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**MUNICIPALITY MATJHABENG**

# **ANNEXURES**

**FOR THE**

**SECTION 80 POTFOLIO COMMITTEE**

**FOR**

**STRATEGIC SUPPORT SERVICES**

**(IDP)**

**CONVENED FOR**

**TUESDAY, 19 MARCH 2019**

**AT**

**10:00**

**AT**

**4<sup>TH</sup> FLOOR ROOM 427, MAIN BUILDING, WELKOM, CIVIC CENTR**



MATJHABENG LOCAL MUNICIPALITY

INTERNAL AUDIT REPORT  
FOR THE YEAR 2018/19

## **1. BACKGROUND**

The above mentioned report of the Internal Audit is submitted herewith in terms of section 165 of Municipal Finance Management Act, of 2004. In terms of this section, the Internal Audit unit of the Municipality must advise the Accounting Officer and report to the Audit Committee on the implementation of the Internal audit plan and matters relating to internal control.

## **2. PURPOSE AND CONTENT OF THE REPORT**

The purpose of this report is to facilitate accountability by bringing to the attention of the municipal management the findings of the internal audit conducted in the Municipality.

It is anticipated that this report would give rise to corrective steps which would contribute constructively to establishment and implementation of appropriate management measure and controls.

The auditing of Municipality is based on the premised that it is the responsibility of the Accounting officer to ensure that Municipality has and implement system of internal control, and our responsibility is to evaluate the adequacy and effectiveness of such systems.

## **3. AUDIT ASSIGNMENT**

Although the principal safeguard against irregularities is an adequate system of internal control, there is inherent limitation that should be recognized in considering the potential effectiveness of such system. In performance of most control procedures, errors can results from misunderstanding of instructions, mistake of judgement, carelessness, or other human factors.

## **4. APPROACH AUDIT**

The scope of our work was limited to a review of documentary evidence made available to us, and enquiries undertaken to address the issues identified in the execution of the fieldwork.  
An audit conducted includes:

- Enquiries from relevant municipal employees.
- Examination of relevant and necessary documentation.
- Evaluating the adequacy and effectiveness of the overall system of internal control meant to ensure:
  - Effectiveness and efficiency of operations.
  - Reliability of financial reporting.
  - Compliance with applicable laws and regulations.

## 1. OPERATIONAL AUDIT

### **(A) Supply Chain Management**

The primary objective of this audit was to review the adequacy and effectiveness of operational systems and procedures; as designed and implemented by management. The main areas of focus were the following:

- Bid Advertisement
- Deviations
- Report of Deviations to Council
- Competitive Bidding process
- Validity of variation Orders
- Irregularly awarded contracts

The Audit could not commence due to non-availability of the Supply chain manager due to other commitments; according to him.

Initial appointment was set and confirmed for the 10<sup>th</sup> September 2018 with SCM Manager. An email was sent to him on the 5<sup>th</sup> September to remind him about our forthcoming meeting and detailing issues that we were going to discuss about.

-On the 10<sup>th</sup> September, we went to his office at 9h00am for the scheduled meeting and then he to meet him, he then suggested that the meeting be rescheduled for 10h00 am as he had urgent matters to attend.

-On the same day, the 10<sup>th</sup> September 2018, we went to meet him at time suggested by him and he indicated that he won't be able to assist because he is bust with General Ledger issues that needs his attention.

-We then suggested that he must delegate someone, but he insisted that he prefer to handle our issues himself.

-We also met him on the 11<sup>th</sup> September 2018, he said he will revert back to us and he said he will assist since our audit issues are not complex and up to this date; he has not replied

## 2. COMPLIANCE AUDIT

### (A) Assets and Expenditure

- In light of the fact that the Supply Chain manager is also responsible for Assets and Expenditure; both Asset and Expenditure audits could not commence due to his non-availability; and appointments for this audits were not honored under the same arrangements.

### (B) Budget

There was general compliance relating to Budget in relation to:

- Budget Administration
- Budget preparation
- Tabling of Budget to Council
- Consultation and revision of Budget
- Approval of Budget

### (C) Audit: Liabilities

- Municipality does not incur a liability or risk payable in a foreign currency; as required by section 163 of MFMA.

### (D) Income

#### Reconnection of Services

1. Reconnection of municipal services is not in line with Revenue and Credit policy of the Municipality. Customers are charged eighteen percent (18%) for re-connection of services instead of twenty five percent (25%) as required by policy.
2. Revenue Manager indicated that most of the consumers offers eighteen percent (18%) of the reconnection fees and arrangement is made for the remaining seven percent (7%). He also highlighted that due to negative financial position of the municipality; they could not afford to turn down the offered eighteen percent (18%) by customers.

Owing to the aforementioned points; we recommended that:

- Revenue and Credit management policy be reviewed to make provision for downward adjustment of reconnection fee with the intent to make it accommodative to what can be best offered by the community; which is eighteen percent (18%)

**(E) Council Administration**

- There were no findings in terms of section 18 of Municipal Systems Act which relates to composition, membership and operations of Council.

**(F) Information not posted on the Municipal Website****Standard:**

Section 75(1) of MFMA states that the accounting officer of a municipality must place on the website referred to in section 21A of the Municipal Systems Act the following documents of the Municipality:

- The annual and adjustments budgets and all budget-related documents;
- All budget related policies;
- The Annual Report;
- All performance agreements required in terms of section 57 (1) (b) of the Municipal System Act;
- All service delivery agreements;
- All long-term borrowing contracts;
- All supply chain management above a prescribed value;
- An information statement containing a list of assets over a prescribed value that have been disposed of in terms of section 14 (2) or (4) during the previous quarter;
- Contract to which subsection (1) of section 33 apply, subject to subsection (3) of that section;
- Public private partnership agreements referred to in section 120;
- All quarterly reports tabled in council in terms of section 52 (d);

**Finding:**

Contrary to the above stipulation it was confirmed through inspection of the municipal website and other corroborative evidence submitted to auditors that the following information is not posted in the municipal website as required by the Act:

- Supply chain Contracts above a prescribed value;
- All Service Delivery Agreements;
- All long-term borrowing contracts
- An information statement containing a list of assets over a prescribed value that have been disposed of in terms of section 14 (2) or (4) during the previous quarter;

**Control:** Inadequate.

The Accounting Officer has not implemented adequate review and monitoring of compliance with legislation.

**Effect/Risk/Impact:**

- Non-compliance with section 75 of the MFMA;

**Recommendation:**

The Accounting Authority should prioritise compliance with legislation and ensure that the municipal website is updated regularly as required by the Act.

**3. Performance Audit**

**(A) Annual Performance report and Fourth Quarter performance report**

**Detailed information**

A formal discussion was held with Director Strategic Support services and he conceded that:

- Annual Performance Report was never submitted to Internal Audit for audit purpose as required by section 45 of Municipal System Act 32 of 2000"
- Performance Information relating to Fourth Quarter was never submitted to Internal Audit for audit purpose as required by section 45 of Municipal System Act 32 of 2000"

According to the Executive Director, the main reason for above finding is that Department submit their performance report late to his office for consolidation of municipal report.

**Regards**  
**Mr SR Senyane**  
**Internal Audit Manager**