**SECTION 7: SUMMARY OF DETAILED AUDIT FINDINGS**

| **Page no.** | **Finding** | **Classification** | | | | | **Rating** | | | **Number of times reported in previous three years** | **Status of implementation of previous year recommendation** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Misstatements in financial statements** | **Misstatements in annual performance report** | **Non-compliance with legislation** | **Internal control deficiency** | **Service delivery** | **Matters affecting the auditor’s report** | **Other important matters** | **Administrative matters** |
|  | **1.Payroll** |  |  |  |  |  |  |  |  |  |  |
| 38 | 1.1 Payroll Accounting Records |  |  |  |  |  |  |  |  | 0 | Not applicable |
| 40 | 1.2 Payroll Fraud |  |  |  |  |  |  |  |  | 0 | Not applicable |
|  | **2.Expenditure Management** |  |  |  |  |  |  |  |  |  |  |
| 42 | 2.1 The accounting officer did not take effective steps to prevent irregular expenditure, fruitless and wasteful expenditure and losses through criminal conduct |  |  |  |  |  |  |  |  | 1 | No progress |
| 46 | 2.2. Payments due to creditors were not settled within 30 days |  |  |  |  |  |  |  |  | 1 | No progress |
|  | **3. Fixed Assets** |  |  |  |  |  |  |  |  |  |  |
| 49 | 3.1. Property Plant and Equipment |  |  |  |  |  |  |  |  | 1 | No Progress |
|  | **4. Human Resource** |  |  |  |  |  |  |  |  |  |  |
| 55 | 4.1 No HR plan in place |  |  |  |  |  |  |  |  | 1 | No progress |
| 56 | 4.2. Vacant posts are not advertised and filled within the minimum required time frames |  |  |  |  |  |  |  |  | 0 | Not applicable |
|  | **5. Predetermined Objectives** |  |  |  |  |  |  |  |  |  |  |
| 59 | 5.1. Key performance indicators are not set in line with the requirements of the Framework for 1.2. Managing Programme Performance Information (Usefulness) |  |  |  |  |  |  |  |  | 1 | No Progress |
| 63 | 5.2. Actual performance against predetermined objectives included in the annual report is not considered to be reliable |  |  |  |  |  |  |  |  | 1 | No progress |
| 65 | 5.3. Amendments made to Annual Performance Plan not approved by the executive authority |  |  |  |  |  |  |  |  | 1 | No progress |
| 66 | 5.4. Listing provided does not agree to the amounts disclosed in the Annual Report |  |  |  |  |  |  |  |  |  | No progress |
| 68 | 5.5. Quarterly targets not consistent to the annual indicators included in the annual performance plan |  |  |  |  |  |  |  |  |  | No progress |
| 69 | 5.6. The target is the APP is not accurately stated |  |  |  |  |  |  |  |  |  | No progress |
| 71 | 5.7. No supporting documentation provided to substantiate the reasons for variances between planned and actual performance reported in the annual report |  |  |  |  |  |  |  |  |  | No progress |
| 74 | 5.8. No explanations for the variances disclosed in the annual report |  |  |  |  |  |  |  |  |  | No progress |
| 76 | 5.9. Key performance indicators are not set in line with the requirements of the Framework for Managing Programme Performance Information (Usefulness) |  |  |  |  |  |  |  |  |  | No progress |
|  | **6. Supply Chain Management** |  |  |  |  |  |  |  |  |  |  |
| 84 | 6.1. Bid was not advertised for the minimum period as specified by Treasury Regulations. |  |  |  |  |  |  |  |  | 1 | No Progress |
| 86 | 6.2. No closing bid register is attached in the bid files |  |  |  |  |  |  |  |  | 1 | In progress |
| 87 | 6.3. Quotations not obtained for closed bids |  |  |  |  |  |  |  |  |  | In progress |
| 89 | 6.4. No bid specification committee in place |  |  |  |  |  |  |  |  | 1 | In Progress |
| 90 | 6.5. Bid was not evaluated in accordance with the preference point system as prescribed by the PPPF Act |  |  |  |  |  |  |  |  | 1 | In Progress |
|  | **7. Accounts Receivables** |  |  |  |  |  |  |  |  |  |  |
| 92 | 7.1. Other Receivables balance is overstated |  |  |  |  |  |  |  |  | 0 | Not applicable |
|  | **8. Commitments** |  |  |  |  |  |  |  |  |  |  |
| 94 | 8.1. Overstatement of commitments balance |  |  |  |  |  |  |  |  | 1 | No progress |
|  | **Annexure B** |  |  |  |  |  |  |  |  |  |  |
|  | **9. Trade and Other Payables** |  |  |  |  |  |  |  |  |  |  |
| 95 | 9.1. Monthly creditors reconciliations not signed as evidence of review |  |  |  |  |  |  |  |  | 1 | No progress |
| 96 | 9.2. No Separate Accounts for Leave Provision and Bonus Provision |  |  |  |  |  |  |  |  | 1 | No progress |
| 97 | 9.3. No differentiation between Accrual and Creditor |  |  |  |  |  |  |  |  | 1 | No progress |
| 98 | 9.4. Creditors age analysis not prepared |  |  |  |  |  |  |  |  | 1 | No progress |
| 99 | 9.5. No controls to ensure invoices are recorded correctly |  |  |  |  |  |  |  |  | 1 | No progress |
| 101 | 9.6. The Medical Aid Liability/MISA reflects a debit balance in Accounts Payable |  |  |  |  |  |  |  |  | 0 | Not applicable |
|  | **10. Payroll** |  |  |  |  |  |  |  |  |  |  |
| 102 | 10.1. PAYE calculation based on old tax tables |  |  |  |  |  |  |  |  | 0 | Not applicable |
| 104 | 10.2. Appointments |  |  |  |  |  |  |  |  | 0 | Not applicable |
| 107 | 10.3. Terminated Employees continue to receive payment |  |  |  |  |  |  |  |  | 0 | Not applicable |
|  | **11. Human Resource** |  |  |  |  |  |  |  |  |  |  |
| 108 | 11.1. Non-compliance with DPSA circular 14/1/1/P – Reducing the recruitment period and the vacancy rate in the public service |  |  |  |  |  |  |  |  | 0 | Not applicable |
| 109 | 11.2. Leave taken in excess of entitled leave was not recorded as unpaid leave |  |  |  |  |  |  |  |  | 0 | Not applicable |
|  | **12. Consultants** |  |  |  |  |  |  |  |  |  |  |
| 111 | 12.1. MISA individual technical consultants’ reduction plan |  |  |  |  |  |  |  |  | 1 | Not applicable |
| 113 | 12.2. Use of Consultants – Skills Transfer and Terms of Reference |  |  |  |  |  |  |  |  | 1 | Not applicable |
|  | **13. Budgets** |  |  |  |  |  |  |  |  |  |  |
| 115 | 13.1. Actual expenditure for the year exceeds approved budget |  |  |  |  |  |  |  |  | 0 | Not applicable |
| 117 | 13.2. Annual report was not tabled in the National Assembly within one month after receiving the audit report |  |  |  |  |  |  |  |  | 0 | Not applicable |
| 119 | 13.3. Monthly budget information not submitted to National Treasury |  |  |  |  |  |  |  |  | 0 | Not applicable |
| 121 | 13.4. Annual report not submitted to National Treasury within five months after the end of the financial year. |  |  |  |  |  |  |  |  | 0 | Not applicable |
|  | **14. Supply Chain Management** |  |  |  |  |  |  |  |  |  |  |
| 122 | 14.1. The names of the bidders are not published on the auditee’s website names of the bidders are not published on the auditee’s website |  |  |  |  |  |  |  |  | 1 | No progress |
| 123 | 14.2. Risk management Report |  |  |  |  |  |  |  |  | 1 | Not applicable |
| 125 | 14.3. Supply chain management policy |  |  |  |  |  |  |  |  | 1 | Not applicable |
|  | **Annexure C** |  |  |  |  |  |  |  |  |  |  |
|  | **15. Cash and Bank** |  |  |  |  |  |  |  |  |  |  |
| 127 | 15.1. Bank reconciliations are performed monthly and not daily |  |  |  |  |  |  |  |  | 1 | No Progress |
|  | **16. Expenses** |  |  |  |  |  |  |  |  |  |  |
| 128 | 16.1. Supplier not in the Contract Register |  |  |  |  |  |  |  |  | 1 | No Progress |

**ANNEXURE A: MATTERS AFFECTING THE AUDITOR’S REPORT**

## Payroll Accounting Records

### Audit finding

According to Section 40(1) (a) the PFMA requires that an accounting officer keep full and proper records of the financial affairs of the entity in accordance with the prescribed norms and standards.

During the audit of payroll we noted that there were a number of areas within the payroll processes which we were unable to obtain sufficient appropriate audit evidence that employee related costs for the current and prior year had been properly accounted for, due to the status of the accounting records. The following limitations were noted:

1. Employees continue to receive payment after resignation date;
2. During the audit of the physical verification performed by MISA personnel and terminations audit procedures we noted that there were employees that were terminated, but they continued to receive payments post their termination dates either to their own bank accounts or into different bank account numbers;
3. Differences were noted between the ACB payment files provided by MISA and the Standard Bank payment detail files;
4. Discrepancies identified in termination dates between various data sources i.e. employee master data file, VIP termination listing;
5. Employees with multiple employee numbers identified in the employee master data file (this could be indicative of fraud or ghost employees);
6. Discrepancies identified between employee numbers in the employee master file and ACB payment files (this could be a data quality issue or may be indicative of fraud or irregularities).

### Internal Control Deficiency

#### Leadership

Accounting officer failed to implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.

#### Financial and performance management

Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Management also failed to implement controls over daily and monthly processing and reconciliation of transactions and to prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

### Recommendation

1. Management shouldestablish procedures to authorize hiring, changes to compensation levels, and resignations or terminations. Records of changes to employment status should be updated and monitored on a regular basis

2. Management should maintain a register at all the Municipalities where artisans are based that they should sign on receipt of their salaries.

3. Attendance registers should be kept and signed daily or weekly by employees and a Reconciliation where the attendance registers are agreed to the remunerations listing should be performed prior to payments being made to employees.

### Management response

Management agrees with the findings. Systems and procedures will be put in place to improve overall management of the training programmes, record keeping of personnel information, and monitoring of attendance and the payroll.

Name: Ngobeni TS

Position: Acting Head: Corporate and Financial Services

Date: 31 July 2015

### Auditor’s conclusion

Management response is noted. The finding remains and will be included in the management report.

The addressing of the internal control deficiency and the implementation of the proposed corrective actions will be followed up in the next audit cycle.

## Payroll – Fraud

### Audit Finding

Treasury Regulation 3.2.1 the accounting officer must facilitate a risk assessment to determine the material risks to which the institution may be exposed and to evaluate the strategy for managing these risks.The accounting officer must ensure that a risk assessment is conducted at least annually so as to identify emerging risks of the institution. A risk management strategy, which must include a fraud prevention plan, must be used to direct internal audit effort and priority, and to determine the skills required to manage these risks.

During the audit of payroll we noted that the accounting officer did not perform risk management annually in order to assess the emerging risks of the institution.

An enquiry with management was made as to whether they have knowledge of any actual or suspected fraud. Management identified the fraud and brought it to the attention of the auditors.

The reported fraud amount as per MISA is R60 000 which one of the implicated employees agreed to have embezzled.

### Internal control deficiency

#### Financial and performance management

Management has failed to design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

#### Leadership

Management failed to establish an IT governance framework that supports and enables the business to deliver value and improve performance.

### Recommendation

Employees should submit their banking details where they wish to receive their remuneration in the form of a bank statement stamped by the Bank. In the event that the employees change their banking details, this should be done in writing by the employee (example – changes to personal detail form) and this ought to be accompanied by a bank statement and a bank stamp. All these documents should be included in the employee files.

Terminations of employees should be administered promptly to avoid overpayment of employees post termination dates and there should be sufficient segregation of duty whilst performing this function, i.e. Human Resources should process the termination and then inform payroll with sufficient support (e.g. Resignation Letter) to remove the employee from the remuneration listing.

Management should ensure that there is segregation of duties and that no employee has access to all the modules of the VIP.

Changes in the Masterfile should be reviewed by a person who is different from the person senior to the reviewer.

### Management response

Management agrees with the finding and will ensure that there is segregation of duties and that no employee has access to all the modules of the VIP.

Name: Teboho Tsekiso

Position: Acting Head: HRM

Date: 13 July 2015

### Auditor’s conclusion

Management response is noted. The finding remains and will be included in the management report.

The addressing of the internal control deficiency and the implementation of the proposed corrective actions will be followed up in the next audit cycle.

# Expenditure management

## The accounting officer did not take effective steps to prevent irregular expenditure, fruitless and wasteful expenditure and losses through criminal conduct

### Audit finding

According to Section 38(1) (c) of the PFMA the accounting officer must take effective and appropriate steps to prevent unauthorized, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct.

Treasury Regulation 9.1.1 also requires that the accounting officer exercise all reasonable care to prevent and detect unauthorised, irregular, fruitless and wasteful expenditure, and must for this purpose implement effective, efficient and transparent processes of financial and risk management

Section 38(1) (g) of the PFMA requires that the accounting officer on discovery of any unauthorised, irregular, fruitless and wasteful expenditure, immediately report, in writing, particulars of the expenditure to the relevant treasury.

Effective steps were not taken to prevent irregular and fruitless and wasteful expenditure, as required by section 38(1) (c) (ii) of the PFMA and Treasury Regulation 9.1.1.

1. We noted effective steps were not taken to prevent fruitless and wasteful expenditure, as required by section 38(1)(c)(ii) of the Public Finance Management Act and Treasury Regulation 9.1.1 which has resulted in MISA incurring fruitless and wasteful expenditure to the value of R512 303 which could have been avoided if management systems in place were effective.
2. During the audit we have noted an overspending of R 10 500 000.
3. During the audit we noted effective steps were not taken to prevent losses resulting from criminal conduct, as required by section 38(1) (c) (ii) of the PFMA which has resulted in losses being incurred through criminal conduct.

4. Management identified irregular expenditure to the value of R 40 831 706 relating to Municipal Action Network Consortium (MAN) Prodigy Business Solutions.

These items were identified through processes implemented by management and included in the unauthorised, irregular, fruitless and wasteful expenditure registers as well as the respective note in the annual financial statements.

During the audit of supply chain management we noted that the bids on the table below were irregular

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No** | **Item description** | **Total rand-value of award** | **Expenditure (Payments) - current year** | **Reason** |
| 1 | Chuma development consultants (MISA BID/008/2014) | R 1 224 000 | R 92 353 | Advertisement made for less than 21 days |
| 2 | Wenzile Phaphama Trading & Projects CC | R 1 714 198 | R 642 824 | No Bid specification committee |
| 3 | Dimension Data (Pty) Ltd (MISA BID/ICT/09/2013) | R 2 500 000 | R - | No closing bid register |
| 4 | Zenande Leadership Consulting (MISA BID/008/2014) | R 9 000 000 | R1 630 290 | Advertisement made for less than 21 days |
| 5 | SA Municipalities.com (MISA BID/008/2014) | R 432 501 | Advertisement made for less than 21 days |
| 6 | Leago strategy and advisory services cc (MISA BID/008/2014) | R8 018 073 | Advertisement made for less than 21 days |
| 7 | Dr Crispian Garth Olver (MISA BID/008/2014) | R1 006 420 | Advertisement made for less than 21 days |
| 8 | Chuma development consultants (MISA BID/008/2014) | R - | Advertisement made for less than 21 days |
| 9 | Tank Project solutions(MISA/002/2013/TPSP Provinces) | R 97 775 971 | R 791 286 | Advertisement made for less than 21 days |
| 10 | Bigen Africa(MISA/002/2013/TPSP Provinces) | R 8 811 120 | Advertisement made for less than 21 days |
| 11 | Mont Consulting Engineers(MISA/002/2013/TPSP Provinces) | R2 813 793 | Advertisement made for less than 21 days |
| 12 | Wayo Consulting(MISA/002/2013/TPSP Provinces) | R 4 693 756 | Advertisement made for less than 21 days |
| 13 | Proplan-Consulting(MISA/002/2013/TPSP Provinces) | R 2 379 441 | Advertisement made for less than 21 days |
| 14 | Holystic Approach Development CC | R 270 231 | R 270 231 | Points were awarded for attaining the B-BBEE status level contributor were not done |
| 15 | Vodacom | R 476 650 | R 476 650 | No 3 quotations were made |
| 16 | Oceanea | R 2 000 000 | R 338 397 | Evaluation of the Bid was not done as how It was advertised. BEC decided to use functionality instead of 90/10 system due to some bidders not |
|  | Total |  | R 32 397 135 |  |

During our audit, we identified irregular to the value of R 32 264 397. The details are included in the table below.

Furthermore, the irregular expenditure was not included in the Irregular expenditure register prepared by management.

### Management response

As indicated above, the advertising for bid was done in June 2012. The error in the advertising period for 20 days instead of 21days has not been noticed until now in 2015 where it has been picked up by Auditor General. Hence the payments made under this bid were not recorded as irregular expenditure and a request for condemnation was not done. The contracts of most of the service providers appointed under this bid have since come to an end. For those contracts that are still active or have been extended, any further payments under this bid from now onwards will be recorded on the irregular expenditure and the Accounting Officer will be requested to condone the irregular expenditure payments on this bid.

Name: Luvo Mpengesi

Position: Manager SCM

Date: 26 June 2015

### Auditor’s conclusion

Management response is acknowledged. The addressing of the internal control deficiency and the implementation of the proposed corrective actions will be followed up in the next audit cycle.

## Payments due to creditors were not settled within 30 days

### Audit finding

Treasury Regulation 8.1.1 requires that the accounting officer ensure that internal procedures and internal control measures are in place for payment approval and processing. These internal controls should provide reasonable assurance that all expenditure is necessary, appropriate, paid promptly and is adequately recorded and reported.

Treasury Regulation 8.2.3 stipulates that unless determined otherwise in a contract or other agreement, all payments due to creditors must be settled within 30 days from receipt of an invoice.

Section 38(1) (g) of the PFMA requires that the accounting officer take effective and appropriate steps to settle all contractual obligations and pay all money owing, including inter-governmental claims, within the prescribed or agreed period.

Paragraph 4.5 of National Treasury Instruction Note 34 requires that departments (which include national government components) provide the National Treasury each month with exception reports on the number of invoices and the value thereof that have not been paid within 30 days from receipt together with reasons for not making the payments timeously.

The following payments due to creditors were not settled within 30 days:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| SUPPLIER NAME | INVOICE NUMBER | RECEIVED DATE | INVOICE AMOUNT | PAYMENT DATE | NUMBER OF DAYS OUTSTANDING |
|  | P2014/1431 | 2014-08-13 | R 35 483 | 2015/03/31 | 230 |
| PRO-PLAN | P2014/1419 | 2014-10-02 | R 64 321 | 2015/03/31 | 180 |
|  | P2014/1425 | 2014-10-02 | R1 762 | 2015/03/31 | 180 |
| Madan Singh & Associates | 2013 11 Inv 13 | 2014-10-08 | R 622 242 | 2015/03/31 | 174 |
| Bothakga Burrow – KZN | 1 | 2014-10-09 | R 156 758 | 2015/03/31 | 173 |
| BVI Consulting Engineers | 11 | 2014-10-10 | R 233 179 | 2015/03/31 | 172 |
| R & G Consultants | 1790/D130/F1 | 2014-11-13 | R 208 375 | 2015/03/31 | 138 |
| MBSA Consulting | MBSA/15/11/076 | 2014-11-26 | R 419 678 | 2015/03/31 | 125 |
| Leago Engineering | 13 | 2014-12-03 | R 300 960 | 2015/03/31 | 118 |
|  | 14 | 2014-12-03 | R 266 677 | 2015/03/31 | 118 |
| Mott MacDonald | IN00004752 | 2014-12-04 | R 842 745 | 2015/03/31 | 117 |
| Bothakga Burrow – NW | 1 | 2015-01-27 | R 251 962 | 2015/03/31 | 63 |
| Bothakga Burrow – NW | 2 | 2015-01-29 | R 543 762 | 2015/03/31 | 61 |
| Kulani Engineering | MISA-MP/011 | 2015-01-30 | R 222 234 | 2015/03/31 | 60 |
| Deloitte | 1110353681 | 2015-02-09 | R 148 546 | 2015/03/31 | 50 |
| Commerse Edge | INV0007426 | 2015/02/09 | R 44 552 | 2015/03/31 | 50 |
| Leago Strategy and Advisory | 17 | 2015-02-23 | R 126 327 | 2015/03/31 | 36 |
| Deloitte | 1110357834 | 2015-02-26 | R 33 196 | 2015/03/31 | 33 |
| Vhembe District Municipality | MISA 15 | 2015-02-27 | R 285 583 | 2015/03/31 | 32 |
| Vhembe District Municipality | MISA 16 | 2015-02-27 | R 285 583 | 2015/03/31 | 32 |
| Vhembe District Municipality | MISA 17 | 2015-02-27 | R 276 416 | 2015/03/31 | 32 |
| N MPO NOMATHAMSANQA | 20010008 | 2014-11-30 | R 2 007 | 2015/01/20 | 51 |
| GOBA GOBA | 3030003 | 2014-08-28 | R 2 025 435 | 2015/03/03 | 187 |
| AUDIT AUDITO | 19010014 | 2014-11-30 | R 20 694 | 2015/01/19 | 50 |
| TRAVE TRAVEL WITH F | 19010008 | 2014-12-02 | R 2 196 | 2015/01/19 | 48 |
| TRAVE TRAVEL WITH F | 19010004 | 2014-12-04 | R 2 890 | 2015/01/19 | 46 |
| TRAVE TRAVEL WITH F | 2020010 | 2014-11-11 | R 20 981 | 2015/02/02 | 83 |
| Total |  |  | R 7 444 544 |  |  |

Management therefore did not implement effective internal processes to ensure prompt payment as prescribed.

Management also did not provide the monthly exception reports as required by Instruction Note 34 to National Treasury.

### Internal Control Deficiency

#### Leadership

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

#### Financial and performance management

Management did not review and monitor compliance with applicable legislation.

### Recommendation

Management should implement controls to ensure payments are made within 30 days as required by legislation.

Management should implement a process to ensure MISA complies with all reporting requirements prescribed by legislation.

### Management response

Name:

Position:

Date:

### Auditor’s conclusion

# Fixed Assets

## Property Plant and Equipment

### Audit finding

Section 38(1)(a)(1) of the PFMA states that the accounting officer for a department, trading entity or constitutional institution must ensure that the department, trading entity or constitutional institution has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

We identified material misstatements in the financial statements during the audit. These misstatements were not prevented or detected by the entity’s system of internal control. These material misstatements also constitute non-compliance with section 40(1) of the PFMA

1. During our physical asset verification, it was noted that some assets on the client's premises were not tagged and could not be traced in the asset register. The following assets were not tagged:

|  |  |  |
| --- | --- | --- |
| Asset Number | Description | Amount per Fixed Asset Register |
| N/A | IP phone | N/A |
| N/A | Corolla 1.6 Advance | N/A |
| N/A | Car | N/A |

1. During our physical asset verification, we noted that there are assets with duplicate numbers. This may result in assets being understated as the some assets are using the same asset numbers. The list below shows assets with duplicate numbers:

|  |  |  |
| --- | --- | --- |
| Asset Number | Description | Amount per Fixed Asset Register |
| 1 | HP Carepack Waranty | R 73 799 |
| 1 | Metal Shelving Bays | R 39 600 |
| 1 | HP Server Harddrive | R 53 388. |
| A00063 | 5312 IP Phone | R 1 557 |
| A00063 | 5312 IP Phone | R 1 557 |
| A00326 | 21 Bay Bulk Filer | R 10 583 |
| A00326 | 12 Bay Bulk Filer | R 11 666 |
| A00344 | 7 Bay Bulk Filer | R 4 000 |
| A00344 | 7 Bay Bulk Filer | R 4 000 |
| A00352 | 7 Bay Bulk Filer | R 4 000 |
| A00352 | 7 Bay Bulk Filer | R 4 000 |
| A00375 | Mecer Proficient PC | R 2 000 |
| A00375 | Computer station | 0 |
| A00407 | High Back Chair | R 1 650 |
| A00407 | High Back Chair | R 1 650 |
| A00479 | Paper Tray | R 100 |
| A00479 | Paper Tray (Metal) | R 100 |
| A00500 | Paper Tray | R 100 |
| A00500 | Paper Tray (Metal) | R 100 |
| A00508 | Executive Highback chairs | R 7 500 |
| A00508 | Executive Highback chairs | R 3 700 |
| A00527 | LG Microwave (Silver Gray with Mirror Door) | R 1 200 |
| A00527 | LG Microwave (Silver Gray with Mirror Door) | R 1 200 |
| A00580 | Visitor's Leather Chair | R 2 700 |
| A00580 | Round Table Conferences | R 3 900 |
| A00740 | Visitor's Leather Chair | R 2 700 |
| A00740 | Visitor's Leather Chair | R 2 700 |
| A00863 | JBL Speaker (Small Black) | R 864 |
| A00863 | JBL speaker | 0 |
| A00874 | Coffee table | R 2 400 |
| A00874 | Coffee Table (Wooden) | R 200 |
| A00887 | Managerial Desk ( Executive) | R 15 000 |
| A00887 | Mangerial Workstation ( Executive Desk) | R3 700 |
| A00920 | Coat Hanger | R 100 |
| A00920 | Coat hanger | R 100 |
| A01010 | 5312 IP Phone | R 1 557 |
| A01010 | Waste Bin | R 320 |
| A01025 | Two Division Leather Couch | R 8 000 |
| A01025 | Visitors Chair | R 1 430 |
| A01152 | Brother Printer (MFC-9120CN) | R 7 430 |
| A01152 | Modesty Panel 1000 | R 200 |
| A01305 | Visitors Chair | R 1 430 |
| A01305 | Visitors Chair | R 1 430 |
| A01320 | Visitors Chair | R 1 430 |
| A01320 | Visitors Chair | R 1 430 |
| A01375 | HP Probook 6470b | R11 058 |
| A01375 | Paper Tray (Metal) | R 100 |
| A01397 | HP Tablet-2570p | R24 275 |
| A01397 | Overhead projector(True ideas) canon | R 6 382 |
| A01528 | Etimo Screens 1600 X 600 | R 741 |
| A01528 | Etimo Screens 750 X 600 Fitted | R 627 |
| A01801 | Etimo Screens 1600 X 600 | R 741 |
| A01801 | Etimo Screens 750 X 600 Fitted | R 627 |
| A01815 | Kitchen's Succulant Plant | R180 |
| A01815 | Kitchen Teracota Pot | R 150 |
| A01822 | Etimo Screens 1600 X 600 | R 741 |
| A01822 | Etimo Screens 750 X 600 Fitted | R 627 |
| A01832 | Kitchen's Succulant Plant | R 180 |
| A01832 | Kitchen Teracota Pot | R 150 |
| A01851 | Etimo Screens 1600 X 600 | R 741 |
| A01851 | Etimo Screens 750 X 600 Fitted | R 627 |
| A01855 | Net Gear Pro Safe 10/100 Switch | R 36 267 |
| A01855 | Waste Bin | R 320 |
| A01860 | Kitchen's Succulant Plant | R 180 |
| A01860 | Kitchen Teracota Pot | R 150 |
| A01866 | Etimo Screens 1600 X 600 | R 741 |
| A01866 | Etimo Screens 750 X 600 Fitted | R 627 |
| A01867 | Kitchen's Succulant Plant | R 180 |
| A01867 | Kitchen Teracota Pot | R150 |
| A01881 | Etimo Screens 1600 X 600 | R 741 |
| A01881 | Etimo Screens 750 X 600 Fitted | R 627 |
| A02006 | Visitors Chair ( Executive Leather ) | R 3 100 |
| A02006 | Roller Door Cupboard | R 3 477 |
| A02735 | PC Holder | R 399 |
| A02735 | Waste Bin | R 320 |
| A02760 | Waste Bin | R 320 |
| A02760 | Waste Bin | R 320 |
| A02784 | Etimo Screens 750 X 600 Fitted | R 627 |
| A02784 | Screens A 1600 X 500 | R 630 |
| A02970 | 5312 IP Phone | R 1 557 |
| A02970 | 5330E IP Phone | R 3 710 |

1. During physical asset verification, it was noted that there are assets with tag numbers that do not appear on the Asset register. This can result in the understatement of assets due to assets not being included in the asset register. The following asset tag numbers on the asset selected could not be found on the fixed asset register:

|  |  |  |
| --- | --- | --- |
| Asset Number | Description | Amount per Fixed Asset Register |
| A00517 | Glass Coffee table | N/A |
| A00863 | JBL speaker | N/A |
| A00755 | Black Leather Couch | N/A |
| A02345 | HP (Laptop) | N/A |
| A00375 | Mother Board (Tower) | N/A |
| A00859 | Sculpture(Big) | N/A |

1. During the audit of assets we noted some assets included in the asset register have no value. The following assets appear on the fixed asset register but there is no value:

|  |  |  |
| --- | --- | --- |
| Asset Number | Description | Amount per Fixed Asset Register |
| A00799 | Credenza ( Executive Credenza Lowsize) | N/A |
| A00894 | Credenza ( Executive Credenza Lowsize) | N/A |
| A00589 | Credenza ( Executive Credenza Lowsize) | N/A |
| A00893 | Mobile Draw Unit | N/A |
| A00597 | Mobile Draw Unit | N/A |
| A00598 | Credenza ( Executive Credenza Lowsize) | N/A |
| A00787 | Credenza ( Executive Credenza Lowsize) | N/A |
| A00765 | Credenza ( Executive Credenza Lowsize) | N/A |
| A00743 | Credenza ( Executive Credenza Lowsize) | N/A |
| A00728 | Credenza ( Executive Credenza Lowsize) | N/A |
| A00984 | Credenza ( Executive Credenza Lowsize) | N/A |
| A00982 | Mobile Draw Unit | N/A |
| A00588 | Mobile Draw Unit | N/A |
| A00789 | Mobile Draw Unit | N/A |
| A00772 | Mobile Draw Unit | N/A |
| A00748 | Mobile Draw Unit | N/A |
| A00737 | Mobile Draw Unit | N/A |
| A00375 | Computer station | N/A |
| A01136 | IP phone | N/A |
| A00863 | JBL speaker | N/A |
|  | A3 Notice Board | N/A |
|  | A3 Notice Board | N/A |
|  | A3 Notice Board | N/A |
|  | A3 Notice Board | N/A |
|  | A3 Notice Board | N/A |
|  | A3 Notice Board | N/A |
|  | A3 Notice Board | N/A |
|  | A3 Notice Board | N/A |
|  | A3 Notice Board | N/A |
|  | A3 Notice Board | N/A |
|  | HP W207a 50.8cm (20") LED backlight LCD monitor | N/A |
|  | HP Executive Keyboard and mouse (USB) | N/A |
|  | HP Executive Keyboard and mouse (USB) | N/A |
|  | Rectangular Workstation | N/A |
|  | HP Probook 4340's-H4R48EA | N/A |

1. During the audit of assets we noted that assets were incorrectly classified on the asset register. This can result in incorrect depreciation calculation and which results in misstated annual financial statements. The following assets are incorrectly classified which has an impact in the depreciation calculation:

|  |  |
| --- | --- |
| Asset Number | Description |
| A00023 | UPS online Combo |
| A00627 | Big Vase , cream white |
| A00069 | Lenovo Think Centre(Computer) |
| A00483 | 12 Bay Bulk filer |
| A01870 | Hisense Plasma Screen |
| A01170 | Wicker Planter Box (Bamboo Vase) |
| A01103 | Carpets Haggy |

### Prior year balances were restated with the value of R 1.9 million. This is mainly in the prior year due to assets transferred from Cogta, recognised as expense instead of an asset. Some other assets bought were also expensed instead of being capitalised.

### Internal control deficiency

#### Financial and performance management

Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

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

### Recommendation

Management should establish a policy for the periodic verification of fixed assets. This would ensure the existence of assets included in the fixed asset listing and improve the accuracy of periodic financial reporting as misappropriations and errors would be detected on a timely basis.

Management should ensure assets are classified correctly to ensure that the financial statements accurately reflect the depreciation expense in a timely manner.

Management should ensure that the asset register should be reviewed to avoid duplicate assets being listed in the asset register and to ensure that assets are correctly classified.

### Management response

Management agrees with the finding and assets will be tagged accordingly. A procedure will be undertaken to attach values to assets received from the Department (DCoG) .

The assets allocated to the incorrect category were corrected.

Management embarked on a process of rechecking the asset register for any assets that might have been omitted.

The fixed asset register was finalized in March 2015. The asset register is currently prepared on an excel spreadsheet. The way forward is to transfer the asset register on to Pastel. This will ensure that the fixed asset register is updated timeously.

Name: Namhla Mabija

Position: Deputy Director Financial Administration

Date: 05/06/2015

### Auditor’s conclusion

We acknowledge management’s response and will include all unadjusted components of this finding into the management report.

# Human Resource

## No HR plan in place

### Audit Finding

According to Public Service Regulation, Chapter 1/III/D1 (a) and (b) D.1 and executing authority shall:

1. assess the human resources necessary to perform her or his department’s functions, with particular reference to
   1. the number of employees required;
   2. the competencies which those employees must possess; and
   3. the capacities (whether permanent or temporary) in which those employees shall be appointed;
2. assess existing human resources by race, gender and disability as well as by occupational category, organisational component and grade with reference to their-
3. competencies;
4. training needs; and
5. employment capacities

During the audit of human resource, we have identified that there is no human resources plan in place.

### Internal Control Deficiency

#### Leadership

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

### Recommendation

Management should create a Human Resource plan to ensure they comply with Legislation.

### Management comment

Management is aware of the challenge and a Human Resource Plan will be developed, adopted and implemented following the finalisation of the institutional refocusing strategy and the organisational structure. The envisaged shared services model with DCoG will also be factored in.

Name: Teboho Tsekiso

Position: DD Human Resource Management

Date: 20/04/2015

### Auditor’s Conclusion

Management response is acknowledged. The addressing of the internal control deficiency and the implementation of the proposed corrective actions will be followed up in the next audit cycle.

## Vacant posts are not advertised and filled within the minimum required time frames

### Audit finding

Public Services Regulation 1/VII/C.1A.2 requires all funded posts be advertised within 6 months after becoming vacant and be filled within 12 months after becoming vacant.

Public Services Regulation 1/VII/C.1A.3 provides that should the government component not comply with regulation 1/VII/C.1A.2, the reasons for the non-compliance shall be recorded in writing.

Paragraph 3.1 of DPSA Circular 14/1/1/P requires that government components reduce the average vacancy rate in respect of funded posts to at most 10% before 31 March 2015.

Paragraph 3.2 of DPSA Circular 14/1/1/P requires that government components reduce the period it takes to fill funded vacant posts to at least 6 months before 31 March 2015.

The following positions were not advertised within 12 months after becoming vacant:

|  |  |  |
| --- | --- | --- |
| Senior management positions that have been vacant for over 12 months |  |  |
| **Position** | **Salary level** | **Current status** |
| DIR: OFFICE MANAGER & CONTENT SUPPORT | Sl 13 | Vacant |
| DDG - INFRUSTRUCTURE PLANNING | Sl 15 | Vacant |
| HEAD:TECHNICAL SERVICES | Sl 14 | Vacant |
| DDG: INFRUSTRUCTURE PROJECT MANAGEMENT | Sl 15 | Vacant |
| HEAD:CAPACITY BUILDING | Sl 14 | Vacant |
| DDG: OPERATIONS AND MANAGEMENT | Sl 15 | Vacant |
| CHIEF FINANCIAL OFFICER | Sl 14 | Vacant |
| DIRECTOR | Sl 13 | Vacant |
| Chief Executive officer | SI14 | Vacant |
|  |  |  |
| **Positions in the finance section that have been vacant for over 12 months** |  |  |
| **Position** | **Salary level** | **Current status** |
| FINANCIAL ACCOUNTING |  |  |
| ASSISTANT DIRECTOR :FINANCIAL ACCOUNTING | Sl 9 | Vacant |
| SENIOR STATE ACCOUNTANT | Sl 8 | Vacant |
| STATE ACCOUNTANT | Sl 7 | Vacant |
| SENIOR ACCOUNTING CLERK | Sl 6 | Vacant |
| SENIOR ACCOUNTING CLERK | Sl 6 | Vacant |
| MANAGEMENT ACCOUNTING |  |  |
| Assistant director | Sl 9 | Vacant |
| Senior state accountant | Sl 8 | Vacant |
|  |  |  |
| **Positions in the internal audit section that have been vacant for over 12 months** |  |  |
| **Position** | **Salary level** | **Current status** |
| Deputy director | Sl 11 | Vacant |
| Secretary | Sl 6 | Vacant |

During the audit of human resource we noted that the current MISA organisational structure does not indicate that any of the positions are unfunded. Therefore all positions were regarded as funded positions.

We also that the average vacancy rate therefore exceeds the 10% requirement of DPSA Circular 14/1/1/P.

### Internal Control Deficiency

#### Financial and performance management

Management did not implement procedures and processes to review and monitor compliance with applicable legislation.

#### Leadership

Management did not implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored

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

### Recommendation

Management should implement an effective process to ensure vacant positions are advertised and filled within the time frames prescribed by the Public Services Regulations.

### Management response

Filling of vacant positions is dependent on the result of the process of refining the focus of MISA. The new strategy is expected to inform suitable structure for MISA and any decision to fill positions. Positions on the existing structure could, resultantly, not be filled.

Name: Mr Teboho Tsekiso

Position: Acting Head: Human Resource Management

Date: 07 July 2015

### Auditor’s conclusion

Management response is acknowledged. The addressing of the internal control deficiency and the implementation of the proposed corrective actions will be followed up in the next audit cycle.

# Predetermined Objectives

## Key performance indicators are not set in line with the requirements of the Framework for Managing Programme Performance Information (Usefulness)

### Audit finding

Paragraph 3.3 of the Framework for Managing Program Performance Information (FMPPI) states that:

Indicators should meet the following criteria:

* 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.
* Verifiable: it must be possible to validate the processes and systems that produce the indicator.

A detailed assessment of the key performance indicators and targets for selected was performed to determine whether indicators were well defined and verifiable.

Well defined:

The following key performance indicators were not considered to be well defined:

|  |  |  |  |
| --- | --- | --- | --- |
| Strategic Objective | Key performance Indicator | Indicator/measure considered well-defined | Observation |
| Programme 2: Municipal and Sectorial Technical Support Programme | | | |
| SO 2.1: Identify municipalities that require support to plan, deliver, operate and maintain infrastructure | 2.1.1 Additional number of municipalities identified for MISA technical support | No | The indicator refers to additional municipalities supported, however an explanation of what is considered additional is not provided.  The data required per the TID is the LGTAS list that is available to the entity, however the list does not appear to be updated on a yearly basis. |
| SO 2.2: Provide strategic development planning support to municipalities to enable implementation of integrated infrastructure for service delivery | 2.2.1 Number of provinces assisted with Spatial Planning Land Use Management Act (SPLUMA) implementation | No | The indicator refers to number of provinces assisted with SPLUMA implementation. The TID refers to support by means of capacity building of town planners to develop land use schemes. This definition is not unambiguous as it is not very clear what implementation means. The indicator is not defined so that information will be collected consistently as the information is sourced from the SPLUMA Act and it is not clear how this can be measured. |
| SO 2.4: Provide focused support to municipalities to strengthen their capacity and capability to deliver on their water and sanitation targets | 2.4.1 Number of municipalities provided with technical support to reduce water infrastructure and service backlogs | No | The source documentation specified is the LGTAS approval list and the priority district list. Neither of these appear to provide for collection of information on which municipalities was supported. |

A total of 3 (19%) planned key performance indicators for Programme 2:Municipal and Sectorial Technical Support Programme were not considered well-defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently.

Verifiable

The following key performance indicators were not considered to be verifiable:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Strategic Objective | Key performance Indicator | Indicator/measure considered well-defined | | Observation | |
| Programme 3 : Capacity Development Programme | | | | | |
| SO 3.2: Support the development of scarce technical skills required by municipalities through bursary funding | 3.2.1 Number of students awarded with bursaries for studies in technical professions | | No | | The actual process applied by MISA to produce information is the bursary approval (Internal) and award letter sent to the applicant.  The TID is not consistent with the process and system followed. The process does not measure the number of students awarded bursaries as required by the indicator, It measures the number of bursaries awarded (Reinforced by target) |
| SO3.4: Facilitate partnerships through alignment or integration of resources and support to municipalities to build technical capacity | 3.4.1 Number of strategic partnerships established and operationalized | | No | | Only the establishment of the strategic partnership as per the indicator can be verified, the operationalization of the strategic partnership cannot be verified, as the process does not produce appropriate evidence to support the actual performance. |

A total of 2 (33%) key performance indicators for Programme 3: Capacity Development Programme were not verifiable in that valid processes and systems that produce the information on actual performance either did not exist or was not consistent with the indicator or technical indicator description.

Users of the Annual Performance Report could have differing expectations of what the key performance indicator is intended to measure and may evaluate the performance of MISA differently.

Furthermore, non-compliance with the criteria established by the FMPPI could result in a modification to the conclusion ion the Annual Performance Report.

### Internal Control Deficiency

#### Financial and performance management

Management did not implement procedures and processes to review and monitor compliance with applicable legislation.

#### Leadership

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

### Recommendation

Key Performance Indicators and targets should be set so that they meet the criteria as set in the FMPPI issued by National Treasury.

Management should ensure consistency between technical indicator descriptions and the actual process implemented.

### Management response

Management agrees with the findings and recommendation in relation to the Key Performance Indicators and Targets, and undertakes to address all the identified discrepancies in line with the Framework for Managing Programme Performance Information (FMPPI) issued by National Treasury.

Name: Victor Mathada

Position: Chief Director: Office of the CEO

Date: 07/07/2015

### Auditor’s conclusion

Management response is acknowledged. The addressing of the internal control deficiency and the implementation of the proposed corrective actions will be followed up in the next audit cycle.

## Actual performance against predetermined objectives included in the annual report is not considered to be reliable

### Audit Finding

Paragraph 5.2 of the FMPPI requires that the accounting officer ensure the entity implement appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

Section 40(3)(a) of the PFMA require that the annual report should fairly present the state of affairs of the public entity, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial period concerned.

The difference between the reported performance and the actual performance could result in non-compliance with the Act.

The actual performance as reported in the annual performance report was compared to supporting documentation to determine the validity, accuracy and completeness thereof.

The following misstatements were identified:

Overall, 71% of the Technical support programmes targets were not reliable for because we were unable to obtain sufficient appropriate audit evidence for 6% of the targets. In addition, 65% of the targets were not valid, accurate and complete when compared to the source information or evidence provided.

This was due to a lack of standard operating procedures or documented system descriptions for the accurate recording of actual achievements and technical indicator descriptions for the accurate measurement, recording and monitoring of performance.

The FMPPI requires that processes and systems which produce the indicator should be verifiable and accurate enough for its intended use.

The reliability of the information presented by MISA is compromised substantially as the reported performance is not in line with the requirements of the framework. This could lead to stakeholders formulating an inaccurate evaluation of MISA’s performance which could impact future funding and the accuracy of future targets.

### Internal Control Deficiency

#### Leadership

Leadership does not exercise oversight responsibility regarding performance reporting, compliance and related internal controls.

### Recommendations

Actual performance included in the annual performance report should reflect the actual achievement against the predetermined objective and should be supported by appropriate verifiable evidence.

Management should implement a formalised performance information process including effective controls and technical descriptions. This should ensure that the annual performance report and actual performance comply with the requirements of the framework issued by National Treasury.

### Management response

Management agrees with the finding and will implement formalised performance information processes including effective controls and technical indicator descriptions.

Name: Ngobeni TS

Position: Acting Head: Corporate and Financial Services

Date: 20 July 2015

### Auditor’s conclusion

Management response is acknowledged. The addressing of the internal control deficiency and the implementation of the proposed corrective actions will be followed up in the next audit cycle.

## Amendments made to Annual Performance Plan not approved by the executive authority

### Audit finding

Treasury Regulation 5.1.1 requires that the accounting officer of an entity prepare a strategic plan that is consistent with the period covered by the Medium Term Expenditure Framework for approval by the relevant executive authority.

Treasury Regulation 5.2.4 requires that the strategic plan must form the basis for the annual reports of accounting officers as required by sections 40 (1) (d) and (e) of the PFMA.

During the audit of performance information we noted that MISA made an amendment to the target of one indicator from the Annual Performance Plan to the Annual report where in Indicator 2.3.1 was changed from 12 according to Annual Performance Plan to 23 in the Annual report without approval.

### Internal Control Deficiency

#### Leadership

Leadership does not exercise oversight responsibility regarding performance reporting, compliance and related internal controls.

### Recommendation

Management should ensure approval is obtained from the executive authority for and amendments made to the annual performance plan.

### Management response

We agree with this finding but would like to indicate that discrepancies between the performance indicators in the strategic plan and annual performance report were as a result of an error made. According to the quarterly targets the total is 23, which was indicated as 12 in the annual target; hence this was a correction of an error not a result of an official decision. Hence no approval was sought for such deemed amendment from the Executive Authority. Remedial steps will be taken to ensure that such discrepancies are addressed timeously should they arise in the future.

Name: Sam Ngobeni

Position: Acting Chief Financial Officer: Office of the CEO

Date: 1 June 2015

### Auditor’s conclusion

Management response is in agreement with the finding; therefore the finding will be included in the management report.

## Listing provided does not agree to the amounts disclosed in the Annual Report

### Audit finding

Section 38(1) (a) (1) of the PFMA requires that the accounting officer ensure the entity has and maintains and effective, efficient and transparent system of financial and risk management and internal control

During the audit of predetermined objectives, I noted that the listings provided by MISA did not agree to the actual performance reported in the annual report for the following indicators:

|  |  |  |
| --- | --- | --- |
| Indicator | Disclosed in the annual report | Amount per the listings |
| 3. Number of municipalities supported to develop strategic development plans. | 17 | 18 |
| 6. Number of municipalities provided with technical support to reduce sanitation infrastructure and service backlogs | 21 | 23 |
| 7. Number of municipalities provided with technical support to enable communities to have access to energy services. | 11 | 14 |
| 8. Number of municipalities provided with technical support in implementing revenue enhancement strategies. | 5 | 6 |
| 10. Number of municipalities supported on licensing of waste disposal sites | 20 | 26 |
| 11. Number of municipalities provided with technical support to reduce roads and storm water backlogs. | 26 | 23 |
| 12. Number of municipalities to enhance the functionality of the PMUs | 27 | 53 |
| 13. Number of municipalities supported to expediate spending of conditional grants | 55 | 53 |
| 14. Number of municipalities supported with the development of Operations and Maintenance plans. | 14 | 9 |
| 15. Number of municipalities supported with the development of infrastructure asset management plans. | 5 | 5 |
| 16. Number of municipalities supported to improve functionality of water treatment plants | 10 | 11 |
| 17. Number of Section 13 Apprentices deployed to municipalities | 321 | 376 |
| 19. Number of Apprentice graduates (Section 13) supported through training for trade testing as Artisans | 114 | 112 |
| 20. Number of Experiential learning graduates deployed to municipalities for municipal in-service training and workplace experience | 103 | 65 |
| 21. Number of Young Graduates deployed for workplace experience, absorption and professional registration. | 27 | 27 |
| 22. Number of trainee Water Process Controllers deployed to municipalities | 139 | 104 |
| 25. Number of municipal officials undergoing technical training courses. | 936 | 578 |

### Internal Control Deficiency

#### Leadership

Leadership does not exercise oversight responsibility regarding performance reporting, and related internal controls.

### Recommendation

Management should ensure that the listings of the indicators agree to the amounts disclosed in the annual report.

### Management response

Name:

Position:

Date:

### Auditor’s conclusion

Management response is acknowledged. The addressing of the internal control deficiency and the implementation of the proposed corrective actions will be followed up in the next audit cycle

## Quarterly targets not consistent to the annual indicators included in the annual performance plan

**Audit finding**

Treasury Regulation 5.3.1 requires that the accounting officer of the entity must establish procedures for quarterly reporting to the executive authority to facilitate effective performance monitoring, evaluation and corrective action

During a review of MISA’s approved strategic plan, I noted that the quarterly targets for *Indicator 2.3.1 Provide technical infrastructure planning support to municipalities,* do not add up to the annual target in the annual performance plan. The quarters add up to 23, but the annual target is disclosed as 12. The amount of 23 was incorrectly transferred as 12 to the annual target in the plan.

**Internal Control Deficiency**

*Leadership*

Leadership does not exercise oversight responsibility regarding performance reporting, compliance and related internal controls.

**Recommendation:**

Management should ensure that the quarterly targets are arithmetically accurate to the annual targets.

**Management response:**

Management agrees with the finding. The annual target of 12 was a misprint and Management resorted to report through the quarters on the quarterly targets which added to a total of 23 instead of 12. In future Management will try to identify misprints by conducting reviews of the APP and related documents.

Name: Ngobeni TS

Position: Acting Head: Corporate and Financial Services

Date: 20 July 2015

**Auditor’s conclusion:**

Management response is acknowledged. The addressing of the internal control deficiency and the implementation of the proposed corrective actions will be followed up in the next audit cycle.

## The target is the APP is not accurately stated

**Audit Finding**

Paragraphs 1.1 and 1.2 of the FMPPI requires performance information to be accurate.

During the audit of performance information we identified that the target does not specify what the number relates to. The overall indicator has been split into a number of “sub-indicators” or targets. The target only discloses a number, the detail as to what the number relates to is available in the prior year estimated performance column.

|  |  |  |  |
| --- | --- | --- | --- |
| **Performance Indicator** | **Planned Target 2014/15** | **Detail not disclosed as part of the planned target** | **Comments on Deviations** |
| 3.1.1. Number of young professionals, artisans, process controllers or graduates supported or deployed in municipalities |  |  |  |
|  | 300 | Section 13 Apprentices (graduates) deployed | The target only contains a number and no longer contains the details of what the number relates to. |
|  | 100 | Section 28 Apprentices (officials) supported | The target only contains a number and no longer contains the details of what the number relates to. |
|  | 30 | Apprentice graduates (Section 13) supported for trade testing | The target only contains a number and no longer contains the details of what the number relates to. |
|  | 100 | Graduates deployed for experiential learning | The target only contains a number and no longer contains the details of what the number relates to. |
|  | 40 | Young Professionals deployed for professional registration | The target only contains a number and no longer contains the details of what the number relates to. |
|  | 40 | Trainee Water Process Controllers deployed | The target only contains a number and no longer contains the details of what the number relates to. |

**Internal Control Deficiency:**

*Leadership*

Leadership does not exercise oversight responsibility regarding performance reporting, compliance and related internal controls.

**Recommendation**:

Management should ensure that the target clearly identifies what is to be measured.

**Management response**

Management agrees with the finding. Future Management Review processes will be used to identify and correct understatements of information.

Name: Ngobeni TS

Position: Acting Head: Corporate and Financial Services

Date: 20 July 2015

**Auditor’s conclusion**

Management response is acknowledged. The addressing of the internal control deficiency and the implementation of the proposed corrective actions will be followed up in the next audit cycle.

## No supporting documentation provided to substantiate the reasons for variances between planned and actual performance reported in the annual report

**Audit Finding**

Paragraph 5.2 of the FMPPI requires that the accounting officer ensure the entity implement appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

Section 40(3)(a) of the PFMA require that the annual report should fairly present the state of affairs of the public entity, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial period concerned.

During the audit of performance information we identified that there’s no support for the variances disclosed in the annual report, for the following indicators:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Performance Indicator** | **Planned Target 2014/15** | **Actual Achievement 2014/15** | **Deviation from Planned Target to Actual Achievement for 2014/15** | **Comment on Deviations** | **Comments from AG.** |
| 2.4.1. Number of municipalities provided with technical support to reduce water infrastructure and service backlogs | 40 | Partially Achieved  30 (75%) | 10 municipalities could not be supported | In practice many more municipalities were supported, but MISA did not keep adequate supporting documentation to substantiate this for performance information audit purposes. An M&E Committee has been established and quarterly performance reporting has been made a standing item on the agenda of management meetings, in order to ensure that this kind of problem is avoided in future | We were not provided with the M & E Committee minutes, as such we could confirm if it was established and quarterly performance reporting was discussed. |
| 2.4.2. Number of municipalities provided with technical support to reduce sanitation infrastructure and service backlogs | 40 | Not Achieved  21 (53%) | 19 municipalities were not supported | In practice many more municipalities were supported, but MISA did not keep adequate supporting documentation to substantiate this for performance information audit purposes. An M&E Committee has been established and quarterly performance reporting has been made a standing item on the agenda of management meetings, in order to ensure that this kind of problem is avoided in future | We were not provided with the M & E Committee minutes, as such we could confirm if the Committee was established and quarterly performance reporting was discussed. |

**Internal Control Deficiency**

*Leadership*

Leadership does not exercise oversight responsibility regarding performance reporting, compliance and related internal controls.

**Recommendation**

Management should ensure that the reported information is valid, accurate and complete.

**Management response**

Management agrees with the finding. Management reviews of performance information will take into consideration the submission of supporting documentation in relation to reasons provided for variance in performance.

Name: Ngobeni TS

Position: Acting Head: Corporate and Financial Services

Date: 20 July 2015

**Auditor’s conclusion**

Management response is acknowledged. The addressing of the internal control deficiency and the implementation of the proposed corrective actions will be followed up in the next audit cycle.

## No explanations for the variances disclosed in the annual report

**Audit Finding**

Paragraph 5.2 of the FMPPI requires that the accounting officer ensure the entity implement appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

Section 40(3)(a) of the PFMA require that the annual report should fairly present the state of affairs of the public entity, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial period concerned.

National Treasury Annual Report Preparation Guide requires that variances applicable to both under or over achievement be disclosed in the annual report.

During the audit of performance information we identified that there is no explanation for the variances disclosed in the annual report, for the following indicators:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Performance Indicator** | **Planned Target 2014/15** | **Actual Achievement 2014/15** | **Deviation from Planned Target to Actual Achievement 2014/15** | **Comments on Deviations** |
| 2.5.4 Number of municipalities assisted to acquire licenses for solid waste disposal sites | 16 | Achieved 20 (440%) | 4 | None |
| 2.6.2. Number of municipalities supported to expedite spending of conditional grants | 54 | Achieved  55(101%) | 1 | None |
| 3.1.1. Number of young professionals, artisans, process controllers or graduates supported or deployed in municipalities |  |  |  |  |
| * Section 13 apprentices (graduates) deployed | 300 | 321 | 21 | None |
| * Apprentice graduates (Section 13) supported for trade testing | 30 | 114 | 84 | None |
| * Graduates deployed for experiential learning | 100 | 103 | 3 | None |
| * Trainee Water Process Controllers deployed | 40 | 139 | 99 | None |
| * 3.3.1 Number of municipal officials undergoing technical training courses | 200 | 963 | 763 | None |

**Internal Control Deficiency:**

*Leadership*

Leadership does not exercise oversight responsibility regarding performance reporting, compliance and related internal controls.

**Recommendation**:

Management should ensure that the reported information is valid, accurate and complete and the explanation for the variances is disclosed in the annual report.

**Management response:**

Management agrees with the finding. Explanations will be given for both negative and positive variance against set targets.

Name: Ngobeni TS

Position: Acting Head: Corporate and Financial Services

Date: 20 July 2015

**Auditor’s conclusion**

Management response is acknowledged. The addressing of the internal control deficiency and the implementation of the proposed corrective actions will be followed up in the next audit cycle

## Key performance indicators are not set in line with the requirements of the Framework for Managing Programme Performance Information (Usefulness)

**Audit finding**

Paragraph 3.2 of the Framework for Managing Program Performance Information (FMPPI) states that:

Indicators should meet the following criteria:

* **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.

Paragraph 3.3 of the Framework for Managing Program Performance Information (FMPPI) states that:

Targets should meet the following criteria:

* **Specific:** the nature and the required level of performance can be clearly identified
* **Measurable:** the required performance can be measured

A detailed assessment of the key performance indicators and targets for programme 2 was performed to determine whether indicators were well defined and verifiable.

*Well defined, Specific and Measurable:*

The following key performance indicators were not considered to be well defined:

| **Strategic Objective** | **Key performance Indicator** | **Indicator/measure considered well-defined** | **Target is considered to be specific** | **Target is considered to be well defined** | **Observation** |
| --- | --- | --- | --- | --- | --- |
| **Programme 2: Municipal and Sectoral Technical Support Programme** | | | | | |
| SO2.2: Provide strategic development planning support to municipalities to enable implementation of integrated infrastructure for service delivery | 2.2.2 Number of municipalities supported to develop strategic development plans | No | No | No | The indicator explains that the number of municipalities supported is measured. However, it is not clear what is intended by support. The level and nature of performance of "support" is not clear / specific. As such, the indicator and target is not well defined, specific or measurable. |
| SO 2.3: Provide technical infrastructure planning support to municipalities | 2.3.1 Number of municipalities provided with technical support to develop infrastructure sector plans | No | No | No | The indicator explains what is required, i.e. the number of municipalities provided with technical support to develop infrastructure plans. However, it is not clear what is intended by support. The level and nature of performance of "support" is not clear / specific. As such, the indicator and target is not well defined, specific or measurable. |
| SO2.4: Provide focused support to municipalities to strengthen their capacity and capability to deliver on their water and sanitation targets | 2.4.2 Number of municipalities provided with technical support to reduce sanitation infrastructure and service backlogs | No | No | No | The indicator defines what is required i.e. The number of municipalities supported to reduce the backlog. However, it is not clear what is intended by support. The level and nature of performance of "support" is not clear / specific. As such, the indicator and target is not well defined, specific or measurable. |
| SO 2.5: Provide technical support to municipalities toward s the reduction of infrastructure and service backlogs with respect to energy, solid waste management as well as roads and storm water services | 2.5.1 Number of municipalities provided with technical support to enable communities to have access to energy services | No | No | No | The indicator identifies what is required i.e. the number of municipalities provided with support to have access to energy service. However, it is not clear what is intended by support. The level and nature of performance of "support" is not clear / specific. As such, the indicator and target is not well defined, specific or measurable. |
| SO 2.5: Provide technical support to municipalities toward s the reduction of infrastructure and service backlogs with respect to energy, solid waste management as well as roads and storm water services | 2.5.2 Number of municipalities provided with technical support in implementing revenue enhancement strategies | No | No | No | The indicator identifies what is required i.e. the number of municipalities provided with support to implement revenue strategies. However, it is not clear what is intended by support. The level and nature of performance of "support" is not clear / specific. As such, the indicator and target is not well defined, specific or measurable. |
| SO 2.5: Provide technical support to municipalities toward s the reduction of infrastructure and service backlogs with respect to energy, solid waste management as well as roads and storm water services | 2.5.3 Number of municipalities provided with technical support to reduce solid waste services backlogs | No | No | No | The indicator identifies what is required i.e. the number of municipalities provided with support to reduce backlogs. However, it is not clear what is intended by support. The level and nature of performance of "support" is not clear / specific. As such, the indicator and target is not well defined, specific or measurable. |
| SO 2.5: Provide technical support to municipalities toward s the reduction of infrastructure and service backlogs with respect to energy, solid waste management as well as roads and storm water services | 2.5.4 Number of municipalities assisted to acquire licenses for solid waste disposal sites | No | No | No | The indicator identifies what is required i.e. the number of municipalities assisted to acquire licenses for waste disposal sites. However, it is not clear what is intended by assistance. The level and nature of performance of "assisted" is not clear / specific. As such, the indicator and target is not well defined, specific or measurable. |
| SO 2.5: Provide technical support to municipalities toward s the reduction of infrastructure and service backlogs with respect to energy, solid waste management as well as roads and storm water services | 2.5.5 Number of municipalities provided with technical support to reduce roads and storm water backlogs | No | No | No | The indicator identifies what is required i.e. the number of municipalities supported to reduce backlogs. However, it is not clear what is intended by support. The level and nature of performance of "support" is not clear / specific. As such, the indicator and target is not well defined, specific or measurable. |
| SO 2.6:Provide technical support to assist municipalities in implementing grant funded projects | 2.6.1 Number of municipalities supported to enhance the functionality of the PMUs | No | No | No | The indicator clearly identifies what is required i.e. the number of municipalities supported to enhance the functionality of the project management unit. However, it is not clear what is intended by support. The level and nature of performance of "support" is not clear / specific. As such, the indicator and target is not well defined, specific or measurable. |
| SO 2.6:Provide technical support to assist municipalities in implementing grant funded projects | 2.6.2 Number of municipalities supported to expedite spending of conditional grants | No | No | No | The indicator identifies the number of municipalities supported to expedite grants. However, it is not clear what is intended by support. The level and nature of performance of "support" is not clear / specific. As such, the indicator and target is not well defined, specific or measurable. |
| SO 2.7: Provide technical support to municipalities to operate and maintain infrastructure | 2.7.1 Number of municipalities supported with the development of Operations and Maintenance plans | No | No | No | The indicator identifies what is required i.e. the number of municipalities supported to develop operations and maintenance plans. However, it is not clear what is intended by support. The level and nature of performance of "support" is not clear / specific. As such, the indicator and target is not well defined, specific or measurable. |
| SO 2.7: Provide technical support to municipalities to operate and maintain infrastructure | 2.7.2 Number of municipalities supported with the development of infrastructure asset management plans | No | No | No | The indicator identifies what is required i.e. the number of municipalities supported with the development of infrastructure asset management plans. However, it is not clear what is intended by support. The level and nature of performance of "support" is not clear / specific As such, the indicator and target is not well defined, specific or measurable. |
| SO 2.7: Provide technical support to municipalities to operate and maintain infrastructure | 2.7.3 Number of municipalities supported to improve functionality of water treatment plants. | No | No | No | The indicator defines what is required i.e. the number of municipalities supported to improve water treatment plants. However, it is not clear what is intended by support. The level and nature of performance of "support" is not clear / specific. As such, the indicator and target is not well defined, specific or measurable. |

A total of 16 (100%) planned key performance indicators and targets for Programme 2:Municipal and Sectoral Technical Support Programme were not considered to be well defined, specific and measureable in that clear, unambiguous data definitions were not available to allow for data to be collected consistently.

Users of the Annual Performance Report could have differing expectations of what the key performance indicator is intended to measure and may evaluate the performance of MISA differently.

Furthermore, non-compliance with the criteria established by the FMPPI could result in a modification to the conclusion on the Annual Performance Report.

**Internal Control Deficiency**

*Financial and performance management*

Management did not implement procedures and processes to review and monitor compliance with applicable legislation.

*Leadership*

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

**Recommendation**

Key Performance Indicators and targets should be set so that they meet the criteria as set in the FMPPI issued by National Treasury.

Management should ensure consistency between technical indicator descriptions and the actual process implemented.

**Management response**

Management agrees with the finding. Reviews will be conducted to ensure consistency between technical indicator descriptions and the actual process implemented.

Name: Ngobeni TS

Position: Acting Head: Corporate and Financial Services

Date: 20 July 2015

**Auditor’s conclusion**

Management response is acknowledged. The addressing of the internal control deficiency and the implementation of the proposed corrective actions will be followed up in the next audit cycle

# Supply Chain Management

## Bid was not advertised for the minimum period as specified by Treasury Regulations.

### Audit finding

According to Treasury Regulation, 16A6.3(c) the accounting officer should ensure that bids are advertised in at least the Government Tender Bulletin for a minimum period of 21 days before closure, except in urgent cases when bids may be advertised for a shorter period as the accounting authority may determine.

If the closing date for submission of bids is less than the 21 days the requirement below should be met: the deviation was approved in accordance with the SCM policy requirements the reason were recorded to be on the grounds of it being an urgent case:

The reason appears reasonable / justifiable and there are no indicators of fraud.

Note: An urgent case would be if the early delivery of the goods/ services is of critical importance and it the time available will make it impractical or impossible to advertise for 21 days.

We have observed that Bid 017/2013 that was won by Khula Nonke Training and Development, which opened on 12 October 2013 and closed on 31 October 2013, was advertised for only 20 days (which is less than the required 21 days). The approved submission had stipulated a request to advertise for two weeks, the approval to advertise for a period less than the stipulated 21 days was granted however, there were no reasons were provided to substantiate the request and it did not appear to be a matter of urgency.

### Internal Control Deficiency

#### Financial and performance management

Accounting Officer failed to Review and monitor compliance with applicable legislation.

### Recommendation

The Accounting Officer should ensure that the SCM division adheres to the bid advertisement requirements of Treasury Regulations.

### Management response

Bid 017/2013:

The bid was regarded as urgent and permission to advertise for a shorter period (two weeks) was approved by the accounting officer. The Capacity Development Programme was under pressure to get the training underway.

Name: Luvo Mpengesi

Position: Senior Manager SCM

Date: 11/05/2015

### Auditor’s conclusion

Management’s response is acknowledged, however, the finding will be included in the management’s report.

## No closing bid register is attached in the bid files

### Audit finding

According to Treasury Regulation 16A.3.2 (a) a supply chain management system must be fair, equitable, transparent, competitive and cost effective.

For the supply chain system to be fair as described above, the bid of the winning supplier should have been received before the closing date and time determined for the bid as per the original advertisement.

In the bid files that we inspected, there was no closing bid register attached, we therefore could not verify whether the winning bidder submitted their bid / proposal before the closing date and time determined as per the advertisement / invitation placed. The above-mentioned resulted in the contracts being irregular as they are not in compliance with Treasury Regulations.

Below is the list of bids that are irregular due to no bid register being attached in the bid file:

|  |  |  |
| --- | --- | --- |
| Contractors | Total rand-value of award | Expenditure (Payments) - current year |
| Wenzile Phaphama Trading & Projects CC | R 1 714 197 | R 499 974 |
| Dimension Data (Pty) Ltd (MISA BID/ICT/09/2013) | R 2 048 852 | R 0.00 |
| Total | R 3 763 049 | R 499 974 |

The total value of Irregular Expenditure arising from the contracts above in the current year is R499 974for Bids to the value of R 3 763 049.

### Management response

The finding is noted and the payments for these bids will be recorded as irregular expenditure going forward, effective from 31 May 2015.

Name: Luvo Mpengesi

Position: Acting Senior Manager SCM

Date: 15/05/2015

### Auditor’s conclusion

Management’s response is acknowledged however, the finding will be included in the management’s report.

## Quotations not obtained for closed bids

### Audit findings

According to Practice Note 8 of 2007/8 paragraph 3.3.1 requires that Accounting officers / authorities should invite and accept written price quotations for requirements up to an estimated value of R500 000 from as many suppliers as possible, that are registered on the list of prospective suppliers.

TR16A6.1 requires that written price quotations must be obtained from at least three different prospective suppliers. If three written price quotations were not obtained, the reasons must be recorded and approved by a delegated official.

1. During the audit of procurement using Vodacom as a supplier, we have identified that there was no quotation provided for this transaction, which results in non-compliance with the requirements of Treasury Regulations.

#### 2. MISA BID/005/2014

During the audit of SCM we have identified that there was a close bid for project management to the Palestinian – South African Engineering partnership, we further observed that five service providers were invited to bid for the tender but only one service provider responded which was City Insight. The Invited bidders were

* Zwelibanzi & Associates
* Kowostone Advisory Services
* City Insight (Pty) Ltd
* MND Project Services
* Bagale Consulting

Furthermore, we noted that 3 quotes were not obtained and there was no approval by the CEO

#### 3. MISA BID/007/2014

During the audit of SCM, we identified that there was a close bid for provision of project management services for the implementation of efficiency demand and supply management. We further observed that seven service providers were invited to bid for the tender from a random selection from the supplier database. Only two service providers responded which were, Bodibeng Management Consulting and Dihlase Consulting Engineers City.

Based on the procedures performed SCM on the Bids above we have identified there were no reasons recorded for not requesting quotations and there was no approval by the CEO

### Internal Control Deficiency

#### Leadership

The accounting officer has failed to exercise oversight responsibility regarding financial, performance reporting, compliance, and related internal controls**.**

#### Financial and performance management

The accounting officer has failed to review and monitor compliance with applicable legislation.

### Recommendation

Management should ensure that MISA obtains the minimum written quotation required be legislation and that any deviations from the process is adequately documented and approved by the Accounting Officer.

### Management response

For both bids (MISA BID/005/2014 & MISA BID/007/2014) five and seven service providers, respectively, were invited to submit proposals and one proposal was received for the first bid with two proposals received for the other bid. Evaluations were done, reasons for poor response by service providers were captured on the evaluation reports for both bids. The evaluation reports were submitted to the Accounting Officer for consideration and approval. The point that these bids were supposed to be recorded as deviations is, however, noted.

Name: Luvo Mpengesi

Position: Acting Senior Manager SCM

Date: 09/04/2015

### Auditor’s conclusion

Management’s response is acknowledged. The finding is therefore included in the management report, as these bids were not recorded as deviations to the normal procurement procedures.

The addressing of the internal control deficiency and the implementation of the proposed corrective actions will be followed up in the next audit cycle

## No bid specification committee in place

### Audit finding

According Treasury regulations 16A6.2(b) stipulates that the bid specifications committee should compile the bid specifications. Furthermore, it stipulates that the specifications committee should be composed in accordance with the requirements of the auditee's SCM policy.

1. During the audit of BID/029/2013 that was won by company Wenzile Phaphama Trading and Projects, we have identified that there was no bid specification committee in place at MISA. Upon inspection of the bid file, there were no bid specification committee minutes or attendance register attached
2. During the audit of the BID 002/2013 that was won by Wayo Consulting we identified that we could not confirm whether the bid specification committee was composed in accordance with MISA's SCM policy or not since there were no bid specification committee minutes or attendance register attached to verify this

### Internal Control Deficiency

#### Financial and performance management

The accounting officer failed to review and monitor compliance with applicable legislation.

### Recommendation

The accounting officer should ensure that a bid specification committee in place should be involved in the process of awarding of contracts and should ensure adequate documentation is filed in the process of awarding contracts.

### Management response

At the time these bids were initiated, SCM had resource constraints and bid specifications were mainly developed by end users. However, the anomaly has since been addressed and MISA has standing bid committees and records are kept accordingly.

Name: Luvo Mpengesi

Position: Acting Senior Manager SCM

Date: 09/04/2015

### Auditor’s conclusion

Management response is acknowledged. The addressing of the internal control deficiency and the implementation of the proposed corrective actions will be followed up in the next audit cycle.

## Bid was not evaluated in accordance with the preference point system as prescribed by the PPPF Act

### Audit finding

1. According to requirements of Treasury Regulations 16A6.3 (b) bid documentation include evaluation and adjudication criteria, including the criteria prescribed in terms of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) and the Broad Based Black Economic Empowerment Act, 2003 (Act No. 53 of 2003);
2. According to PPPFA Sec 2(1) (a) stipulates that bids should be evaluated in accordance with the preference point system as prescribed by the PPPF Act
3. According to PPR 6(1) for procurements above R1 million the points for price should be correctly calculated using the following formula:
4. PPR 6(4) & 11(4) further stipulates that the points scored by a bidder in respect of the level of B-BBEE contribution should be correctly added to the points scored for price.
5. According to Treasury Regulations 16A3.2 the evaluation and adjudication criteria applied in evaluating and adjudicating the bids are the same as those indicated in the original bid documentations in order to enhance fairness.

During the audit of BID/008/2014, we identified that MISA did not calculate the price point nor did they take into account the BBEEE points hence the above-stipulated regulations were not adhered to.

The advertisement and submission for Bid 008/2014 stipulated that a 90/10 preferential point system would be applied however; the evaluation committee did not take pricing or the BEE rating into account.

### Internal Control Deficiency

#### Financial and performance management

The accounting officer failed to review and monitor compliance with applicable legislation.

### Recommendation

The accounting officer should ensure that SCM adheres to the above-stipulated regulations; furthermore, management should ensure that the evaluation committee evaluates the respective bids in accordance with the specifications stipulated initially in order to encourage fairness.

### Management response

Because there were no specific projects at the time bids were submitted, it was difficult to compare the bid prices the bidders proposed since they varied enormously. The BEC proposed and agreed that bidders that made it through functionality evaluation would be appointed using a MISA flat rate as and when required. This is the reason why the BEE and price was not factored. It is conceded that the reason provided on the Bid Evaluation report, that – “BEE and price must not be considered because more than one service provider is going to be needed for the programme” does not clearly capture the reason why the BEE and price was not considered. The Bid Adjudication report does though reflect the points that I have mentioned above. The finding is noted.

Name: Luvo Mpengesi

Position: Acting Senior Manager SCM

Date: 09/04/2015

### Auditor’s conclusion

Management response is acknowledged, however, the finding is included in this management report, as the controls were not implemented during the year under review. The addressing of the internal control deficiency and the implementation of the proposed corrective actions will be followed up in the next audit cycle.

# Accounts Receivables

## Other Receivables balance is overstated

### Audit finding

According to treasury regulation, 11.2.1 the accounting officer of an institution must take effective and appropriate steps to timeously collect all money due to the institution including, as necessary –

1. Maintenance of proper accounts and records for all debtors, including amounts received in part payment; and
2. Referral of a matter to the State Attorney, where economical, to consider a legal demand and possible legal proceedings in a court of law.

We identified material misstatements in the financial statements during the audit. These misstatements were not prevented or detected by the entity’s system of internal control. These material misstatements also constitute non-compliance with section 40(1) of the PFMA

We identified material misstatements in the financial statements during the audit. These misstatements were not prevented or detected by the entity’s system of internal control. These material misstatements also constitute non-compliance with section 40(1) of the PFMA

During the audit of receivables we identified that there are two debtors balances that there are two debtors whose amounts are not likely to be recoverable

Amount 1 - R 245 000 relates to an underpayment from Cogta, and there is no reasonable prospect of the amount being received as Cogta has paid the money back to the National Treasury.

Amount 2-The balance of other receivables R 224 871 relates to an overpayment of salary to an ex-employee and there is no reasonable prospect that he will repay the loan as the employee has since leaving the employment of MISA disappeared.

The amount paid to the employee that cannot be recovered results in fruitless and wasteful expenditure and the accounting officer should report to Treasury on this matter.

The amounts above result in overstatement of debtors as the amounts recognised will not be recovered

### Internal Control Deficiency

#### Leadership

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

#### Financial and performance management

Review and monitor compliance with applicable legislation.

### Recommendation

The management should perform necessary steps to recover the outstanding balance.

Accounting officer should ensure there adequate to ensure follow-up of outstanding debtors is performed.

### Management response

The necessary steps to recover the outstanding balance were followed, but it is evident that there is no reasonable prospect of the amounts being recovered. The debts will be written off and the accounting officer will accordingly, report to the National Treasury.

Name: Namhla Mabija

Position: DD Financial Accounting

Date: 09/03/2015

### Auditor’s conclusion

Management comments have been noted. The addressing of the internal control deficiency and the implementation of the proposed corrective actions was followed up at final audit and have been implemented

# Commitments

## Overstatement of commitments balance

### Audit finding

In accordance with section 40(1) (a) of the PFMA requires that an accounting officer keep full and proper records of the financial affairs of the entity in accordance with the prescribed norms and standards.

During the audit of Commitments for technical consultants, it was noted that the balance recorded in the contracts register is overstated due to inclusion of contracts that effective from 1 April 2015.

|  |  |  |  |
| --- | --- | --- | --- |
| **Consultants** | **Disclosed in AFS** | **Adjustment Required** | **Correct AFS Balance** |
| Technical Consultants | 211 605 619.40 | -145 867 307.28 | 65 738 312.12 |
| Contractors | 232 710 237.03 | 10 006 927.88 | 242 717 164.91 |
| Total Balance | 444 315 856.43 | -135 860 379.41 | 308 455 477.03 |

### Internal Control Deficiency

Financial and Performance Management

Management has failed to implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

### Recommendation

A process should be implemented such that an individual more senior than the preparer of the register and who has the relevant skills to complete such a review approves the commitment register.

### Management response

The commitments were adjusted and the register with the correct figures was re-submitted.

Name: Namhla Mabija

Position: DD Financial Management

Date: 29/06/2015

**Auditor’s conclusion**

We acknowledge management’s response and will include of this finding into the management report.

**ANNEXURE B: OTHER IMPORTANT MATTER**

# Trade and Other Payables

## Monthly creditors reconciliations not signed as evidence of review

### Audit finding

According to Section 40(1) (a) of the PFMA requires that an accounting officer keep full and proper records of the financial affairs of the entity in accordance with the prescribed norms and standards.

During the audit of payables from non-exchange transactions we noted that the creditors reconciliations prepared are not reviewed and approved by an independent individual who would understand the implications of entries.

Creditors’ reconciliation should be reviewed and authorised to ensure that only valid entries with a business purpose are recorded.

### Internal Control Deficiency

#### Financial and performance management

The accounting officer failed to implement controls over daily and monthly processing and reconciliation of transactions.

### Recommendation

A process should be implemented such that all creditor reconciliations are approved by an individual more senior than the preparer of the entry and who has the relevant skills to complete such a review.

### Management response

Currently the Creditors' recon is checked when a payment is done for a particular creditor. The recon is included as part of the invoice which is being presented for authorization. Going forward a monthly recon of creditors will be done between a creditors statements and the amount per the MISA system. MISA will also implement the creditor’s payment module on Pastel. This will assist in the creditor reconciliations and matching each purchase order to a creditor payment.

### Auditor’s conclusion

We acknowledge management’s response and will include this finding in the management report.

## No Separate Accounts for Leave Provision and Bonus Provision

### Audit finding

In accordance with section 40(1) (a) of the PFMA requires that an accounting officer keep full and proper records of the financial affairs of the entity in accordance with the prescribed norms and standards.

During audit of provisions we noted that MISA accounts for both leave and bonus provision in account 9230/MISA. The two accounts follow different processes and should be recorded in separate accounts.

This may result incorrect disclosure in the financial statements.

**Internal Control Deficiency**

Financial and performance management

Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

**Recommendation**

It is recommended that management implement create a separate account for recognizing bonus provision and raising leave provision. The accounts are calculated differently which results in separate balances.

**Management response**

The finding is acknowledged. The Leave and bonus balances are recorded separately in the AFS and will be recorded in separate general ledger accounts in the next financial year.

Name: Namhla Mabija

Position: DD Financial Management

Date: 29/06/2015

**Auditor’s conclusion**

We acknowledge management’s response and will include this finding in the management report.

## No differentiation between Accrual and Creditor

### Audit finding

During the audit of accounts Payable, we noted that MISA does not differentiate between creditors and accruals.

### Internal Control Deficiency

#### Financial and performance management

The accounting officer failed to implement controls over daily and monthly processing and reconciliation of transactions.

### Recommendation

Management should ensure that all goods received that are not matched with a suppliers’ invoice are captured and tracked in a separate accrual account.

Once invoices are received, the purchase should be transferred from accrued liabilities to accounts payable.

Any long standing accruals unmatched with an invoice or other discrepancies should be reconciled and cleared from the goods received not invoiced accounts on a periodic basis.

### Management response

Accruals are treated as Creditors as both are reflected as Payables in the AFS. Going forward when the Creditor payment module is implemented then the Creditors will be separated and accruals will be raised.

Name: Namhla Mabija

Position: Deputy Director: Financial Administration

Date: 05/06/2015

### Auditor’s conclusion

We acknowledge management’s response and will include this finding in the management report.

## Creditors age analysis not prepared

### Audit finding

According to section 40(1)a of the PFMA theaccounting officer for a department, trading entity or constitutional institution must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards.

When performing work on Accounts Payable, it was noted that there is no monthly creditor’s age analysis prepared and reviewed.

Furthermore, it was noted that the monthly reconciliations of the accounts payable aged listing to the relevant general ledger accounts are not performed.

This may result in the failure to identify creditors that are due within 30 days which may result in non-compliance with the requirements of the treasury regulations.

### Internal Control Deficiency

#### Leadership

The accounting officer failed to implement controls over daily and monthly processing and reconciling of transactions.

### Recommendation

Management should ensure that monthly creditors’ ageing is prepared and reviewed on a monthly basis.

### Management response

Age analyses are prepared on a quarterly basis. As the audit committee in March this was presented. However this will be prepared on a monthly basis going forward.

Name: Namhla Mabija

Position: Deputy Director

Date: 05/06/2015

### Auditor’s conclusion

We acknowledge management’s response and will include this finding in the management report.

## No controls to ensure invoices are recorded correctly

### Audit finding

According to the PFMA, section 40(1) the accounting officer for a Government component, trading entity or constitutional institution—

1. must keep full and proper records of the financial affairs of the Government component, trading entity or constitutional institution in accordance with any prescribed norms and Standards;
2. must prepare financial statements for each financial year in accordance with Generally Recognized Accounting Practice;

During the audit of accounts payable we have identified that invoices to BVI Consulting Engineers were incorrectly recorded as invoice number below is the list of invoices.

|  |  |  |
| --- | --- | --- |
| **Correct Invoice Number** | **Recorded invoice number** | **Amount** |
| 454 | 13 | R 135 960 |
| 453 | 11 | R 233 179 |

This can result in duplication of invoices and failure to pay some invoice on time as they are incorrectly recorded.

During audit of accruals we noted that Invoice from suppliers was recorded using the incorrect date.

|  |  |  |  |
| --- | --- | --- | --- |
| **Supplier** | **Invoice** | **Correct date** | **Recorded date** |
| Goba | 90498891 | 25/07/2014 | 23/07/2014 |
| R&G Consultants |  | 13/11/2014 | 20/10/2014 |

We further noted that amounts recorded on the system do not agree to the invoice amount.

|  |  |  |  |
| --- | --- | --- | --- |
| Supplier | Invoice | Correct amount | Recorded |
| Bothakga Burrow | 1 | R 157 571.81 | R 156 758.28 |

We noted a R10 567.04 overstatement of the amount owing to Travel with Flair for the period September to December 2014 after inspecting and recalculating invoices for the related period. This may result in fruitless and wasteful expenditure.

### Internal control deficiency

#### Financial and performance management

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

### Recommendation

Management should implement controls to ensure that all the amounts or details recorded in accounting records are reviewed.

### Management response

Management will strengthen the controls to ensure that the invoice listing is reviewed regularly. A change in the invoice amount and amount paid resulted in the incorrect calculations by the supplier and the adjustment is made by finance in written approval from the supplier.

Name: Namhla Mabija

Position: DD Financial Accounting

Date: 18/05/2015

### Auditor’s conclusion

Management response is noted. The finding remains and will be included in the management report.

The addressing of the internal control deficiency and the implementation of the proposed corrective actions will be followed up in the next audit cycle.

## The Medical Aid Liability/MISA reflects a debit balance in Accounts Payable

### Audit Finding

Upon inspection of the trial balance, a debit balance of R 695 was reflected in accounts payables. This amount was for the medical aid liability. This results in understatement of liabilities.

### Internal Control Deficiency

#### Financial and performance management

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

### Recommendation

This amount should be taken out of accounts payable, and included in accounts receivable, as it does not represent a liability but rather an asset. Recommend that the review procedures for the reconciliation of accounts payable be reviewed.

### Management response

Zaheer Nana hay (acting CFO) has stated that this amount will be written back to expenses the cause of this debit was a payment to medical charged because of late termination of the employee.

Name: Namhla Mabija

Position: DD Financial Accounting

Date: 25/03/2015

### Auditor’s conclusion

Management response is noted. Journal Number JB058 has been passed at 31/03/2013. However, the finding remains in the interim management report and this will be followed up in the next audit cycle.

# Payroll

## PAYE calculation based on old tax tables

### Audit Finding

According to Section 45 of PFMA an official in a Government component, trading entity or Constitutional institution –

1. must ensure that the system of financial management and internal control established for that Government component, trading entity or constitutional institution is carried out within the area of responsibility of that official;
2. is responsible for the effective, efficient, economical and transparent use of financial and other resources within that official’s area of responsibility;
3. must take effective and appropriate steps to prevent, within that official’s area of responsibility, any unauthorized expenditure, irregular expenditure and fruitless and wasteful expenditure and any under collection of revenue due;
4. must comply with the provisions of this Act to the extent applicable to that official, including any delegations and instructions in terms of section 44; and
5. Is responsible for the management, including the safe-guarding, of the assets and the management of the liabilities within that official’s area of responsibility.

Upon recalculation of PAYE on the sample selected for the period 1 January – 31 March 2015, we observed that PAYE was being calculated using prior year tax tables and not current year tax tables. Therefore, PAYE amounting to R 23 956 has been incorrectly calculated. This may result in SARS charging penalties that may constitute fruitless and wasteful expenditure.

### Internal control deficiency

#### Financial and performance management

Accounting officer has failed to design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

### Recommendation

PAYE should be recalculated using current year tax tables and the VIP system should be updated to use the latest tax tables.

The VIP system being used should be updated on an annual Basis.

### Management response

The finding is hereby acknowledged. The VIP system upgrade was available only at the end of March 2015 after the March payroll has already been finalized. Subsequent to that all the tax tables were updated in April 2015 payroll, the tax deductions were corrected and the difference was deducted in April as well. Future system updates will be implemented as soon as the new tax table’s upgrade is available. See attached tax history of the employee as proof.

Name: Namhla Mabija

Position: Deputy Director Financial Accounting Services

Date: 30/06/2015

### Auditor’s conclusion

Management response is noted. Journal Number JB058 has been passed at 31/03/2013. However, the finding remains in the interim management report and this will be followed up in the next audit cycle.

## Appointments

### Audit Finding

According to section 45(a)an official in a department, trading entity or constitutional institution must ensure that the system of financial management and internal control established for that department, trading entity or constitutional institution is carried out within the area of responsibility of that official.

During the audit of payroll we noted contracts for Artisans have not been signed by the CEO, and there are instances where the Artisans sign the contracts after assuming their roles at their respective Municipalities.

The list below relates to Employees whose contracts have not been signed:

|  |  |
| --- | --- |
| Name | Employee numbers |
| Miss EN Msimango | 4759 |
| Miss NI Hadebe | 4706 |
| Miss SN Kunene | 4529 |
| Mr AT Rakhosi | 4619 |
| Mr B Yalo | 4604 |
| Mr BL Zikode | 4804 |
| Mr CE Williams | 4573 |
| Mr CM Morifi | 4648 |
| Mr CT Mothoa | 4701 |
| Mr EMT Mahlangu | 4531 |
| Mr EMT Mahlangu | 4531 |
| Mr FS Malaza | 4545 |
| Mr GR Gordon | 4595 |
| Mr JW Sithole | 4666 |
| Mr K Nyokana | 4597 |
| Ms KC Mchunu | 4546 |
| Mr L Mrwebi | 4756 |
| Mr LL Madisha | 4695 |
| Mr LW Hlophe | 4805 |
| Mr M Dontsa | 4771 |
| Mr M Vutela | 4778 |
| Mr MM Mbatha | 4725 |
| Mr PM Rameetse | 4653 |
| Mr S Bambata | 4587 |
| Mr S Ludziya | 4584 |
| Mr SEN Mngomezulu | 4760 |
| Mr SM Hlongwane | 4745 |
| Mr SM Mthembu | 4671 |
| Mr ST Mofokeng | 4627 |
| Mr SV Brits | 4588 |
| Mr TM Majadibodu | 4773 |
| Mr TP Nhlapo | 4540 |
| Mr TT Mohlala | 4690 |
| Mr TW Pheko | 4621 |
| Mr VC Ngcobo | 4683 |
| Mr WE Pier | 4571 |
| Ms A Fiyo | 4637 |
| Ms BC Simelane | 4542 |
| Ms FNP Zikalala | 4547 |
| Ms K Mgwigwi | 4786 |
| Ms KN Lekoma | 4634 |
| Ms L Magidela | 4603 |
| Ms M Mahoase | 4624 |
| Ms NH Sepotwana | 4553 |
| Ms P Magungxu | 4780 |
| Ms PE Visagie | 4570 |
| Ms PL Mofya | 4645 |
| Ms ST Ngwenya | 4691 |
| Ms TP Masanabo | 4533 |
| Ms TP Masanabo | 4533 |

This list below relates to employees who signed after date of appointment

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Name | | Appointment Date | Signed | Employee Code |
| Mr TW Pheko | 03-Nov-14 | | 18-Nov-14 | 4621 |
| Mr W Chitsa | 01-Feb-15 | | 06-Feb-15 | 4661 |
| Ms K Mgwigwi | 01-Mar-15 | | 10-Mar-15 | 4786 |
| Miss SN Kunene | 21-Nov-14 | | 25-Nov-14 | 4529 |
| Mr AT Rakhosi | 03-Nov-14 | | 19-Nov-14 | 4619 |

### Internal control deficiency

#### Financial and performance management

Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

### Recommendation

To ensure that there is a legal and binding employer and employee relationship, the accounting officer should ensure contracts are to be signed by both parties prior to employees commencing with their duties.

Management should ensure that employee files are being filled in order or sequentially i.e. using their employee codes.

### Management response

Management agrees with the audit finding relating to signing of employment contracts and record keeping, as well as the corresponding recommendations. Management undertakes to implement processes necessary to ensure that MISA enters into legal binding relationships with its employees timely. Management has also initiated the implementation of a credible record keeping systems for proper filing of employees information.

Name: Victor Mathada

Position: Acting Chief Director: Capacity Building

Date: 14 July 2015

### Auditor’s conclusion

Management response is noted. The finding remains and will be included in the management report.

The addressing of the internal control deficiency and the implementation of the proposed corrective actions will be followed up in the next audit cycle.

## Terminated Employees continue to receive payment

### Audit finding

A treasury regulation 8.1.1 requires that the accounting officer of an institution must ensure that internal procedures and internal control measures are in place for payment approval and processing. These internal controls should provide reasonable assurance that all expenditure is necessary, appropriate, paid promptly and is adequately recorded and reported.

During the audit of payroll, we have identified that some employees are still being paid salaries the month following their exits.

The table below details the employee’s affected:

|  |  |  |  |
| --- | --- | --- | --- |
| Employee Code | Name of Employee | Appointment Date | Contract Sign Date |
| 4621 | Pheko | 2014/11/01 | 2014/11/18 |
| 4297 | Benede | 2014/04/04 | 2014/04/14 |
| 4532 | Mahlangu | 2014/11/01 | 03/11/2014 |
| 4535 | Mothogwana | 2014/11/01 | 03/11/2014 |

This may result in creation of fictitious employees and misappropriation of funds.

### Internal control deficiency

#### Financial and performance management

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

### Recommendation

Employees whose contracts reached the end and not renewed must be removed from VIP.

Management should plan in advance to ensure contracts are renewed on a timely manner.

### Management response

Recommendation noted. An integrated approach between HR, Finance and the end user divisions will be adopted to monitor resignations and expiry of contracts. HR will be expected to take a centre stage in monitoring and reporting on personnel contracts.

Name: Teboho Tsekiso

Position: Human resource manager

Date: 01 May 2015

### Auditor’s conclusion

Management response is noted. The finding remains and will be included in the management report and will be followed up in the next audit cycle.

# Human Resource

## Non-compliance with DPSA circular 14/1/1/P – Reducing the recruitment period and the vacancy rate in the public service

### Audit finding

According to DPSA circular 14/1/1/P (14/07/2014) [Reducing the recruitment period and the vacancy rate in the public service], requires departments to reduce, by 31 March 2015 -

1. The average vacancy rate in respect of funded posts to at most 10%; and
2. The median period it takes to fill a funded vacancy to 6 months

During the audit of Human resources, we have noted that the vacancy rate for the current year is 91%. This is above the required 10%.

Vacancies were also not filled within 6 months.

### Internal Control Deficiency

#### Leadership

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

### Recommendation

Proper HR policies should be in place that allows vacant positions to be filled within 6 months of the position being vacant.

Management should have continuity plan for employees whose contracts are coming to the end and make advertisements on time.

### Management comment

Management agrees with the finding. HR policies will be put in place taking into consideration the shared services arrangement within the CoGTA Portfolio. Processes will be undertaken to reduce the number of contract employees to strengthen the stability of the Government Component.

Name: Teboho Tekiso

Position: Acting Deputy Director: HRM

Date: 07 July 2015

### Auditor’s Conclusion

## Leave taken in excess of entitled leave was not recorded as unpaid leave

### Audit Finding

To determine:-

1. whether leave taken by employees is recorded accurately and in full as required by PSR 1/V/F(a)&(b); and
2. that leave is given to employees in accordance with the DPSA’s determination on leave - August 2012

For each employee identified above, record the details in the table below and trace leave granted per employee to leave files to determine:

1. whether their leave was granted in accordance with the DPSA’s determination on leave; and
2. leave granting in excess of allowed maximum was recorded as unpaid leave

While recalculating the leave balance, there were employees who had negative leave credits. With discussion with the HR manager it was confirmed that these negative leave days were not taken as unpaid leave.

We noted an Employee Zakeer Nanabay has been in excess of 11 leave days but this was not taken as unpaid leave.

### Internal Control Deficiency

#### Leadership

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

#### Financial and performance management

Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

### Recommendation

Management should update the leave balances regularly and should ensure that if an employee takes leave in excess of their leave balances, the should be accounted for as unpaid leave.

### Management comment

The majority of the back office staff were previously contracted to MISA through a consultancy called ABACUS Advisory Services and were only absorbed directly by MISA in October 2014. There was a delay from MISA Management in making a decision as to what would happen to the leave balances that had been accumulated by this back office staff whilst under ABACUS, i.e. whether it would be paid out or transferred.

The result was that the staff utilised this accumulated leave under the impression that it had been transferred to their leave cycle with MISA. When it was finally resolved that such leave balances could not be transferred, necessary leave adjustments were made which resulted in negative leave balances.

Therefore, it is not as if staff members were indiscriminately allowed to take leave in excess of their entitlement. However, leave management will be carried out as required by the Public Services Regulations.

Name: Mr Teboho Tsekiso

Position: Acting Head: Human Resource Management

Date: 07 July 2015

### Auditor’s conclusion

Management response is noted. The finding remains and will be included in the management report.

# Consultants

## MISA individual technical consultants’ reduction plan

### Audit Finding

According to Section 5.3.1 of Chapter 3 of the SCM guide an accounting officer should consider the appropriateness of appointing persons as consultants whilst it would be more appropriate to appoint the relevant individuals on contract in terms of the Public Service Act of 1994 (PSA).

Paragraph 4.5 of National Treasury Instruction 01 of 2013/14 requires that the accounting officer must develop consultancy reduction plans by 31 March of each year for implementation in the ensuring financial year.

Public Services Regulation requires that from 1 April 2001, the annual report shall include such information on planning, service delivery, organization, job evaluation, remuneration, benefits, personnel expenditure, the utilization of consultants, affirmative action, recruitment, promotions, termination of services, performance management, skills development, injury on duty, labour relations, leave and discharge due to ill-health, as the Minister determines. In this regulation ‘consultant’ means a natural or juristic person or a partnership who or which provides in terms of a specific contract on an ad hoc basis any of the following professional services to a department against remuneration received from any source:

* the rendering of expert advice;
* the drafting of proposals for the execution of specific tasks; and
* the executing of a specific task which is of a technical or intellectual nature, but excludes an employee of a department.

During the audit of consultants we noted that MISA did not prepare information that analyses the extent of the use of consultants, including information on consultants that are appointed to supplement or replace existing capacity to perform normal operational functions.

Furthermore, it was noted that MISA has developed a consultancy reduction plan to be implemented in the 2014/2015 financial year. The consultancy reduction plan is still in a draft stage as it has not been approved.

We also noted that there is no evidence that MISA completes a review, on a case by case basis or at least on an annual basis, whether the objectives of the MISA are better achieved through use of consultants.

### Internal control deficiency

#### Leadership

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

#### Financial and performance management

Review and monitor compliance with applicable laws and regulations.

### Recommendation

Management should ensure that MISA reviews are done on annual basis whether the objectives of the institutions are better achieved through the use of consultants or permanent staff and should also ensure that the consultancy reduction is approved.

### Management response

Management notes the finding. The consultancy reduction plan will be finalised and reviewed annually.

Name: Sam Ngobeni

Position: Acting Head Corporate and Financial Services

Date: 26 June 2015

### Auditor’s conclusion

Management response is noted. The finding remains and will be included in the management report.

## Use of Consultants – Skills Transfer and Terms of Reference

### Audit Finding

According to PN SCM 3 of 2003 9.3.1 the terms of reference include requirements on experience and qualification and requires that the terms of reference relating to the request of bids clearly defined the task directive (methodology), objectives, and goals. Scope of the assignment, periods linked to various tasks and frequency of monitoring actions.

According to PN SCM 3 of 2003 9.3.2 terms of reference relating to a request of proposals clearly define objectives, goals and scope of the assignment.

According to PN SCM 3 of 2003, par 9.3.1 requires that the terms of reference outline an objective for transfer of skills.

TR16A3.2(a) requires that the contract details the same services and deliverables as those specified in the terms of reference.

Further to the above, PN SCM 3 of 2003, par1.6 and 8 requires that the consultant’s contract includes a clause for transfer of skills.

During the audit of sample of individual consultants, we noted that the terms of reference were not prepared by MISA and not provided to the individual technical consultants.

We therefore could not satisfy ourselves that the Practice Notes and Treasury Regulations noted paragraphs have been complied with.

Listed below is the sample of The Individual Technical Consultants that were tested:

* Tahir Choudhury
* Mike Church
* Chris Janse van Rensburg
* Shepard Gadzikwa
* Nkululeko Ncube

We have noted that the contracts for the above listed consultants do not have a clause for transfer of skills which is in contravention of PN SCM 3 of 2003.

### Internal control deficiency

#### Financial and performance management

The accounting officer failed to review and monitor compliance with applicable laws and regulations.

### Recommendation

The Accounting officer should ensure that MISA prepares and provides the consultants with the terms of reference which would include requirements on experience and qualification and requires that the terms of reference relating to the request of bids clearly defined the task directive (methodology), objectives, goals. scope of the assignment, time frames linked to various tasks and frequency of monitoring actions. The Terms of Reference should clearly define objectives, goals and scope of the assignment. The Terms of Reference should also outline on objective for transfer of skills, the contract should detail the same services and deliverables as those specified in the terms of reference.

Further, management should ensure that consultants’ contracts include a clause for transfer of skills.

### Management response

Management agrees with the finding. MISA will in future prepare and provide consultants with terms of reference, including requirements on experience and qualification. The terms of reference will clearly articulate the requirements as per the above recommendation.

Name: Luvo Mpengesi

Position: Director: Supply Chain Management

Date: 30 July 2015

### Auditor’s conclusion

# Budgets

## Actual expenditure for the year exceeds approved budget

### Audit finding

Section 39(2)(a) of the PFMA requires that the accounting officer take effective and appropriate steps to prevent any overspending of the vote of the government component or a main division within the vote.

Section 39(2)(b)(iii) of the PFMA also requires that the accounting officer report to the executive authority and the relevant treasury any impeding overspending of the department’s vote or a main division within the vote.

Although MISA does not have a separate vote as defined in section 1, (Funding appropriated in terms of the COGTA Vote), MISA submits its budget for approval by the executive authority annually. Funds appropriated to MISA are included in the transfers section of the COGTA vote.

MISA’s total approved budgeted expenditure for the 2014/15 year was R294.1 million and the actual expenditure for the year was R301,1 million. This represents overspending of R7 million.

The accounting officer of MISA therefore did no implement appropriate steps to prevent overspending of the budget.

This amount is considered material and therefore should be adequately disclosed in the notes to the annual financial statements as either unauthorised expenditure or irregular expenditure.

The accounting officer did not report the impending overspending to the executive authority and National Treasury as required by section 39(2) (b) (iii).

### Internal Control Deficiency

#### Financial and performance management

Management did not implement procedures and processes to review and monitor compliance with applicable legislation.

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

### Recommendation

Management should implement controls to prevent overspending of the budget. Furthermore, management should ensure that any overspending is sufficiently communicated to the executive authority and National Treasury.

### Management response

Management agrees with the finding. Controls will be put in place to prevent overspending of the allocated budget.

Name: Ngobeni TS

Position: Acting Head: Corporate and Financial Services

Date: 20 July 2015

### Auditor’s conclusion

Management response is noted. The finding remains and will be included in the management report.

The addressing of the internal control deficiency and the implementation of the proposed corrective actions will be followed up in the next audit cycle.

## Annual report was not tabled in the National Assembly within one month after receiving the audit report

### Audit finding

Section 65(1)(a) of the PFMA requires that the executive authority responsible for the national government component table in the National Assembly the annual report, financial statements and audit report on this statements, within one month after the accounting officer received the audit report.

Section 65(2) (s) of the PFMA requires that should the executive authority fail to table the annual report, financial statements and the audit report on those statements in the relevant legislature within six months after the end of the financial year to which those statements relate, the executive authority must able a written explanation in the legislature setting out the reasons why they were not tabled.

We inspected the submission letter to the National Assembly dated 30 September 2014. The letter was stamped as received by the clerk of papers on 30 September 2014. The audit report on the 2013/14 financial statements is dated 31 July 2014.

The annual report, audited financial statements and audit report was therefore not tabled within one month after the audit report was received. Furthermore, as the clerk of papers at the National Assembly only received the documents on 30 September 2014, it is also unlikely that the annual report of MISA was tabled within 6 months after the end of the financial year.

Management was also unable to provide evidence weather the reasons for not tabling within 6 months after the end of the financial year was indeed tabled in the National Assembly.

### Internal Control Deficiency

#### Leadership

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

### Recommendation

Management should implement a process to ensure MISA complies with all reporting requirements prescribed by legislation.

### Management response

The finding is noted, but MISA couldn’t have submitted the Annual Report to the national Treasury nor Parliament before same was approved by the Executive Authority. The Report was approved on the 30th of September 2014 and the report still had to be printed, bound, packaged and submitted to Parliament and National Treasury.

Name: Ngobeni TS

Position: Acting Head: Corporate and Financial Services

Date: 20 July 2015

### Auditor’s conclusion

Management response is noted. The finding remains and will be included in the management report.

## Monthly budget information not submitted to National Treasury

### Audit finding

Section 40(4) (a) of the PFMA requires that the accounting officer provide National Treasury with a breakdown per month of the anticipated revenue and expenditure for the financial year in the prescribed format before the beginning of each financial year.

Section 40(4) (b) of the PFMA also requires that the accounting officer submit information as prescribed by section 40(4) (c) on the actual revenue and expenditure for the preceding month and the amounts anticipated for that month in terms of section 40(4) (a) to National Treasury and executive authority.

Section 40(4)(c) of the PFMA requires that the accounting authority submit within 15 days of the end of each month to National Treasury and the executive authority responsible for the national government component the information for that month, a projection of expected expenditure and revenue collection for the remainder of the current financial year and, when necessary, an explanation of any material variances and a summary of the steps that are taken to ensure that the projected expenditure and revenue remain within budget.

MISA did not submit the monthly breakdown for the 2014/15 financial year before the start of the year as required by section 40(4) (a) of the PFMA. Furthermore, MISA did not submit the information required by section 40(4) (c) for any of the months in the 2014/15 financial year.

### Internal Control Deficiency

#### Financial and performance management

Management did not implement procedures and processes to review and monitor compliance with applicable legislation.

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

### Recommendation

Management should implement a process to ensure MISA complies with all reporting requirements prescribed by legislation.

### Management response

The finding is noted and systems will be put in place to ensure compliance with applicable legislation.

Name: Ngobeni TS

Position: Acting Head: Corporate and Financial Services

Date: 20 July 2015

### Auditor’s conclusion

Management response is noted. The finding remains and will be included in the management report.

The addressing of the internal control deficiency and the implementation of the proposed corrective actions will be followed up in the next audit cycle.

## Annual report not submitted to National Treasury within five months after the end of the financial year.

### Audit finding

Section 40(1) (d) of the PFMA requires that the accounting officer submit the annual report, the audited financial statements for that year and the Auditor-General’s report on those statements within five months of the end of a financial year to the National Treasury and the executive authority.

Based on the outgoing mail correspondence register held by MISA, the annual report was only submitted to National Treasury in October 2014. The submission date is after the five-month period, which ended 31 August 2014.

### Internal Control Deficiency

#### Leadership

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

### Recommendation

Management should implement a process to ensure MISA complies with all reporting requirements prescribed by legislation.

### Management response

The finding is noted, but MISA couldn’t have submitted the Annual Report to the national Treasury nor Parliament before same was approved by the Executive Authority. The Report was approved on the 30th of September 2014 and the report still had to be printed, bound, packaged and submitted to Parliament and National Treasury.

Name: Ngobeni TS

Position: Acting Head: Corporate and Financial Services

Date: 20 July 2015

### Auditor’s conclusion

Management response is noted. The finding remains and will be included in the management report.

# Supply Chain Management

## The names of the bidders are not published on the auditee’s website names of the bidders are not published on the auditee’s website

### Audit finding

Paragraph 3.2.1 of the National Treasury Instruction Note 32 (Dated 31 May 2011) requires that the entity publishes the names of all bidders in respect of advertised competitive bids above the threshold value of R500 000 (all applicable taxes included) within 10 working days after the closure of the advertised competitive bid. The information should remain on the website for at least 30 days.

During the audit of SCM, we identified that the names of the bidders are not published on the Auditees website within 10 working days after closure of the advertised competitive bid.

### Internal Control Deficiency

#### Financial and performance management

Review and monitor compliance with applicable legislation.

### Recommendation

Management should develop a website so that the bidders’ names can be published on the website accordingly

### Management response

MISA does not have a website as yet. The finding is noted. MISA will request Dog to publish the bidders’ names on their website under the MISA website page.

Name: Luvo Mpengesi

Position: Acting Senior Manager SCM

Date: 09/04/2015

### Auditor’s conclusion

Management comments have been noted. The addressing of the internal control deficiency and the implementation of the proposed corrective actions will be followed up in the next audit cycle.

## Risk management Report

### Audit finding

According to Section 38(1) (a) of PFMA the accounting officer must ensure that the entity has and maintains effective, efficient and transparent systems of internal control.

1. During our audit, we have identified that MISA has a plan to address prior period internal and external audit findings. However, we noted the following:
   1. That the there was no evidence to suggest that the adherence to the post audit action plan (PAAP) was monitored.
   2. There were no clear time frames set for the issues documented in the PAAP to be addressed and the responsibilities were not assigned appropriately.
2. During the audit of the SCM, we identified that there are no controls in place to ensure that the goods or services are not deliberately split into parts or items of a lesser value merely to avoid complying with the requirements of the SCM policy
3. During the audit of SCM we noted that there are no controls to ensure that the SCM officials and role players withdraw from the process involving a contract in which they or the close family members, partners or associates have a business or private interest.
4. During the audit of compliance it was noted that there are no properly implemented vendor master file controls for adding, deleting or changing the master file
5. We inspected the second and the third risk management reports and we have noted that these reports do not include assessing the risks related to procurement and contract management due to the scum unit not performing risk assessment and regular assessment of SCM.

### Internal Control Deficiency

#### Leadership

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

### Recommendation

1. Management should monitor issues addressed in PAAP by setting clear time frames for issues to be addressed. The PAAP should also clearly state the name of the person responsible to clear the issues identified.
2. Management should implement a control to ensure that the goods or services are not deliberately split into parts or items of a lesser value merely to avoid complying with the requirement of the SCM policy
3. SCM policy should be updated to include SCM officials or other role players to disclose their private or business interest or that of their close family members, partner or associate in any contract to be awarded.
4. Management should ensure that SCM IT system is properly implemented.
5. Management must ensure that the risk assessment report includes the risk related to contract and procurement management

### Management response

1. PAAP will be reviewed monthly going forward starting from 1 May 2015 and a copy will be forwarded to internal audit.
2. Due to lack of Human resource plan and master systems plan, it is difficult to know what goods will be required in advance so that these can be planned for in the procurement plan. For those items in the procurement plan there has not been any splitting of orders. While one is waiting for the two plans mentioned above to be completed, we shall try and ensure that splitting of orders is avoided at all costs.
3. SCM officials and MISA employees involved in SCM work are vetted and their business interests are verified to ensure that they are not conflicted with the suppliers and service providers that MISA appoint. Disclosure of interest by SMS members is done electronically on yearly basis with the assistance of Dog HR. The recommendation is noted and will be considered during the review of the Fraud Prevention Plan and the SCM policy.
4. Capturing of the new suppliers on to the pastel procurement module has started. Thereafter, all the suppliers will be captured on to the system. Once the supplier database has been automated, roles and levels of access to the system will be allocated by the system administrator and the SCM personnel will be given different levels of access (some will view only, some will edit and update and some will delete and create suppliers). The system will be able to track changes in terms of the supplier information loaded.
5. SCM will liaise with Internal Audit as the custodians of the Fraud and Prevention Plan to ensure that this finding is considered and implemented.

Name: Luvo Mpengesi

Position: Acting Senior Manager SCM

Date: 09/04/2015

### Auditor’s conclusion

Management comments have been noted. The addressing of the internal control deficiency and the implementation of the proposed corrective actions will be followed up in the next audit cycle.

## Supply chain management policy

### Audit finding

1. According to the requirements of Treasury Regulations 16A3.2 (a) The SCM system is fair, equitable, transparent, competitive and cost effective.
2. According to the requirements of Treasury Regulations 16A6.2(e).The approval of bid evaluation and/or adjudication committee recommendations should be considered
3. According to the requirements of Treasury Regulations 16A9.1(c) Treasury’s database is checked prior to awarding any contract to ensure that no recommended bidder, nor any of its directors, is listed as companies or persons prohibited from doing business with the public sector.
4. According to the requirements of Treasury Regulations 16A9.1(e)Rejection of a proposal for the award of a contract if the recommended bidder has committed a corrupt or fraudulent act in competing for the particular contract
5. According to the requirements of Treasury Regulations 16A9.1(f) Cancellation of a contract awarded if the supplier committed any corrupt or fraudulent act during the bidding process or the execution of that contract or if any official or other role player committed any corrupt or fraudulent act during the bidding process or the execution of that contract that benefited that supplier
6. According to the requirements of Treasury Regulations 16A9.2 (a) (i) disregard of the bid of any bidder if that bidder or any of its directors have abused the institution’s supply chain management system.
7. According to the requirements of Treasury Regulations 16A9.2 (a) (ii)). Disregard of the bid of any bidder if that bidder or any of its directors have committed fraud or any other improper conduct in relation to such system.
8. According to the requirements of Treasury Regulations 16A9.2 (a) (iii)) Disregard of the bid of any bidder if that bidder, or any of its directors have failed to perform on any previous contract.
9. According to the requirements of Treasury Regulations 16A8.3 (a). Disclosure by SCM officials and other role players of any conflict of interest that may arise, including, if the SCM officials and other role players, or any close family member, partner or associate of such official or other role player, has any private or business interest in any contract to be awarded and withdrawal from participating in any manner whatsoever in the process relating to that contract.
10. During the audit of SCM we have identified that there are processes in place to follow in case of a breach or failure to comply with any aspect of supply chain management however this has not been documented and we couldn’t verify if it exists.
11. The SCM policy does not provide for the approval of bid evaluation and / adjudication committee recommendations.
12. Inspected the SCM policy and the MISA fraud prevention plan, and noted that these do not provide for the National Treasury database to be checked prior to awarding any contract to ensure that no recommended bidder, nor any of its directors, are listed as companies or persons prohibited from doing business with the public sector. (risk assessment unit in SCM)
13. Inspected the SCM policy, we noted that they do not provide for the rejection of a proposal for the award of a contract if the recommended bidder has committed a corrupt or fraudulent act in competing for the particular contract.
14. Inspected the SCM policy and the MISA, we noted that the they do not provide cancellation of a contract awarded if the supplier committed any corrupt or fraudulent act during the bidding process or the execution of that contract or if any official or other role player committed any corrupt or fraudulent act during the bidding process or the execution of that contract that benefited that supplier.
15. Inspected the SCM policy and we noted that these do not provide for disregarding of the bid of any bidder if that bidder, or any of its directors have abused the institution's supply chain management system.

### Internal Control Deficiency

#### Leadership

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

### Recommendation

It is recommended that management ensure that the SCM policy and / fraud prevention plan is updated to include all the relevant requirements of applicable legislation.

### Management response

Recommendation is noted and will be considered for implementation with immediate effect. Update of the SCM policy will be done during the policy review process for 2015/2016.

Name: Luvo Mpengesi

Position: Acting Senior Manager SCM

Date: 09/04/2015

### Auditor’s conclusion

Management comments have been noted. The addressing of the internal control deficiency and the implementation of the proposed corrective actions will be followed up in the 2015/2016.

# Annexure C

# Cash and Bank

## Bank reconciliations are performed monthly and not daily

### Audit finding

Treasury Regulation 15.10.1.2(j) requires that the accounting authority establish systems, procedures, processes and training and awareness programmes to ensure efficient and effective banking and cash management. For purposes of this regulation, cash management includes performing bank reconciliations on a daily basis to detect any unauthorised entries.

We evaluated the process implemented by MISA over banking and cash management and identified that bank reconciliations are prepared on a monthly basis. This is not consistent with the requirements of Treasury Regulation 15.10.1.2(j).

### Internal Control Deficiency

#### Leadership

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

#### Financial and performance management

Management did not review and monitor compliance with applicable legislation.

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

### Recommendation

Management should perform bank reconciliations on a daily basis and ensure evidence of control being implemented is kept.

### Management response

The Call account is updated monthly by journalizing the movements on the call account. This journal is reviewed and agreed to the bank statement. The reason for not opening a separate cash book for the call account is that it has 3 to 4 transactions a month.

Name: Namhla Mabija

Position: Deputy Director Financial Administration

Date: 05/06/2015

### Auditor’s conclusion

We acknowledge management’s response and will include this finding in the management report.

# Expenses

## Supplier not in the Contract Register

The National Treasury Practice Note 8 of 2007/2008 section 5.1 prescribes that Accounting Officers should compile a list of prospective suppliers to be used for the procurement requirements in terms of paragraph 3.1 to 3.3 above. This list should also be used effectively to promote Black Economic Empowerment through the participation of black owned enterprises, black empowered enterprises, black women-owned enterprises (as defined in the Strategy for Broad-Based Black Economic Empowerment issued by the Department of Trade and Industry) as well as the promotion of businesses owned by other Historically Disadvantaged Individuals (HDIs).

Furthermore, section 5.3 prescribes that once the list has been compiled per commodity and type of service, price quotations should be invited from the list.

During the audit of procurement and contract management, it was noted that payments were made to the following suppliers that provided goods and services to the department but were not listed in the supplier database

We noted that the contract does not appear on the clients Contract register.

**Recommendation**

We would recommend that all new contracts be entered in the register within a certain period and access to the register is limited to certain individuals.

**Management Response**

Management agrees with the finding and will ensure that new contracts are entered in the register within a prescribed time period.

Name: Luvo Mpengesi

Position: Director: Supply Chain Management

Date: 30 July 2015

**Auditor’s conclusion**