for properties i.e. but mostly tariffs meant for households in the townships are incorrectly applied to households in the low density suburbs and businesses. Also instances where the land use of a property changes from one use to | <ul style="list-style-type: none"> Correct billing report. Properties are billed based on the correct land use. | <ul style="list-style-type: none"> When the valuation rolls are done, the municipality should ensure that the properties are properly designated based on their current land use and location. The internal audit unit should annually select properties which are being used for different economic activities and verify whether the billing reports for the said municipalities reflect their economic activity use. |

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| | <p>another and hence billing rates need to be updated, this is not always done.</p> <ul style="list-style-type: none"> • This results in understatement of revenue and financial losses to the municipality. • By sheer volumes of number of consumers on the billing schedules, in instances where such anomalies are identified by the AGSA, correcting the anomalies is not achievable during the audit cycle but had to wait until the valuation roll has been updated. As such where the anomaly when extrapolated exceeds the AGSA material levels, this results in qualification on completeness of revenue. | | |
| 3. | <ul style="list-style-type: none"> • District municipalities rely on the integrity of the billing reports of the local municipalities for revenue from water and sanitation. For as long as there are billing reports anomalies at the local municipalities, the district municipalities will be qualified to this regard | <ul style="list-style-type: none"> • Accurate water transactions revenue to be extracted from the billing reports at local municipalities | <ul style="list-style-type: none"> • Local municipalities should invest in billing systems that produce accurate and reliable billing reports |

5.7 EXPENDITURE

| No | Problem Statements | Desired Outcome | What needs to be done |
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| 1 | <ul style="list-style-type: none"> • Municipalities do not have supporting documents for the expenses recorded | <ul style="list-style-type: none"> • All expenditure transactions are supported by original supporting documentation | <ul style="list-style-type: none"> • All expenditure vouchers should be filed in the archive room |
| 2 | <ul style="list-style-type: none"> • Misclassifications between capital and expenses. | <ul style="list-style-type: none"> • Expenses which are properly classified | <ul style="list-style-type: none"> • Review of the vouchers before they have been posted to ensure that correct codes have been used. • Cares should be observed when classifying payment vouchers. |

| No | Problem Statements | Desired Outcome | What needs to be done |
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| 3 | <ul style="list-style-type: none"> Journals in the expenses ledgers not supported by valid documentation and explanations. | <ul style="list-style-type: none"> Journals in expenditure ledger transactions which are supported by valid documentation and or explanations. | <ul style="list-style-type: none"> Staff to be trained to post transactions correctly first time to minimise re-classification journals. Disciplinary procedures to be taken against staff who process journals without supporting documentation and explanations. |
| 4 | <ul style="list-style-type: none"> Furthermore, there are some local municipalities which allocate costs to the district municipalities' Water and Sanitation account without agreement from the latter | <ul style="list-style-type: none"> Water and sanitation costs allocated to the district municipality are as per Service level agreement | <ul style="list-style-type: none"> The service level agreement between the local and district municipalities on the water and sanitation provision, should be specific as to what costs or revenue is attributed to the concerned parties |

5.8 FRUITLESS AND WASTEFUL EXPENDITURE

| No | Problem Statements | Desired Outcome | What needs to be done |
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| 1 | <ul style="list-style-type: none"> Municipalities do not pay service providers within 30 days from date of receipt of invoice resulting in interest on late payments. | <ul style="list-style-type: none"> Payment of service providers within 30 days to avoid interest on late payment | <ul style="list-style-type: none"> Invoices should be stamped when they are received. They should then be recorded in the invoice register and the invoice register should be reviewed weekly to identify invoices received but not yet paid. |
| 2 | <ul style="list-style-type: none"> Telkom and Eskom are the two entities which charge municipalities interest on late payments as their system is set up in such a way that interest is charged on unpaid bills from the cut-off date of the two entities' month end. Their month end is usually not the same as that of the municipalities and it is also not aligned to the municipality's weekly , bi-weekly payment runs Furthermore, due to challenges at the South African Post Office, municipalities who have not arranged to receive their bills electronically, will only receive the invoices well after | <ul style="list-style-type: none"> Payment of Telkom and Eskom invoices with no interest charged. | <ul style="list-style-type: none"> Municipalities should opt to receive invoices from Eskom and Telkom electronically Municipalities should note the cut off dates for payments of the bills and irrespective of whether the dates coincide with the normal supplier payment runs, Telkom and Eskom invoices should be paid as soon as the invoices are received. Officials in the creditors division should be proactive enough by requesting Eskom and Telkom to send invoices for payment should the cut-off date draw closer but the invoices have not been received. |

| No | Problem Statements | Desired Outcome | What needs to be done |
|----|--|---|---|
| | <p>the expiry of the deadline payment date for Eskom and Telkom and hence interest would have been charged already.</p> | | |
| 3 | <p>Municipalities 's legal services division do not control Legal cases resulting in:</p> <p>a) Cases dragging for too long and the municipality's legal costs far much exceeding the original claim.</p> <p>b) Default judgements against the municipality for long outstanding cases where the municipality ends up not defending but paying the claim and the legal costs awarded thereon (for example prolonged labour cases)</p> | <ul style="list-style-type: none"> • Quick resolution of lawsuits against the municipality hence reduced legal fees. | <ul style="list-style-type: none"> • Without denying the right to defend themselves, municipalities should consider out of court settlements on some cases where the chances of success are remote. |
| 4 | <ul style="list-style-type: none"> • Municipalities do not submit their income and VAT returns on time and in some cases where the returns are submitted, they are not correct resulting in SARS charging them Penalties and interest thereon. | <ul style="list-style-type: none"> • Correct income and VAT returns submitted within the legislated timeframes | <ul style="list-style-type: none"> • VAT returns and Income Tax returns should be submitted on or before the legislated deadlines. • Disciplinary procedures to be taken against the responsible officials who do not submit the returns/submit returns late to SARS. |
| 5 | <ul style="list-style-type: none"> • Some invoices are paid twice without the system picking such payments. The payments are only identified during the audit by the AGSA. | <ul style="list-style-type: none"> • No duplicated payments to service providers. | <ul style="list-style-type: none"> • Payments vouchers should be 'stamped paid' once they have been paid. |

5.9 IRREGULAR EXPENDITURE

| No | Problem Statements | Desired Outcome | What needs to be done |
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| 1 | <ul style="list-style-type: none"> Management tend to go the deviation from supply chain management route when requesting quotations or when they are supposed to advertise tenders but the reasons used are not valid. Poor planning is used to justify deviations from the SCM process | <ul style="list-style-type: none"> Deviations from the SCM process should only be for extenuating circumstances | <ul style="list-style-type: none"> Deviations due to poor planning should not be condoned by Council until proper investigations have been done. |
| 2 | <ul style="list-style-type: none"> Irregular expenditure on municipalities' financial statements is increasing every year but there is no consequences for the officials who are responsible for the irregular expenditure Furthermore, management do not revisit the entire population of transactions for which irregular expenditure has been identified but will only limit themselves to what would have been identified by the AGSA. In the following financial year, failure to show proof that management have revisited the entire population to identify additional irregular expenditure, results in the qualification on completeness of irregular expenditure. | <ul style="list-style-type: none"> Consequence management applied on officials who cause irregular management | <ul style="list-style-type: none"> Thorough investigations should be done on the entire population of transactions where irregular expenditure would have been identified and officials, who are found culpable for that irregular expenditure, should be subjected to disciplinary proceedings. Proof that investigations for that irregular expenditure incurred was conducted should be kept for audit review. |
| 3 | <ul style="list-style-type: none"> Management also do not monitor variation orders caused by approved/unapproved scope creep where municipalities end up paying an additional amount which is more than 20% and 15% of the original construction contract and | <ul style="list-style-type: none"> Service providers being forced to charge the municipalities the agreed contract amounts. Where the contract amounts is exceeded beyond the thresholds | <ul style="list-style-type: none"> No scope creep should be allowed once a contract has been agreed. Where there is unavoidable adjustments to the scope, the adjustments should be properly approved by the Municipal Manager and if the thresholds of 20% and 15% for construction and professional services contracts are to be |

| No | Problem Statements | Desired Outcome | What needs to be done |
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| | <p>professional services contract respectively without getting approval from the Provincial Treasury. Municipalities only realise the anomaly once this has been highlighted by the AGSA</p> <ul style="list-style-type: none"> This is so because the municipalities' payment and order systems do not have in-built controls which will not release a payment from an order which will result in the set thresholds being breached. | <p>limits, approval from Provincial Treasury is sought before proceeding in payment for the variation.</p> | <p>breached, detailed explanations need to be provided to the Provincial Treasury before the scope creep is allowed and is billed to the municipality.</p> <ul style="list-style-type: none"> The municipalities' payment and order systems should have in-built controls which will not release a payment from an order which will result in the set thresholds being breached for that particular order. Consequence management should be applied on officials who enable unapproved variation orders. |
| 4 | <ul style="list-style-type: none"> Municipal staff who do not have the necessary experience and qualifications are appointed to manage the supply chain management section In some cases, staff members are moved from another non-related directorate to manage the SCM section without proper training and induction. As such, their comprehension of the Treasury Regulations, Circulars and the Supply Chain Management regulations is limited | <ul style="list-style-type: none"> SCM unit which is manned by appropriately qualified and experienced staff members | <ul style="list-style-type: none"> Staff members in the SCM unit should be periodically trained and send to refresher courses on SCM |
| 5 | <ul style="list-style-type: none"> Unlike in National and Provincial Departments who use the PERSAL system for payroll, municipalities use different payroll system which National Treasury do not have access to , to identify instances of municipal staff who are doing business with the municipalities and other state institutions Furthermore, the employees would not have neither declared their | <ul style="list-style-type: none"> Employees employed by the municipality should not do business with the municipality. Employees should obtain prior approval to perform remunerative work outside their normal course of employment. | <ul style="list-style-type: none"> Municipalities should invest in a system which will easily identify employees who are doing business with the municipality. Disciplinary procedures to be taken against transgressing employees. |

| No | Problem Statements | Desired Outcome | What needs to be done |
|----|---|---|---|
| | <p>interest in service providers who do business with the municipality nor were they given approval by the Municipal Manager to conduct remunerative work outside their normal course of employment.</p> <ul style="list-style-type: none"> It is only at year end when the AGSA audit that such issues are identified. | | |
| 6 | <ul style="list-style-type: none"> Management oversight on: <ul style="list-style-type: none"> a) Appointment of an incorrect service provider due to errors in the calculations of the points system. b) Ensuring that the tender validity period has not expired at the time when an appointment is done. c) Bid Adjudication committee appointing a service provider not recommended by the Bid Evaluation Committee but no reasons to justify such moves are documented and filled | <ul style="list-style-type: none"> Appointment of a service provider in line with the SCM regulations Tenders are appointed within their validity periods | <ul style="list-style-type: none"> The municipalities' internal audit units should periodically review the appointment process of tenders to identify non-compliance |

5.10 PRE-DETERMINED OBJECTIVES

| No | Problem Statements | Desired Outcome | What needs to be done |
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| 1 | <ul style="list-style-type: none"> Municipalities' targets and indicators are not properly defined resulting in the AGSA disclaiming the usefulness of the targets and indicators Indicators and targets are ambiguous and thus not measurable | <ul style="list-style-type: none"> Properly defined indicators and targets Targets which can be corroborated through reperformance | <ul style="list-style-type: none"> Municipalities should revisit the description of their targets and indicators Before submission to the AGSA, municipalities Internal Audit unit should do a self-review of the indicators and targets |
| 2 | <ul style="list-style-type: none"> Supporting documents to support performance information report not provided resulting in disclaimer from | <ul style="list-style-type: none"> Actual performance figures supported by valid documentation | <ul style="list-style-type: none"> On a quarterly basis and just before submission of the annual performance report to the AGSA, the municipalities' Internal Audit unit should on a |

| No | Problem Statements | Desired Outcome | What needs to be done |
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| | <p>the AGSA</p> <ul style="list-style-type: none"> Furthermore, municipalities do not have a documented process on how they collate the information which is eventually included in the annual performance report. | | <p>sample basis trace the results reported in the annual performance report to supporting documentation</p> <ul style="list-style-type: none"> An audit file should be maintained with a portfolio of audit evidence included in the annual performance report Municipalities should also have a documented process on how they collate performance information |
| 3 | <ul style="list-style-type: none"> Municipalities do not report on all the planned objectives in the SBDIP | <ul style="list-style-type: none"> All the planned objectives in the approved SBDIP are reported on in the annual performance report | <ul style="list-style-type: none"> The SBDIP and the annual report should be compared for inclusion of all planned performance objectives in the annual report |
| 4 | <ul style="list-style-type: none"> Municipalities do not use a standardised reporting template for the annual performance report One key column which is left out in the annual performance report is on reasons for variance especially when the municipality has under-achieved | <ul style="list-style-type: none"> Use of a standardised template to ensure consistency of reporting | <ul style="list-style-type: none"> Municipalities should use the template prescribed by National Treasury |
| 5 | <ul style="list-style-type: none"> Some municipalities do not have staff members whose sole responsibility is to management performance information processes | <ul style="list-style-type: none"> Appointment of staff dedicated to performance information | <ul style="list-style-type: none"> Staff in the performance management unit should be periodically trained on the performance information reporting requirements |
| 6 | <ul style="list-style-type: none"> Because performance information was not a qualification matter in the prior years, management used to pay lip service to the integrity of the information included in the annual performance report submitted for audit. However, going forward, when the AGSA start issuing an opinion on the AOPO, municipalities will need to pay particular attention to what is reported in the annual performance report | <ul style="list-style-type: none"> Municipalities to treat AOPO as important as the annual financial statements and other compliance with legislation. | <ul style="list-style-type: none"> Municipalities should revamp their performance information reporting processes Targets and indicators to be re-defined |

5.11 USE OF CONSULTANTS

| No | Problem Statements | Desired Outcome | What needs to be done |
|----|--|--|--|
| 1 | <ul style="list-style-type: none"> Municipalities pay huge amounts of money to consultants who assist in the preparation of the annual financial statements or assisting in some values included in the annual financial statements. However, when the audit is done, the AGSA would raise numerous deficiencies which the consultants would have asserted to the municipality that have been rectified. The consultants are paid the pre-agreed fee with no penalties imposed In some cases, the same consultants who would not have done a satisfactory service to the municipality are appointed again in the following financial year. | <ul style="list-style-type: none"> Consultants are held accountable for unsatisfactory work. | <ul style="list-style-type: none"> Financial penalties should be imposed on consultants who misrepresent their abilities. Consultants who do not perform satisfactorily in one financial year should not be re-appointed in the following year. Municipalities should not shy away from reporting the consultants to National Treasury for inclusion on the database of defaulting suppliers. |
| 2 | <ul style="list-style-type: none"> Municipalities do not do an adequate skills gap assessment during the year and will only realise just before year end that they will need a consultant to assist them in the financial reporting exercise. By then, there won't be ample time for the consultant to make any major impact for such assignments as compilation of asset register, correction of prior period errors and debtors cleansing. | <ul style="list-style-type: none"> A determination of skills gap should be done on time so that where consultants with expertise are to be appointed, and when they are appointed, they should be given time to make a difference | <ul style="list-style-type: none"> Consultants should be appointed on time. Consultants should be held accountable should they promise what they cannot deliver within the stipulated period and only plead time constraints at the end of the assignment. Such assignments as asset register compilation if outsourced to consultants, the appointments should be done at least 6 months before the end of the financial year to allow the consultant to properly plan and execute the assignment. |
| 3 | <ul style="list-style-type: none"> Apart from outsourcing the work to consultants, management also tend to outsource the responsibility and accountability to the consultants thus | <ul style="list-style-type: none"> Work done by consultants is reviewed by management on time before submission for | <ul style="list-style-type: none"> Work done by consultants should be reviewed by the Internal Audit unit and management before it is submitted to the AGSA for audit By the mid of August each year, management |

| No | Problem Statements | Desired Outcome | What needs to be done |
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| | <p>taking the work done by consultants as correct with little or no time at all allocated by management to review the work done by consultants before the work done by the consultants is submitted to the AGSA for audit</p> <ul style="list-style-type: none"> • During the audit process, management also direct all audit queries to consultants for response and in the following financial years , in the absence of consultants, management struggle to respond to AGSA . | <p>audit</p> <ul style="list-style-type: none"> • Management take ownership on the work done by consultants | <p>should have interrogated work done by consultants.</p> <ul style="list-style-type: none"> • Where deficiencies are noted, these should be rectified by the consultants ant their own cost before submission of the work to the AGSA for auditing. |
| 4 | <ul style="list-style-type: none"> • Due to reliance on consultants on preparation of financial information, in some instances, consultants withhold critical information from the municipality using their privileged position as a bait for additional payments from the municipality. If the municipality does not pay, the information is not released at all • Furthermore, there is no proper management of transfer of skills from the consultant to staff in the finance division of the municipality | <ul style="list-style-type: none"> • Municipality taking ownership of all the work done by the consultants • Staff in the finance division understudy the consultant with a view to take over after the contractor's contract expires | <ul style="list-style-type: none"> • Municipality staff should at every stage, have access to the workings of the of work done by consultants. The staff should be able to comprehend what the consultant has done to date • Staff members form the municipality should be seconded to work with the consultant daily. This requirement should be included in the service level agreement with the service provider. |

5.12 STAFF ESTABLISHMENT ISSUES

| No | Problem Statements | Desired Outcome | What needs to be done |
|----|--|--|--|
| 1 | <ul style="list-style-type: none"> Most of the staff deployed in the finance division of municipalities do not have the appropriate qualifications. Background search including authenticity of qualifications of staff not done. | <ul style="list-style-type: none"> Appropriately qualified staff in the finance division. | <ul style="list-style-type: none"> Rigorous recruitment exercise should be done to ensure that appropriately qualified staff are recruited This entail qualifications verification |
| 2 | <ul style="list-style-type: none"> Due to short term contracts for CFOs, Municipal Managers and other Sec 57 managers who in their 4th or 5th year of their contracts even if they are doing well in terms of financial reporting, they will be thinking of their exit strategy and with limited chances of renewal of contracts by council, when the municipality is finding its feet, officials with institutional knowledge are replaced by new officials who still need to learn. | <ul style="list-style-type: none"> Sustainable audit outcomes | <ul style="list-style-type: none"> Contracts for MMs, and CFOs who have achieved satisfactory audit outcomes should be renewed. |
| 3 | <ul style="list-style-type: none"> Municipal officials who do not work together due to egos. | <ul style="list-style-type: none"> Municipal officials who complement each other in order to improve the financial reporting status of the municipality | <ul style="list-style-type: none"> Council to take disciplinary measures against municipal officials who do not complement each other in financial reporting. |
| 4 | <ul style="list-style-type: none"> Due to high vacancy rates for CFOs, in most municipalities, staff are acting in the position of CFO for short periods of 3 months on rotational basis This does not foster accountability and responsibility. | <ul style="list-style-type: none"> Vacant positions filled | <ul style="list-style-type: none"> Appropriately qualified and experienced Deputy CFOs should be appointed in municipalities so that in the absence of the CFO, they can act. |

| No | Problem Statements | Desired Outcome | What needs to be done |
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| 5 | <ul style="list-style-type: none"> In the budget and treasury division of municipalities, staff members are shuffled from one post to another not necessarily to the post they were appointed to. In doing the reshuffling, no proper training is provided to the staff in their new positions. Numerous errors and misclassifications are done thereon | <ul style="list-style-type: none"> Staff who are trained to take any role in the budget and treasury office of the municipality. | <ul style="list-style-type: none"> Staff members should be properly trained should they be transferred from one role to another |

5.13 EMERGING RISKS

| No | Problem Statements | Desired Outcome | What needs to be done |
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| 1 | In the 2008/09 financial year when municipalities had to start reporting using GRAP, most municipalities struggled to maintain their unmodified audit opinions achieved in the prior years even for those who opted to take advantage of the 3 year transitional provisions. Currently, municipalities were expected to have implemented the MSCOA with effect from 1 July 2017 | <ul style="list-style-type: none"> Standardised classification of accounts | <ul style="list-style-type: none"> Post implementation of 1 July, municipalities' Internal audit should ensure that the transition from the old systems to MSCOA have been implemented accurately. |
| 2 | As a result of the Demarcation Board exercise which resulted in the merger of some municipalities, the amalgamated municipalities' financial records could be affected by: <ul style="list-style-type: none"> a) A municipality whose financial records were previously in good order but could now be tainted by the inaccurate records of the | <ul style="list-style-type: none"> Municipalities maintaining their unmodified audit opinions even after merger with a municipality whose financial records were not in order Complete consolidation of the merging municipalities accounting | <ul style="list-style-type: none"> Municipalities should ensure that the consolidation of financial records of the merging municipalities is audited by the Internal Audit unit before submission of the AFS on 31 August 2017. This also includes re-alignment of the inconsistent accounting policies. |

| No | Problem Statements | Desired Outcome | What needs to be done |
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| | <p>other municipalities which it merged with.</p> <p>b) Inconsistent accounting policies being applied on account balances, class of transactions and disclosures for the merged municipalities</p> <p>c) Improper reporting structures for the newly merged municipalities resulting in duplication of duties and inefficiencies.</p> | <p>records</p> <p>-</p> | |