

09 March / Maart / kweyoKwindla 2017

Kennis geskied hiermee dat 'n vergadering van die
Munisipale Publieke Rekeninge Komitee (MPRK)
gehou sal word op
Woensdag, 15 Maart 2017 om 11:00
in die Raadsaal van die
Eden Distriksmunisipaliteit, Yorkstraat 54, George

*Notice is hereby given that a meeting of the
Municipal Public Accounts Committee (MPAC)
will be held in the Council Chambers
of the **Eden District Municipality**,
54 York Street, George, on **Wednesday**,
15 March 2017 at 11:00*

Kukhutshwe isaziso sokuba inlangano ye
Komiti Elileyo Yencwadi Zoluntu (MPAC)
izakube ibanjelwe Kwizakhiwo Zebhunga lo Masipala
Wesithili se Eden,
54 York Street, e George ngoLwesithathu,
15 kweyoKwindla 2017 ngo 11:00



**UITVOERENDE BESTUURDER: KORPORATIEWE/STRATEGIESE
DIENSTE / EXECUTIVE MANAGER: CORPORATE/STRATEGIC
SERVICES / IINKONZO ZOBAMBISWANO**

ADDENDUM

ITEM	AGENDA	PAGE
MPAC 19/03/17	<p>INSTALLATION OF SOLAR ENERGY GENERATION PLANT AT 54 YORK STREET, GEORGE / INSTALLERING VAN SOLAR OPWEKKINGSBRON BY YORKSTRAAT 54, GEORGE / UKUFAKELWA KOBUXHAKXHAKA BAMANDLA OMBANE ELANGA E 54 YORK STREE, E GEORGE (570636)</p> <p><i>Refer: Report (5/7) dated 07 March 2017 from the Executive Manager Community Services (C Africa) / Manager Property Development, Planning & Resorts (W Fourie)</i></p>	316 – 337
MPAC 20/03/17	<p>REPORT ON THE OVERSIGHT REPORT FOR THE 2015/2016 FINANCIAL YEAR / VERSLAG RAKENDE DIE OORSIGVERSLAG VIR DIE 2015/2016 FINANSIËLE JAAR / INGXELO YONYAKA KA KUNYAKA MALI KA 2015/2016</p> <p><i>Refer: Report (10/1/1) dated 09 March 2017 from the Chairperson of MPAC (Cllr V Gericke)</i></p>	338 – 396

Members as at 30 Sept 2016

Cllr V Gericke - Chairperson

Cllr T Van Rensburg

Cllr AJ Rossouw

Cllr RE Spies

Cllr BN Van Wyk

Cllr CN Lichaba

Cllr D Xego

MPAC

15 MARCH 2017

MPAC 19/03/17

INSTALLATION OF SOLAR ENERGY GENERATION PLANT AT 54 YORK STREET, GEORGE / INSTALERING VAN SOLAR OPWEKKINGSBRON BY YORKSTRAAT 54, GEORGE / UKUFAKELWA KOBUXHAKXHAKA BAMANDLA OMBANE ELANGA E 54 YORK STREE, E GEORGE (570636)

(5/7)

7 March 2017

REPORT FROM THE EXECUTIVE MANAGER: COMMUNITY SERVICES (C AFRICA) / MANAGER PROPERTY DEVELOPMENT, PLANNING AND RESORTS REPORT (W FOURIE)

PURPOSE OF THE REPORT

To inform MPAC about the unsuccessful process followed to retain grant funding from National Government for the Solar Energy Project after the project, approved by National Treasury, was commissioned and successfully completed.

BACKGROUND / DISCUSSION

The process followed in the Solar Energy Project was started as far back as June 2012.

National Treasury initially granted Eden DM an amount of R5.3 million for "Energy Efficiency and Demand Side Management."

The Solar Energy Project was also approved by National Treasury.

The original tender process (Formal Tender E/12/11-12) was halted due to a forensic investigation into the awarding of the tender. The investigation resulted in the tender being cancelled.

National as well as Provincial Government did not respond to various requests towards the continued availability and subsequent rollover of unspent conditional grant funding.

Council, eventually, decided to go ahead with the project on the understanding that the unspent conditional grant funding will remain available.

In a final letter dated 17 June 2014, signed by both the Municipal Manager as well as the Executive Mayor, National Treasury was again informed that Council will proceed with the project on the understanding that the grant funding is still available. (**Annexure "A1 to A2"**).

Formal Tender E/05/15-16 was advertised with a closing date of 11 December 2015.

The tender was awarded and the Solar Energy project was rolled out. (**Annexure “B”**).

National treasury was continuously kept up to date with the progress of the Solar Energy Project and did not respond to any correspondence via letter or email. In the absence of any responses Council continued with the process on the understanding that National Treasury had no objections. (**Annexure “C1 to C14”**).

National Treasury, out of the blue, instructed Council, in a letter dated 25 October 2016, that the total grant funding amounting to R 15 million should be repaid. If the amount was not repaid it would be deducted from the November 2016 equitable share installment. (**Annexure “D1 to D2”**).

FINANCIAL IMPLICATIONS

None

RELEVANT LEGISLATION

Local Government: Municipal Systems Act 32 of 2000

Local Government: Municipal Finance Management Act 56 of 2003

COMMENTS: MUNICIPAL MANAGER

COMMENTS: CHIEF FINANCIAL OFFICER

COMMENTS: EXECUTIVE MANAGER CORPORATE STRATEGIC SERVICES

COMMENTS: COMMUNITY SERVICES

Noted.

COMMENTS: SENIOR MANAGER ROADS SERVICES

COMMENTS: LEGAL SERVICES

UITVOERENDE OPSOMMING

Om MPRK in te lig oor die, onsuksesvolle, proses wat gevolg is om befondsing te behou van die Nasionale Tesourie, vir die Solar Projek nadat die projek, goedgekeur deur Nasionale Tesourie, suksesvol voltooi is.

RECOMMENDATION

That the report be noted.

AANBEVELING

Dat kennis geneem word van die verslag.

ISINDULULO

Sesokub lengxelo ithathelwe ingqalelo.

APPENDIX

ANNEXURE "A,"

NAVRAE: GW Louw/edv
ENQUIRIES:

KONTAKNR: 044 803 1300
CONTACT NO

VERW: (6/16)
REF:

KANTOOR: George
OFFICES:

DATUM: 17 June 2014
DATE



*Kantoor van die Munisipale Bestuurder
Office of the Municipal Manager*

National Treasury

Mr. Sello Mashaba

Senior Manager: Local Government Conditional Grant Monitoring
Intergovernmental Relations Division, National Treasury

Sello.Mashaba@Treasury.gov.za

Provincial Treasury

Ms Shanaaz Cupido

Senior Manager: Local Government Finance

Shanaaz.Cupido@westerncape.gov.za

Sir / Madam

**REQUEST FOR APPROVAL TO SPEND UNSPENT CONDITIONAL GRANT FOR
2009/2010 FINANCIAL YEAR (EDSM GRANT)**

During the 2009/2010 financial year, Eden District Municipality received the amount of R10 000 000.00 to roll-out Electricity Demand Side Management Grant (EDSM) projects in Eden.

A business plan was submitted and approved by the Department of Minerals and Energy (DME). Due to alleged irregularities in the implementation process of this project, Eden District Council was forced to stop this project in 2011. KPMG Forensic Auditors was appointed in 2011 to investigate the matter and reported to my council a number of irregular transactions.

After concluding of the abovementioned investigation, my council decided to appoint new service providers to complete the project. The amount of R5 481 775 of the R10 million was spent to date which leaves an unspent balance of R5 399 984.00.

The unspent amount was since reported to my council and is captured in the financial statements and will be reflected in the 2014/2015 operating budget.

Numerous correspondences in this regard were forwarded to Provincial as well as National Treasury for approval to enable Eden District Municipality to complete the project. A registered professional project manager was already appointed to implement the project. This project manager was appointed by means of a transparent, equitable and competitive process.

YORKSTRAAT 54 YORK STREET 12 GEORGE 6530

☎ (044) 803 1300 📠 (044) 874 1013 E-POS/E-MAIL: records@edendm.co.za WEBSITE: www.edendm.co.za

ANNEXURE "7,"

2

At this juncture, the final phase cannot proceed, because your consent is still outstanding since 2012.

Please be advised that given the urgency of the matter, my council will proceed with the conclusion of the project, starting on 1 July 2014, with final wrap-up by January 2015.

I trust you will find this arrangement to your satisfaction.

Yours faithfully



GODFREY LOUW
MUNICIPAL MANAGER



CLLR V. VAN DER WESTHUIZEN
EXECUTIVE MAYOR

ANNEXURE "B"

NAVRAE: Mrs. D. Raubenheimer
ENQUIRIES:

VERW: 8/2/05-15/15

KANTOOR: George
OFFICES:

DATUM: 7 July 2016
DATE



The Manager
Trackos Projects (Pty) Ltd
PO Box 12090
Garden Route Mall
GEORGE
6546

Sir / Madam

For Attention: Alex Van Der Westhuizen

Company Fax no: (086) 770 1710
E-Mail: alex@tks.co.za

BID: E/05/15-16: DESIGN, MANUFACTURE, SUPPLY, INSTALLATION, COMMISSIONING AND TESTING, AND INITIAL MAINTENANCE OF A 150 KWP GRID TIED PHOTO VOLTAIC GENERATING PLANT FOR THE EDEN DISTRICT MUNICIPAL (EDM) MAIN BUILDING AT 54 YORK STREET.

We wish to inform you that the tender for the design, manufacture supply, installation, commissioning and testing, and initial maintenance of a 150 kwp grid tied photo voltaic generating plant for the Eden District Municipal (EDM) main building at 54 York Street has been awarded to you for the amount of R 4 430 168.40 (Including VAT).

We wish to emphasize the fact that this appointment letter does not serve as a legal binding document but merely to inform you of your appointment. A Service Level Agreement will be issued to you shortly which should then be considered as the binding contract between yourself and the Eden District Municipality. The order will only be issued after this Service Level Agreement has been completed and duly signed by all the relevant stakeholders.

Should you have any further queries, please contact Mrs DM. Raubenheimer on Tel No 044 803 1330.

Yours faithfully


L. HOEK

CHAIRPERSON: BID ADJUDICATION COMMITTEE

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ANNEXURE C, "

Page 1 of 6

Faan van der Merwe

From: Louise Hoek
Sent: Tuesday, September 17, 2013 5:15 PM
To: Godfrey Louw
Cc: Shaun Stanley; Corin Stoffels; Geraldine Jonas; Faan van der Merwe
Subject: FW: APPLICATION FOR ROLL-OVER OF UNSPENT CONDITIONAL GRANTS: 2012/13 FINANCIAL YEAR
Importance: High

Goeie middag

MM, ons benodig dringend u hulp. Die aansoek vir oorrolfondse gaan nie goedgekeur word as die besigheidsplanne vir die interne oudit en die EEDM nie voorsien word nie.

Wie kan ons assisteer met die besigheidsplanne?

Vriendelike Groete

Louise Hoek CA(SA)
Manager: Financial Services (Chief Financial Officer)

(w) 044 803 1449 (c) 082 889 7439 (f) 044 874 1247 / 086 555 6285

From: Shaun Stanley
Sent: 17 September 2013 05:07 PM
To: Louise Hoek; Lauren James
Cc: Corin Stoffels; Geraldine Jonas
Subject: RE: APPLICATION FOR ROLL-OVER OF UNSPENT CONDITIONAL GRANTS: 2012/13 FINANCIAL YEAR
Importance: High

Louise,
 Please find attached amended Letter for your review.
 I've had a telephonic discussion with Shanaaz Cupido regarding the application process.

Shanaaz advise me to mail the required documents for her attention as well as the attention of the BUDGET ANALYST.

Please find attached the information available to THE BUDGET AND TREASURY OFFICE for submission.
 Please note that this information is by no means complete.

THE CHALLENGE IS TO PROVIDE INFORMATION FOR THE **ELECTRICITY DEMAND SIDE GRANT**.
 No information or project plan is available for submission to NT.

The grant (**WC FMG**) for the INTERNAL COMPLIANCE AUDIT and SHARED SERVICE MODEL.
 We should at this stage be able to provide NT with a Project Plan.
 This is also not available.

PLEASE ADVISE AS TO THE PROCESS AHEAD. WE NEED TO RESPOND TO PROVINCIAL TREASURY DURING THE BUSINESS DAY TOMORROW

9/18/2013

ANNEXURE "C2"

Page 2 of 6

Shaun

The following information must still be submitted –

1. Evidence that work on each of the projects has commenced, namely either of the following:
 - a) Proof that the project tender was published and the period for tender submissions closed before 30 June; or
 - b) Proof that a contract for delivery of the project was signed before 30 June.
2. A progress report on the state of implementation of each of the projects;
3. The amount of funds committed to each project, and the conditional allocation from which the funds come;
4. An indication of the time-period within which the funds are to be spent; and
5. Proof that the Chief Financial Officer is permanently appointed. No rollover requests will be considered for municipalities with vacant or acting chief financial officers.

From: Louise Hoek
Sent: 17 September 2013 12:42 PM
To: Shanaaz Cupido; Shaun Stanley; Corin Stoffels
Cc: Geraldine Jonas; Frans Sabbat
Subject: RE: APPLICATION FOR ROLL-OVER OF UNSPENT CONDITIONAL GRANTS: 2012/13 FINANCIAL YEAR

Shaun, has this information been submitted, refer to email sent yesterday.

Your urgent feedback will be appreciated.

Thank you

Louise Hoek CA(SA)
Manager: Financial Services (Chief Financial Officer)

(w) 044 803 1449 (c) 082 889 7439 (f) 044 874 1247 / 086 555 6285

From: Shanaaz Cupido [<mailto:Shanaaz.Cupido@westerncape.gov.za>]
Sent: 17 September 2013 12:01 PM
To: Louise Hoek; Shaun Stanley; Corin Stoffels
Cc: Geraldine Jonas; Frans Sabbat
Subject: RE: APPLICATION FOR ROLL-OVER OF UNSPENT CONDITIONAL GRANTS: 2012/13 FINANCIAL YEAR

Good day Louise

Kindly be advised that we are still awaiting the outstanding information to support your application for roll over of the 2013 unspent funds (National). Also note our deadline to submit a report to National Treasury was at 11am this morning and we have been stalling this report to await your information.

We urge you to attend to the matter urgently and submit the necessary by 1pm today to avoid a non-approval of your application and retention of the funds by National.

We highly appreciate your co-operation.

PANNERIAE 'C3'

Page 3 of 6

Best regards

Shanaaz Cupido
Deputy Director
LG Financial Management Coordination
Provincial Treasury
Western Cape Government

Room W3-21
Legislature Building
7 Wale Street, Cape Town, 8001

Tel: +27 21 483 9266
Fax: +27 21 483 4411
E-mail: Shanaaz.Cupido@pgwc.gov.za
Website: www.westerncape.gov.za



Western Cape
Government

BETTER TOGETHER

From: Louise Hoek [<mailto:louise@edendm.co.za>]
Sent: 16 September 2013 11:20 AM
To: Shaun Stanley; Corin Stoffels
Cc: Geraldine Jonas; Shanaaz Cupido
Subject: RE: APPLICATION FOR ROLL-OVER OF UNSPENT CONDITIONAL GRANTS: 2012/13 FINANCIAL YEAR

Shaun, can you please attend to this enquiry.
Thank you

Louise Hoek CA(SA)
Manager: Financial Services (Chief Financial Officer)

(w) 044 803 1449 (c) 082 889 7439 (f) 044 874 1247 / 086 555 6285

From: Bulelwa Rausana [<mailto:Bulelwa.Rausana2@westerncape.gov.za>]
Sent: 16 September 2013 11:15 AM
To: Shaun Stanley; Corin Stoffels
Cc: Geraldine Jonas; Louise Hoek; Shanaaz Cupido
Subject: RE: APPLICATION FOR ROLL-OVER OF UNSPENT CONDITIONAL GRANTS: 2012/13 FINANCIAL YEAR

9/18/2013

ANNEXURE "C" "H"

Page 4 of 6

Good day,

With reference to your Application for roll-over of unspent conditional grants 2012/13,

Please note the minimum required supporting documentation as indicated in MFMA Circular 67 were not submitted with your application.

The following information must still be submitted –

1. Evidence that work on each of the projects has commenced, namely either of the following:
 - a) Proof that the project tender was published and the period for tender submissions closed before 30 June; or
 - b) Proof that a contract for delivery of the project was signed before 30 June.
2. A progress report on the state of implementation of each of the projects;
3. The amount of funds committed to each project, and the conditional allocation from which the funds come;
4. An indication of the time-period within which the funds are to be spent; and
5. Proof that the Chief Financial Officer is permanently appointed. No rollover requests will be considered for municipalities with vacant or acting chief financial officers.

Kindly submit the information to both National and Provincial Treasury as soon as possible.

Kind Regards

Bulelwa Rausana

Local Government: Public Finance

Provincial Treasury | Room W3-21 | Legislature Building | Provincial Government of the Western Cape

7 Wale Street | Cape Town | South Africa

Office: +27 21 483 9194 | Fax: +27 21 483 44 11 e-mail: Bulelwa.Rausana2@westerncape.gov.za

Website: www.westerncape.gov.za



BETTER TOGETHER

From: Shaun Stanley [<mailto:shaun@edendm.co.za>]

Sent: 30 August 2013 02:25 PM

To: Bulelwa Rausana; Sello.Mashaba@treasury.gov.za; Shanaaz Cupido

Cc: Admin (Rekords); Corin Stoffels; Geraldine Jonas; Louise Hoek

Subject: RE: APPLICATION FOR ROLL-OVER OF UNSPENT CONDITIONAL GRANTS: 2012/13 FINANCIAL YEAR

Importance: High

For your information

Application letter for the 2012/2013 Unspent Grant

ANNEXURE "CS"

Page 5 of 6

Hope you find this in order.

Shaun

From: Bulelwa Rausana [mailto:Bulelwa.Rausana2@westerncape.gov.za]
Sent: 30 August 2013 09:32 AM
To: Shaun Stanley; Corin Stoffels
Cc: Jeffery Adams
Subject: FW: APPLICATION FOR ROLL-OVER OF UNSPENT CONDITIONAL GRANTS: 2012/13 FINANCIAL YEAR

Good day,

Kindly be reminded of the communication below in connection with roll-over of unspent Conditional Grants.

If the municipality is not going to apply please send a Nil reply.

Kindly reply by the end of today, **30 August 2013**.

Regards

Bulelwa

From: Bulelwa Rausana
Sent: 27 August 2013 11:13 AM
To: BUDGETOFFICE@george.org.za
Subject: APPLICATION FOR ROLL-OVER OF UNSPENT CONDITIONAL GRANTS: 2012/13 FINANCIAL YEAR

Good day,

Kindly indicate whether the municipality will be submitting applications for National and Provincial unspent conditional grants for the 2012/13 financial year.

Please note the due date for all roll-over application is **30 August 2013, Friday**.

Regards

Bulelwa Rausana
 Local Government: Public Finance
 Provincial Treasury | Room W3-21 | Legislature Building | Provincial Government of the Western Cape
 7 Wale Street | Cape Town | South Africa
 Office: +27 21 483 9194 | Fax: +27 21 483 44 11 e-mail: Bulelwa.Rausana2@westerncape.gov.za
 Website: www.westerncape.gov.za

9/18/2013

ANNEXURE "C₆"

Page 6 of 6



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ANNEXURE "C-7"

Page 1

Faan van der Merwe

From: Shaun Stanley
Sent: Wednesday, June 11, 2014 11:46 AM
To: Faan van der Merwe
Cc: Johan Stander
Subject: FW: 110099 EDM EEDSM Synoptic Business Plan/Bid E/12/11-12
Importance: High
Attachments: SKMBT_C65214020512350.pdf
 For your information

From: Shaun Stanley
Sent: 21 February 2014 09:14 AM
To: Shanaaz Cupido (Shanaaz.Cupido@westerncape.gov.za); Bulelwa Rusana (Bulelwa.Rusana@westerncape.gov.za)
Cc: Jeffery Adams; Faan van der Merwe
Subject: FW: 110099 EDM EEDSM Synoptic Business Plan/Bid E/12/11-12
Importance: High

Good day,

I just want to enquire regarding the process forward in terms of the Electricity Demand Grant

Hope you will be able to assist

Shaun

From: Shaun Stanley
Sent: 07 February 2014 01:13 PM
To: Shanaaz Cupido (Shanaaz.Cupido@westerncape.gov.za); Bulelwa Rusana (Bulelwa.Rusana@westerncape.gov.za)
Cc: Admin (Rekords); Corin Stoffels; Geraldine Jonas; Jeffery Adams; Faan van der Merwe
Subject: FW: 110099 EDM EEDSM Synoptic Business Plan/Bid E/12/11-12
Importance: High

Good day,

Please find the updated Electricity Demand Side Project Plan.

Sorry for the late submission of the project plan.

Was administrative processes that needed to be complete.

Thanks

Shaun

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6/13/2014

ANNEXURE *CP*

Page 1

Faan van der Merwe

From: Shaun Stanley
Sent: Wednesday, June 11, 2014 11:46 AM
To: Faan van der Merwe
Cc: Johan Stander
Subject: FW: 110099 EDM EEDSM Synoptic Business Plan/Bid E/12/11-12
Importance: High
Attachments: SKMBT_C65214020512350.pdf
 For your information

From: Shaun Stanley
Sent: 21 February 2014 09:14 AM
To: Shanaaz Cupido (Shanaaz.Cupido@westerncape.gov.za); Bulelwa Rusana (Bulelwa.Rusana@westerncape.gov.za)
Cc: Jeffery Adams; Faan van der Merwe
Subject: FW: 110099 EDM EEDSM Synoptic Business Plan/Bid E/12/11-12
Importance: High

Good day,

I just want to enquire regarding the process forward in terms of the Electricity Demand Grant

Hope you will be able to assist

Shaun

From: Shaun Stanley
Sent: 07 February 2014 01:13 PM
To: Shanaaz Cupido (Shanaaz.Cupido@westerncape.gov.za); Bulelwa Rusana (Bulelwa.Rusana@westerncape.gov.za)
Cc: Admin (Rekords); Corin Stoffels; Geraldine Jonas; Jeffery Adams; Faan van der Merwe
Subject: FW: 110099 EDM EEDSM Synoptic Business Plan/Bid E/12/11-12
Importance: High

Good day,

Please find the updated Electricity Demand Side Project Plan.

Sorry for the late submission of the project plan.

Was administrative processes that needed to be complete.

Thanks

Shaun

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ANNEXURE "C9"

Page 1 of 1

Faan van der Merwe

From: Jeffery Adams
Sent: Wednesday, November 05, 2014 11:03 AM
To: Faan van der Merwe; Louise Hoek
Cc: Lauren James
Subject: FW: Request for approval to spend unspent conditional grant for 2009/2010 financial year (EDSM grant)
Attachments: FW Request for approval to spend unspent conditional grant for 2009/2010 financial year (EDSM grant)
 FYA

Jeffery Adams
Deputy Manager: Finance
 Financial Services

(t) 044 803 1339 (f) 044 874 1247

From: Shanaaz Cupido [mailto:Shanaaz.Cupido@westerncape.gov.za]
Sent: 05 November 2014 11:00 AM
To: katlego.mabiletsha@treasury.gov.za
Cc: Elton Johannes; Jeffery Adams
Subject: FW: Request for approval to spend unspent conditional grant for 2009/2010 financial year (EDSM grant)

Dear Katlego

I have been advised that you could assist us in the absence of Sello Mashaba with regard to Eden DM request for approval to spend the unspent EDSM conditional grant for 2009/2010. This request was made earlier in the year and the municipality is seeking an urgent response. Please find a copy of the communication attached.

Your response is appreciated.

Many thanks

Shanaaz Cupido
 Deputy Director
 Financial Management Coordination
 Provincial Treasury
 Western Cape Government

Room W3-21
 Legislature Building
 1 Wale Street, Cape Town, 8001

tel: +27 21 483 9266
 fax: +27 21 483 4411
 e-mail: Shanaaz.Cupido@pwgc.gov.za
 Website: www.westerncape.gov.za

ANNEXURE "C10"

Page 2



BETTER TOGETHER

From: Shanaaz Cupido
Sent: 04 November 2014 03:13 PM
To: "Sello.Mashaba@Treasury.gov.za"
Subject: RE: Request for approval to spend unspent conditional grant for 2009/2010 financial year (EDSM grant)

Dear Sello

I refer to the attach communication as well as a recent follow-up from the municipality. Our analyst following through with this matter is currently on study leave and hence I would appreciate it if you could advise the status of the municipality's request with regard to the approval of the 2009/2010 unspent EDSM grant.

Many thanks and best regards

Shanaaz Cupido
 Deputy Director
 Financial Management Coordination
 Provincial Treasury
 Western Cape Government

Room W3-21
 Legislature Building
 111 Main Street, Cape Town, 8001

tel: +27 21 483 9266
 fax: +27 21 483 4411
 Email: Shanaaz.Cupido@pawc.gov.za
 Website: www.westerncape.gov.za



BETTER TOGETHER

From: Ellenor van Vught [<mailto:Ellenore@edendm.co.za>]
Sent: 19 June 2014 01:39 PM

1/5/2014

ANNEXURE 'C'

Page 3 :

To: 'Sello.Mashaba@Treasury.gov.za'; 'Shanaaz.Cupido@westerncape.gov.za'
Subject: FW: Request for approval to spend unspent conditional grant for 2009/2010 financial year (EDSM grant)
Importance: High

My apologies.

Letter attached.

Ellanor van Vught
Secretary to the Executive Manager; Support Services

(w) 044 803 1384 (f) 044 873 4670 (f-e) 086 521 7926

From: Ellanor van Vught
Sent: 19 June 2014 01:34 PM
To: 'Sello.Mashaba@Treasury.gov.za'; 'Shanaaz.Cupido@westerncape.gov.za'
Cc: Faan van der Merwe
Subject: Request for approval to spend unspent conditional grant for 2009/2010 financial year (EDSM grant)
Importance: High

Mr Mashaba and Me Cupido

Please find attached a letter regarding the abovementioned subject matter.

Thank you

Ellanor van Vught
Secretary to the Executive Manager; Support Services

(w) 044 803 1384 (f) 044 873 4670 (f-e) 086 521 7926
 Website: www.edendm.co.za Facebook: [Click here to visit our fanpage](#)
 Address: 54 York Street, George, Western Cape, South Africa
 Postal Address: P.O. Box 12, George, Western Cape, South Africa, 6530

Eden District Municipality | Eden Distriksmunisipaliteit | Eden Umasipala Wesithili

EDEN

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ANNEXURE "C12"

Page 1

Faan van der Merwe

From: Godfrey Louw
Sent: Thursday, November 20, 2014 10:03 AM
To: Faan van der Merwe
Cc: Louise Hoek; Jeffery Adams
Subject: RE: DC 4 - Outcome of the 2009/10 unspent conditional grants process - MFMA Circular No. 51
Importance: High
 Faan/Jeff/Louise,

Ons (Mayco) het alreeds 'n besluit geneem dat hierdie projek voort gaan. Ek beskou enige pogings om dit nou te kelder ondermyning van gesag. Stop dit asseblief.

Faan soos bespreek, implementeer die projek met groot spoed.

Groete,

Godfrey Louw
Municipal Manager
 (w) 044 803 1445 (f) 044 874 1013

From: Faan van der Merwe
Sent: 20 November 2014 09:17 AM
To: Godfrey Louw
Subject: FW: DC 4 - Outcome of the 2009/10 unspent conditional grants process - MFMA Circular No. 51

Mnr Louw,
 Ek wil voortgaan met die projek maar Jeff reageer kort kort met n e-mail na Tesourie wat my in n moeilike posisie plaas.
 Ek stuur ook per e-mail vir u n afskrif van die document deur beide uself en Me Hoek onderteken om voort te gaan met projek.
 Kan ek asb. uitsluitel kry dat ek kan voortgaan en dat Jeff dienoreenkomstig ingelig sal word.
 Dankie
 Faan,

From: Jeffery Adams
Sent: Thursday, November 06, 2014 9:11 AM
To: Shanaaz Cupido (Shanaaz.Cupido@westerncape.gov.za); Bulelwa Rausana (Bulelwa.Rausana2@westerncape.gov.za)
Cc: Louise Hoek; Shaun Stanley; Corin Stoffels; Geraldine Jonas; Faan van der Merwe
Subject: FW: DC 4 - Outcome of the 2009/10 unspent conditional grants process - MFMA Circular No. 51

Good Day, Shanaaz

Our telephone conversation, earlier today regarding the unspent Electricity Demand Side Grant refers.

You mentioned that the person, Sello of National Treasury who is handling the matter is currently off sick and that you will take it up as soon as possible with someone else at National Treasury to provide clarity on the letter sent 10 October 2010. The letter states that an amount of R 4 000 000.00 is rolled over for the unspent Electricity Demand Side Grant whilst our AFS states that an amount of R 5 399 984.00 is still unspent(see letter of municipality, dated 17 June 2014).

We are awaiting your response in this regard.

11/20/2014

ANNEXURE "C" 13

Page 2

Jeffery Adams
Deputy Manager: Finance
 Financial Services

(w) 044 803 1339 (f) 044 874 1247

From: Shanaaz Cupido [<mailto:Shanaaz.Cupido@westerncape.gov.za>]
Sent: 05 November 2014 01:16 PM
To: Jeffery Adams
Cc: Faan van der Merwe
Subject: FW: DC 4 - Outcome of the 2009/10 unspent conditional grants process - MFMA Circular No. 51

Jeff

Please find the response in the meantime, I will be available tomorrow should you wish to discuss further.

Many tanks

Shanaaz

From: Sello Mashaba [<mailto:Sello.Mashaba@treasury.gov.za>]
Sent: 19 October 2010 02:21 PM
To: morne@edendm.co.za; nigel@edendm.co.za; claudine@edendm.co.za
Cc: paulm@aqsa.co.za; justind@aqsa.co.za; Graham Pause; Fiona M Daniels; Zolani Zonyane; Bberends@pgwc.gov.za; Sadesh Ramjathan; Willem Voigt
Subject: DC 4 - Outcome of the 2009/10 unspent conditional grants process - MFMA Circular No. 51

To the: Municipal Manager and Chief Financial Officer

Kindly find the attached response letter regarding the outcome of your request to retain unspent conditional grants for the 2009/10 financial year.

Section 31 of the Division of Revenue Act, 2009 (Act No. 12 of 2009) provides that the receiving officer must revert all unspent conditional grants to the National Revenue Fund at the end of the municipal financial year, unless the relevant receiving officer can prove to the **satisfaction of the National Treasury** that the unspent allocation is committed to identifiable projects. The attached letter reflects the outcome of this process.

Where a municipality did not apply for the roll-over of unspent conditional grant funds from 2009/10, or such a roll-over request was not approved, the next process is that such unspent uncommitted conditional grant funds must be returned to the National Revenue Fund. Please see MFMA Circular 51 (Page 15) for a detailed outline of this process.

In line with this process, National Treasury will provide your municipality in due course with the updated expenditure numbers on a conditional grants performance for the 2009/10 financial year. This dataset will determine how much your municipality must now pay back, if any, in relation to all the conditional grants received during the previous financial year.

Thank you for your cooperation.

Kind Regards,

Sello Mashaba
 National Treasury
 Intergovernmental Relations Division
 LGBA: Local Government Conditional Grant Monitoring

Tel: 012 315 5183

11/20/2014

ANNEXURE "C"
14

Page 3

Fax: 012 315 5045 or 012 395 6732

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ANNEXURE 'D', ^



national treasury

Department:

National Treasury

REPUBLIC OF SOUTH AFRICA

Private Bag X115, Pretoria, 0001.

Enquiries: Seiso Mashaba Tel: (012) 315 5163 Fax: (012) 356 6553 email: seiso.mashaba@treasury.gov.za

Ref: DC04/11

Mr G Louw
 The Municipal Manager
 Eden Municipality
 PO Box 12
GEORGE
 6530

Dear Mr Louw

REPAYMENT OF UNSPENT CONDITIONAL GRANTS FOR THE 2015/16 FINANCIAL YEAR

The National Treasury has finalised the unspent conditional grant process for the 2015/16 financial year and has determined the unspent amount to be repaid to the National Revenue Fund (NRF).

National Treasury has used the 2016 pre-audited Annual Financial Statement (AFS) to update the unspent conditional grants dataset for the 2015/16 financial year. Please note that in the absence of the AFS, National Treasury used the Section 71 report for the fourth quarter of 2015/16 to determine the amount to be surrendered to the National Revenue Fund.

In the case of your municipality, National Treasury concluded that an amount of **R15 million** remains unspent and should be repaid to the NRF. The unspent amount is in respect of the Municipal Systems Improvement Grant (R10 thousand), the Energy Efficiency and Demand Side Management (R5.3 million), the Municipal Disaster Recovery Grant (R7.4 million) and the Rural Roads Asset Management Systems grant (R2.3 million).

ANNEXURE "D"

Kindly ensure that the unspent amount stipulated above is paid into the following bank account on or before 14 November 2016:

Account holder	National Treasury
Bank	ABSA
Branch code	632005
Account No.	405 236 8632
Reference	Municipal demarcation code and name (E.g. EC144 Gariep)

Proof of payment must be faxed to (012) 315-5958 or (012) 315-5190 or be e-mailed to Ms. Drienkie Scholtz at drienkie.scholtz@treasury.gov.za and Mr Sello Mashaba at sello.mashaba@treasury.gov.za.

Should the municipality fail to return the unspent conditional grants to the National Revenue Fund or comply with section 22(1) of the 2015 Division of Revenue Act (Act 1 of 2015) DoRA by 24 October 2016, National Treasury will deduct the entire unspent amount as a first charge from the municipality's 29 November 2016 equitable share installment available to your municipality in terms of Sections 22(4) of the 2015 DoRA.

Please note that in terms of section 22 (5) of DoRA the municipality has 14 days upon receipt of this letter to propose an alternative repayment arrangement for the unspent conditional grants to be paid into the National Revenue Fund which lapses on 14 November 2016.

Kind regards,


MALIJENG NGQALENI

DEPUTY DIRECTOR-GENERAL: INTERGOVERNMENTAL RELATIONS

DATE: 25/10/2016

CC: Office of the Auditor-General

DRAFT REPORT**MPAC****15 MARCH 2017****MPAC 20/03/17**

**REPORT ON THE OVERSIGHT REPORT FOR THE 2015/16 FINANCIAL
YEAR / *VERSLAG RAKENDE DIE OORSIGVERSLAG VIR DIE 2015/16*
FINANSIËLE JAAR / INGXELO MALUNGE NENGXELO BANZI
KUNYAKAMALI KA 2015/2016**

(10/1/1)

08 March 2017

REPORT FROM THE CHAIRPERSON OF MPAC (CLLR V GERICKE)**PURPOSE OF THE REPORT**

To submit the Oversight Report to the Committee for recommendation to Council.

BACKGROUND

The MFMA requires in Section 129 that:

"The Council of a municipality must consider the annual report of the municipality and of any municipal entity under the municipality's sole or shared control, and by no later than two months from the date on which the annual report was tabled in the council in terms of section 127, adopt an oversight report containing the council's comments on the annual report, which must include a statement whether the council—

- a) has approved the annual report with or without reservations;*
- b) has rejected the annual report; or*
- c) has referred the annual report back for revision of those components that can be revised.*

It further states in Section 130 that:"

The meetings of a municipal council at which an annual report is to be discussed or at which decisions concerning an annual report are to be taken, must be open to the public and any organs of state, and a reasonable time must be allowed—

- a) for the discussion of any written submissions received from the local community or organs of state on the annual report; and*

- b) *for members of the local community or any organs of state to address the council.*
- c) *Representatives of the Auditor-General are entitled to attend, and to speak at, any Council meeting referred to in subsection (1).*

The 2015/2016 Annual Report was tabled on 30 January 2017 in compliance with the Municipal Finance Management Act which requires in Section 127 that:

“The Executive Mayor of a municipality must, within seven months after the end of a financial year table in the Municipal Council the Annual Report of the municipality”

1. MUNICIPAL PUBLIC ACCOUNTS COMMITTEE (MPAC)

The Municipal Public Accounts Committee (MPAC) of the Eden Council is responsible according to The Terms of Reference of MPAC in Section 5.3:

To review the Municipality’s Annual Report, including the Auditor-General’s report on the financial statements and responses thereto with a view to ensuring satisfactory responses and corrective action, where necessary (in terms of the Municipal Finance Management Act, No 56 of 2003, section 129 (4)(a) and (b). Specific to the Auditor General Report and the Annual Financial Statements, the Committee shall –

- 1.1 *examine the reports of the Auditor-General on the accounts for the preceding financial year;*
- 1.2 *review the specific reports of the Auditor-General; and*
- 1.3 *review the Auditor-General reports in question, supplemented by a number of preliminary questions based on the audit report and to which the accounting officer is required to respond in writing.*

Members of Committee:

Cllr V Gericke
 Cllr D Xego
 Cllr CN Lichaba
 Cllr AJ Rossouw
 Cllr RE Spies
 Cllr BN Van Wyk
 Cllr T Van Rensburg

2. ANNUAL REPORT CONSULTATIONS PROCESS

The draft annual report was advertised and no comments were received from the public/communities.

3. SUMMARY OF COMMENTS

The purpose of the annual report is:

- to provide a record of the activities of the municipality or entity;
- to provide a report on performance in service delivery and against the budget;
- to provide information that supports the revenue and expenditure decisions made; and
- to promote accountability to the local community for decisions made.

The annual report of a municipality must include—

- a) the annual financial statements of the municipality, and in addition, if Section 122(2) applies, consolidated annual financial statements, as submitted to the Auditor-General for audit in terms of Section 126(1);
- b) the Auditor-General's audit report in terms of Section 126(3) on those financial statements;
- c) the annual performance report of the municipality prepared by the municipality in terms of Section 46 of the Municipal Systems Act;
- d) the Auditor-General's report in terms of Section 45(b) of the Municipal Systems Act;
- e) an assessment by the municipality's accounting officer of any arrears on municipal taxes and service charges;
- f) an assessment by the municipality's accounting officer of the municipality's performance against the measurable performance objectives referred to in Section 17(3) (b) for revenue collection from each revenue source and for each vote in the municipality's approved budget for the relevant financial year;
- g) particulars of any corrective action taken or to be taken in response to issues raised in the audit reports referred to in paragraphs (b) and (d);

- h) any explanations that may be necessary to clarify issues in connection with the financial statements;
- i) any information as determined by the municipality;
- j) any recommendations of the municipality's audit committee; and

3.1 COMMENTS ON FORMAT OF REPORT

- The content of the Annual Report, as tabled, comply in general with the guidelines contained in MFMA Circular 63, but are not in the following sequence, as prescribed by the said circular, which format for the annual report are based on five key Chapters:

Chapter 1: Introduction and Overview

Chapter 2: Performance Highlights

Chapter 3: Human Resource and other Organisational Management

Chapter 4: Audited Statements and Related Financial Information

Chapter 5: Functional Area Service Delivery Reporting

- The Committee commended the administration for the overall improvement with the Annual Report.
- A breakdown in terms of highlights per department, to avoid confusion and duplication.
- Highlights must include specific outcomes.

3.2 OMISSION ON THE REPORT (MPAC)

- Concerns about comments from the public/communities after advertising and two radio talk show/interviews during February 2017.
- A critical concern that certain communities are excluded from access to the report, e.g. language, translation and strategic points in terms of accessibility. In order to reach the broader community of the region, funding must be made available.

3.3 PREDETERMINED OBJECTIVES

None

Section 46 of the Municipal System Act states that:

- (1) A municipality must prepare for each financial year a performance report reflecting—
 - a) the performance of the municipality and of each external service provider during that financial year;
 - b) a comparison of the performance referred to in paragraph (a) with targets set for and performances in the previous financial year; and
 - c) measures taken to improve performance.
- (2) An annual performance report must form part of the municipality's annual report in terms of Chapter 12 of the Municipal Finance Management Act.

3.4 COMMENTS ON THE AUDITOR-GENERAL REPORT

Council has received a clean audit.

The Committee wishes to draw Council's attention to the Management Report that raised serious audit findings from the financial statements. Refer to **Annexure A**.

3.5 COMMENTS ON THE AUDIT & PERFORMANCE AUDIT COMMITTEE (APAC) REPORT

APAC member, Mr JRN Metelerkamp, took issue to the fact that the COMAF's are included in the Annual Report and his point of view is that only the audit report of APAC, should be included. Focus should be on the Management Report from the Auditor General. Refer to **Annexure B**.

4. COMMENTS FROM PUBLIC OR OTHER ORGANS OF STATE

None received.

5. RESERVATIONS

MPAC was perturbed about the slow pace of transformation and therefore have agreed to refer the following policies for review at Council workshops:

- Supply Chain Policy

- Employment Equity Policy
- Resort Policy
- Budget Related Policies (Tariff Policy; Asset Management Policy; Banking, Cash Management and Investment Policy; Credit Control and Debt Collection Policy; Funds and Reserve Policy; Budget Policy; Borrowing Policy; Longterm Financial Management Policy)
- Policies not in place, should be compiled/design in order to meet the current challenges and that Policies and procedures will remain and will be followed up next year. (Cllr Van Wyk)

Lack of Policy for the internal control of objectives, processes and responsibilities as identified by internal audit unit (Cllr Van Wyk)

- The issue of BEE, PPPFA, Tourism and LED has been highlighted as a serious concern to the Committee.
- The lack of an implementation plan in terms of Employment Equity.
- The Management Report of the Auditor General should have been included in the Annual Report that was submitted to Council on 30 January 2017 as well as to MPAC in order to assist the Committee in its deliberations.
- Concerns were raised with regards to access to resorts by historically disadvantage communities.
- Concerns regarding the employment of physical disabled people in Eden District Municipality.

6. WORLEYPARSONS

- The Executive Manager Financial Services has, in her financial statements, identified irregular expenditure to the amount of R947 459.70 (1 July 2014 to 30 June 2016). There is a technical dispute and/or /disagreement between the community services department and financial services department with regard to the expiry date of the Service Level Agreement with WorleyParsons for the establishment of a regional landfill facility for Eden District Municipality.
- The Executive Manager Financial Services has informed MPAC that this dispute has been referred to the Internal Audit unit for investigation to establish whether this is an element of negligence or whether it was deliberate.

RECOMMENDATION

1. That Council, after having fully considered the annual report of the municipality and representations thereon, adopts the oversight report and the 2015/2016 Annual Report with reservations, as contained in paragraph five (5) of the report.
2. That the Accounting Officer, in accordance with Section 21 (a) of the Municipal Systems Act, make the oversight report public within seven (7) days of its adoption.
3. That the Accounting Officer of a municipality must submit the Oversight Report to the provincial legislature within seven (7) days.
4. That the following concerns be addressed by Management and Council:
 - Council decides on the outcome of the 2015/16 Auditor General Management Report (see **Annexure A**).
 - APAC's concerns as contained in their report (see **Annexure B**).
 - In the event of unauthorised, irregular, fruitless and wasteful expenditure, Section 32 of the MFMA, should take effect, with special emphasis on Section 32 (2) (a)(i)(ii) and (b).
5. That the Municipal Manager and officials be requested to submit quarterly reports with action plans and timeframes which addresses all concerns/issues raised by the Auditor-General and APAC to MPAC.

AANBEVELING

1. *Dat die Raad, na voldoende oorweging, die 2015/16 Jaarverslag van die munisipaliteit en voorleggings hierin, die oorsig verslag met voorbehoud aanvaar, soos vervat in paragraaf vyf (5) van die verslag.*
2. *Dat die Rekenpligtige Beampte, in gevolge Artikel 21 (a) van die Munisipale Stelselwet, die oorsigverslag publiseer binne sewe (7) dae na aanvaarding daarvan.*
3. *Dat die Rekenpligtige Beampte van die munisipaliteit die oorsigverslag binne sewe (7) dae aan die Provinsiale Wetgewer voorsien.*
4. *Dat die volgende bekommernisse deur Bestuur en die Raad aangespreek word:*

- Die Raad 'n besluit neem rakende die uitkomst van die 2015/2016 Ouditeur-Generaal se Bestuursbrief (**Verwys na Aanhangsel A**).
 - OPOK se bekommernisse soos vervat in hul verslag (**Verwys na Aanhangsel B**).
 - Dat in die geval van ongemagtigde, onreëlmatige, vrugtelose en verkwiste uitgawes, Artikel 32 van die MFBW van toepassing sal wees met spesifieke beklemtoning van Artikel 32 (2)(a)(i)(ii) en (b).
5. Dat die Munisipale Bestuurder en amptenare versoek word om kwartaalverslae met aksie planne en tydsraamwerke wat die bekommernisse/aangeleenthede aanspreek, soos deur die Ouditeur-Generaal en Oudit & Prestasie Ouditkomitee uitgewys, aan MPRK voorlê.

ISINDULULO

1. Sesokuba iBhunga, emveni kokuba liqwalasele ngokubanzi ingxelo yonyaka yomasipala kunye nonikezelo lwengxelo ngayo, lamkele ingxelobanzi kunye Nengxelo Yonyaka ka 2014/2015 ngobunono.
2. Sesokuba Igosa Elisegunyeni, ngokulandelwa ngoMhlathi 21(a) womThetho Wenkqubo zoMasipala, wenze ingxelo banzi nezokunikezelwa eluntwini kwintsuku ezisixhenxe yabe yamkele.
3. Sesokuba Igosa Elisegunyeni kumasipala kufuneka linikezele Ngengxelo Ebanzi ephondweni kwintsuku esisixhenxe.
4. Sesokuba ezinxalabo zilandelayo zilunguswe ngabaphathi:
 - Sesokuba iBhunga lithabathe isigqibo ngeziphumo zika 2015/2016 Zolawulo Zomphicothi Jikelele (**jonga Isifakelo A**).
 - Sesokuba iBhunga lithathele ingqalelo inxalabo ze APAC njengoko ziqulathwe kwingxelo (**jonga Isifakelo B**).
 - Ukubanga kwenzekile kubekho incitho engekhomthethweni, engafanelekanga, enganageniso, uMhlathi 32 we MFMA, kufuneka usetyenziswe, ingakumbi ngokugxininisa kuMhlathi 32(2)(a)(i)(ii) kunye no (b).

5. Sesokuba uMphathi Masipala kunye namagiosa bachelwe ukuba banikezele ngengxelo zabo zekota kunye nezicwangciso zamanyathelo kunye namaxesha amisiweyo okukhawulelalana nalemicemlimngeni/ezingxaki neziye zaphakanyiswa kuMphicothi Jikelele kunye ne APAC kwi MPAC.

Annexure A

Management report of Eden District Municipality

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(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters		
	Predetermined objectives									
34	Predetermined objectives: validity and completeness of performance information		✓					✓	0	N/A
	Provisions									
37	Alien vegetation provisions misstatement	✓						✓	0	N/A
	Receivables									
39	Impairment of receivables is understated	✓						✓	0	N/A
	Non-compliance									
28	SCM: Supplier with highest score not awarded the bid			✓				✓	0	N/A
42	SCM: Informal tender procedures not followed			✓					0	N/A
46	SCM-Late submission of quarterly report			✓				✓	0	N/A
48	SCM - improper conduct			✓				✓	0	N/A
50	SCM: Supplier with lowest price not selected			✓				✓	0	N/A
52	HR management non-compliance with minimum competency requirements			✓				✓	0	N/A
54	Use of consultants: No policy in place to address the use of consultants			✓				✓	0	N/A
56	Bank reconciliations			✓				✓	0	N/A
	Disclosure									
58	High-level review of AFS	✓						✓	0	N/A
62	Non-disclosure of fruitless and wasteful	✓						✓	0	N/A



Management report of Eden District Municipality

Page no.	Finding	Classification					Rating			Number of times reported in previous three years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with legislation	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
	expenditure in the Annual Financial statement										
64	Related party	✓						✓		0	N/A
	Information systems										
67	Password configuration settings not in line with ICT Security Management policy				✓			✓		1	In progress



Detailed audit findings**ANNEXURE A: MATTERS AFFECTING THE AUDITOR'S REPORT**

No matters were identified



ANNEXURE B: OTHER IMPORTANT MATTERS

Non-compliance

1. SCM: Supplier with highest score not awarded the bid

Audit finding

Municipal Supply Chain Management Regulations of 2005 par 28 (1)(b) states:

"A bid evaluation committee must evaluate each bidders ability to execute the contract"

Municipal Supply Chain Management Regulations of 2005 par 28 (1)(a)(ii) states:

"A bid evaluation committee must evaluate bids in accordance with the points system as must be set out in the supply chain management policy of the municipality or municipal entity in terms of regulation 27 (2) (f) and as prescribed in terms of the Preferential Procurement Policy Framework Act."

Preferential Procurement Policy Framework Act No. 5 of 2000 par 2 (1)(f) states:

"An organ of state must determine its preferential procurement policy and implement it within the following framework:

...the contract must be awarded to the tenderer who scores the highest points, unless objective criteria in addition to those contemplated in paragraphs (d) and (e) justify the award to another tenderer."

Preferential Procurement Regulations 2011 par 7 (1) states: *"A contract may be awarded to a tenderer that did not score the highest total number of points, only in accordance with section 2 (1) (f) of the Act."*

During the testing of the supply chain management it was identified that suppliers not scoring the highest points were awarded the contract. Awards were made to all potential suppliers irrespective of the points scored as detailed in table below.

	Winning Suppliers	Total points scored overall	Winning Suppliers	Total points scored overall	Winning Suppliers	Total points scored overall
Tender number	E/13/14-15		R/09/15-16		R/16/15-16	
	Le Roux Lambrechts	0	Robbeberg Quarry	89.53	Robbeberg Quarry	-2.88
	Raubenheimer	12	Lezmin (Pty) Ltd t/a K1 Quarry	93	Lezmin (Pty) Ltd t/a K1 Quarry	74.09
	Regan Brown Inc	16	Volmoed Quarry	48.59	Volmoed Quarry	2.7
	Bruwer and Reynolds	12			VSV Plant Hire CC	90
					Transand	1.74
Current year expenditure	432 384,96		R0,00		R0,00	

Further evidence obtained from enquiries with managements suggests that the tenders R/09/15-16 and R16/15-16 is due to the location of the suppliers that were taken into account as transport cost influence the cost.

The evidence obtained from the tender specifications in respect of these two awards does not include a functionality criteria for which the potential supplier will be selected based on the location of the supplier. Further it should be noted that the tender is not for transport services and the tender was thus not evaluated based on the specifications set out in the tender documents.



In all three cases the tenders were not evaluated and adjudicated in terms of the PPPFA, PPR and the municipal SCM policy as set out in the tender document.

This is due to the fact that there is no clear evidence that the evaluation committee performed a proper assessment as to whether the suppliers are capable and does have the necessary capacity to provide the goods and services at the most economical manner as all potential suppliers were awarded the contract.

This is non - compliance with the applicable laws and regulations and the municipal SCM policy.

Expenditure incurred in terms of the awarded contracts will thus be irregular.

Internal control deficiency

Financial and performance management

Review and monitor compliance with applicable laws and regulations

Management did not perform a proper review on the approval of the awards to ensure that the procurement is done in accordance the municipal supply chain management policy and in compliance with the applicable laws and regulations.

Recommendation

Management should monitor and review the approvals in the procurement process in order to ensure compliance with the municipal supply chain management policy and applicable laws and regulations relating to procurement.

Management should disclose the expenditure incurred in respect of these awards made as part of the irregular expenditure in the financial statements.

Management response

Management comment on the audit finding:

Management disagrees with the findings of the auditors and an extensive discussion with the auditors was provided with regards to framework agreements and how they work. Framework agreements are a fairly old practice and National Treasury and Provincial Treasury are currently on road show promoting this practice where a panel of service providers are appointed instead of one service provider. Evidence to such will be provided, refer to Annexure A.

Formal Tender E/13/14-15 - Appointment of a panel of Legal advisors / attorneys

In accordance with framework agreements, the appointment of a panel of attorneys was to ensure that we have a panel of attorneys that cover a broad spectrum of legal disciplines. As we are aware that law fraternity has a broad spectrum of specialised fields and a few firms rarely ever deal with all these matters in house. Therefore, instead of paying referral fees it was deemed plausible to appoint a panel. As far as the use of Preferential Procurement scoring process, on such tenders the functionality assessment is the minimum requirement. We need to highlight that the mere fact that we do point scoring is to allow us to be able to identify the preferred sequence on how we would approach their services subject to the matter of interest being in their scope of practice. Therefore, the point scoring gives a clear indication on the variation in rates at hand and is brought into consideration along other factors when an appointment of a service provider or legal advisor is put into consideration.

Therefore, the matter at hand with regards to the appointment of a panel of legal advisors is not as simple as the Auditors have alluded and much thought and discussion went into it to ensure value for money for Eden DM is sourced.

Formal Tender R/09/15-6 – Supply and delivery of Road Stones & Formal Tender R/16/15-16 – Supply and Delivery of Base Coarse

The same principles as above apply on this tender as far as the usage of framework agreements

is concerned. The auditors seem to confuse the issue which was raised regarding location and transport cost as a factor that is crucial when considering usage of any specific service provider any given point in time. With regards to activities of roads department, one must always take into consideration the vast topography of the nature of the work that they do. Therefore, at any given time the location of the project will influence the logistics of the facilities of goods or services they would use. The prices that you would see in the schedule in this tender would deal not in the commodity price but also two other factors; in bin or ex bin. These two concepts have to deal with either the delivery of the commodity to site where it is needed or council providing its own transport to collect it. Therefore, there is a third factor to add to the calculation which will be the distance and the rate per kilometre either way. Therefore, the matter of usage of any of the service providers will depend on a variation of factors and doing a costing element and which facility is best to use at that particular point in time per project.

Therefore, we are again highlighting the various complexities which Eden, through various Supply Chain Management committees, would have to consider when making an appointment of these facilities and that it cannot be downscaled to one service provider and why it would make logistical operational sense to appoint the panel. PPP point allocation in this regard also allows us to identify one factor to the equation which relates to the commodity price and that in itself is not conclusive, due to the other variable as mentioned in the equation.

Conclusion:

The legislative and regulatory framework that governs the nature of the work we do in the procurement of goods or services is there to provide a guideline and a premise. However, it does not limit application, but allows entities to react and to service their needs in a manner that is aligned to their operational requirements. Supply Chain Management as it is, is not merely an acquisition of goods and services within the confines of a Request for quotation (RFQ). It is an intricate thought process that has to look at various elements that ensures optimum use of resources to source value for money in a manner that is equitable and transparent. Therefore, as one would go through our process of appointment of service providers, one can immediately identify that much consideration has been put within the regulatory framework. No service provider has been prejudiced or unfairly treated and as such no appeals have been lodged.

Framework agreements are again coming to the forefront of procurement to ensure that municipalities are not engaged in contracts that may not allow them to ensure value for money while procuring quality goods and services. I would urge the Auditor General as per our engagement to familiarise themselves with this process. I will attach some material that deals with the guidelines of framework agreements, refer to Annexure B.

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

We disagree with the auditors on the matter of internal control deficiency, as in fact we have displayed that much more thought took place in the process of appointment of the above panels of service providers. The systems in place and internal control factors ensure that we are prudent in our application of the regulatory framework.

The veracity and pedantic thought process cannot be questioned when it comes to looking at ensuring that all regulatory compliance matters are executed in view of our unique operation and the requirements per project. There is extensive discussion and engagement with all parties concerned and any appointment made is not taken lightly to ensure that we keep to the spirit of Section 112 of the Municipal Finance Management Act 56 of 2003.

Management comment on the recommendation:

We take note of the recommendation and we always welcome any inputs that are made in enhancing the efficiency of our process while observing the guiding regulatory framework. We also highlight and bring out clarity on our internal process, systems and controls in place that highlights how prudent and pedantic we are in ensuring a fair, equitable, transparent, competitive

and cost effective Supply Chain Management System, that complies with the regulatory framework.		
Remedial action:		
What actions will be taken: Continue to be prudent in the ensuring compliance to regulatory framework	By whom: User Departments, Supply Chain Bid Committees and Management	By when: Continuous process

Auditor's conclusion

Management response is noted and evaluated for each instance of non-compliance identified as stipulated.

Management should be reminded that legislation is not a guideline, is enforceable and should be adhered to in order to avoid any non – compliance issues. The municipal supply chain management policy that is developed in accordance the applicable regulations and implemented by management should be followed to avoid irregular expenditure instances in future. Furthermore it should be taken into consideration that framework contracting are not set to make the current system of general open competitive bidding redundant. In respect of this the supply chain management process followed by the municipality should be in line with legislation and its own supply chain management policy.

Management has set out in advertising these bids that it will be evaluated in terms of the PPPFA, PPR and the municipal supply chain management policy. Within these clear instructions is given on the specification, evaluation and adjudication process which the municipality has to follow. These clear instructions forms the bases to comply with Section 112 of the MFMA and any deviation from the prescribed regulatory framework would not only result in non – compliance, but also a fail in the supply chain management process achieving what it is intend to do.

The award to all legal firms who submitted a bid for tender E/13/14-15 is in direct contrast of management's argument of using the points system as a guide to make use of the service provider given their scope of work and the various rates charged. The application of the points calculation to award part of the tender to the service provider who scored the highest points for a specified service a bid was provided for was not evident and as such the evaluation of the bids did not take into account the points system.

With regards to tenders R/09/15-16 and R/16/15-16 management made reference to the location of the project that will influence the logistics of the facilities of goods or services they would use and as such a variation of factors would influence the cost element and which supplier to use. The fact that the municipality have to indicate through the District Roads Engineer to the Department of Transport and Public Works what roads will be maintained, repaired, protected and managed in the Eden district for the funds to be made available to the Roads Department of the municipality eliminates the variations referred to by management. This is further confirmed in the Service Level agreement that forms part of the Memorandum of Agreement between the Eden District Municipality and the Western Cape Provincial Government which indicates exactly in which areas roads will be affected. Within this agreement the road number and distance per kilometer of road to be treated is also concluded on. Based on this the municipality had all the information available which is described as varying factors and thus this argument provided by management has no substance. The evidence provided by management did not indicate that the points system was taken into account when evaluating the bid of the respective suppliers keeping in mind the information the municipality had to their disposal.

Management's approvals of all the above listed contracts were not in accordance with the listed legislation and the supply chain management policy as set out in the COMAF and thus the finding remains.

Management response to draft management report

Tender E13/14/15: On the panel of attorneys – We disagree with the findings of the auditors:

(i) The Sourcing strategy as per the Supply Chain Management Policy 10(4)(a)(iii) read with section 18(a) allow you to advertise that you will use a panel of attorneys on a rotation-mechanism basis which is also supported by the judgement in *Rainbow Civils CC v Minister of Transport and Public Works, Western Cape 2013* ZAWCHC 3 (6 February 2013).

(ii) Eden District Municipality followed a competitive process and pre-qualified ALL qualifying service providers

(iii) Because the prices were competitive (mostly aligned to the published attorney fees with a minimal discount) and will be negotiated if and when the services are required – the bids were not evaluated on price and preference but on qualifying criteria - but did consider its validity at the time of the award.

Tender R09/15-16 Supply and delivery of Road Stones and Tender R16/15/16 Supply and delivery of Base Coarse

We disagree with the findings of the auditors, and remain with our original comments. With regards to activities of the roads department, one must always take into consideration the vast topography of the nature of the work that they do. Therefore, at any given time the locations of the project will influence the logistics of the facilities of goods or services they would use. The prices that I sin the schedule in the tender would deal not in the commodity price but also two other factors: in bin or ex bin. These two concepts have to deal with either the delivery of the commodity to site where it is needed or council providing its own transport to collect it. Therefore, there is a third factor to add to the calculation which will be the distance and the rate per kilometre either way. Therefore, the matter of usage of any of the service providers will depend on a variation of factors and doing a costing element and which facility is best to use a that particular point in time per project.

Framework agreements are again coming to the forefront of procurement to ensure that municipalities are not engaged in contracts that may not allow them to ensure value for money while procuring quality goods and services.

Auditor's final conclusion

Tender E/13/14-15 as the tender advertisement specified that the municipality requires services from a pool of lawyers and all that tendered were awarded the contract and will be used based on their experience on each service is needed when the need arise therefore there is no non-compliance in this contract.

Tender R/09/15-16 and R/16/15-16

In terms of technical opinion Regulation 4 (1) of the Preferential Procurement Regulations of 2011 (PPR) require that an organ of state must indicate if the tender will be evaluated on functionality.

Management's response to the audit finding indicate that contracts were awarded to all bidders irrespective of each bidder's total points scored for both price and B-BBEE. These contracts will be executed at prices indicated by the supplier in their bidding documents, unless the municipality has made a pre-determination of prices. If the various contracts' prices are based on prices as quoted by the suppliers in their bidding documents – then this is not fair to the bidders that quoted lower prices but execute the same work as those that quoted higher prices. If the contract prices are standardised (fixed) across all suppliers, then the process is not unfair in so far as price is concerned. However, the



PPR does not only make consideration for prices, but also makes room for preference with regards to bidder's points for B-BBEE contribution.

If prices are standardised and B-BBEE is not factored into the work-allocation process; then bidders that do not make attempts to contribute towards B-BBEE receive a favourable treatment. This process then is contrary to the requirements of section 217 (2); which make provision for preferential treatment of bidders that were previously disadvantaged by unfair discrimination. This makes the tender and awarding-of-contracts process unfair to bidders that made an effort to obtain good B-BBEE credentials.

Further, management points out that the allocation of work is dependent on the location of the sites where goods and services are to be offered. Therefore this provides a form of preference to bidders that are nearest to the municipality's various locations. This awarding criteria is a form of functionality which must have been objectively evaluated across all bidders before awarding.

The post-award allocation-of-work becomes unequitable and unfair when the process is decided on only after awarding of contracts.. This criteria (since it is a key consideration in the allocation of work post-awarding) should have been transparently indicated in the invitation to bid as required by PPR 4 (1).

It should be brought to light that the allocation of work based on supplier's proximity is near sighted as some suppliers may be based afar but they may have established distribution channels that not make their transport costs more cost effective but also more timely. In any case – how is management making the decision of proximity without the bidder indicating its radius (in kilometres around the various municipalities' locations) in their bidding document? The decision therefore is not objective as it cannot be measured objectively.

Therefore of the view that the municipality does not fully satisfy the requirements of PPR (functionality, proper allocation of points based on price and B-BBEE). This is non-compliance and will result to irregular expenditure.

Predetermined objectives

2. Predetermined objectives: validity and completeness of performance information

Audit Finding

Chapter 3 of the National Treasury: Framework for Managing Programme Performance Information issued 22 June 2007 requires that:

A good performance indicator should be:

- (a) *Reliable:* the indicator should be accurate enough for its intended use and respond to changes in the level of performance.
- (b) *Well-defined:* the indicator needs to have a clear, unambiguous definition so that data will be collected consistently, and be easy to understand and use.
- (c) *Verifiable:* it must be possible to validate the processes and systems that produce the indicator.
- (d) *Cost-effective:* the usefulness of the indicator must justify the cost of collecting the data.
- (e) *Appropriate:* the indicator must avoid unintended consequences and encourage service delivery improvements, and not give managers incentives to carry out activities simply to meet a particular target.
- (f) *Relevant:* the indicator must relate logically and directly to an aspect of the institution's mandate, and the realisation of strategic goals and objectives.

Paragraph 3.2 (a) of the National Treasury Framework for managing programme performance information (FMPPI) requires that the indicator be accurate enough for its intended use and respond to changes in the level of performance.

During the testing of the key performance indicator(KPI) Create job opportunities through the Extended Public Works Programme by 30 June 2016 it was identified that job opportunities created outside the current financial year were incorrectly included in the actual performance figure in the current year annual performance report.

This relates to the below listed job opportunities created:

SURNAME & INITIALS	PERSAL NR	START	END	POSITION	PLACE
PIETERSEN ML	51610	01-Dec-14	30-Jun-16	STUDENT	SLANG R
WILLIAMS AE	51617	01-Dec-14	30-Jun-16	ECD STUDENT	HEROLD
PHILANDER R	51620	01-Dec-14	30-Jun-16	ECD STUDENT	SLANG R
KLEYNHANS LE	51621	01-Dec-14	30-Jun-16	ECD STUDENT	SLANG R
MAKWENA AM	51622	01-Dec-14	30-Jun-16	ECD STUDENT	HEROLD
BOOYSEN J	51623	01-Dec-14	30-Jun-16	ECD STUDENT	HEROLD
DE LANGE P	51613	01-Dec-14	30-Jun-16	ECD STUDENT	WABOOM
PEDRO AE	51629	01-Dec-14	30-Jun-16	ECD STUDENT	HEROLD
SKIETEKAT LM	51630	01-Dec-14	30-Jun-16	ECD STUDENT	SLANG R
ROSSOUW J	51632	01-Dec-14	30-Jun-16	ECD STUDENT	MELKH
SMITH LDS	51634	01-Dec-14	30-Jun-16	ECD STUDENT	KRANSH
JAFTA R	51841	08-Jun-15	27-Nov-15	WORKER	SWARTVLEI
DUKA S	51843	08-Jun-15	27-Nov-15	WORKER	SWARTVLEI
PAULI V	51844	08-Jun-15	27-Nov-15	WORKER	SWARTVLEI
STADLER CM	51849	08-Jun-15	27-Nov-15	WORKER	SWARTVLEI
NEKA XF	51850	08-Jun-15	27-Nov-15	WORKER	SWARTVLEI
BARNARD TL	51851	08-Jun-15	27-Nov-15	WORKER	SWARTVLEI
GROOTBOOM IB	51852	08-Jun-15	27-Nov-15	WORKER	SWARTVLEI

SURNAME & INITIALS	PERSAL NR	START	END	POSITION	PLACE
MBANA M	51853	08-Jun-15	27-Nov-15	WORKER	SWARTVLEI
BOER HA	51860	08-Jun-15	27-Nov-15	WORKER	SWARTVLEI
MOLLIGAN LE	51861	08-Jun-15	27-Nov-15	WORKER	SWARTVLEI
MEIRING DN	51618	01-Dec-14	30-Jun-16	ECD STUDENT	HEROLD

This result in a material projected overstatement of 85 created job opportunities in the population. Management should revisit the population to identify and remove all items that should not be included as part of the actual performance reported.

During the testing of the key performance indicator(KPI) Create job opportunities through the Extended Public Works Programme by 30 June 2016 it was identified that not all job opportunities created in the current financial year were included in the actual performance figure in the current year annual performance report.

This relates to the below listed job opportunities created:

SURNAME & INITIALS	PERSAL NR	START	END	POSITION	DEPARTMENT
Speelman A	52124	21-Jun-16	31-Mar-17	General worker	Roads
Speelman N	52159	16-May-16	17-Jun-16	General worker	Roads
Frans J	52126	21-Jun-16	31-Mar-17	General worker	Roads
Speelman A	52104	21-Jun-16	31-Mar-17	General worker	Roads
Speelman M	52144	21-Jun-16	31-Mar-17	General worker	Roads

This result in a projected understatement of 19 created job opportunities in the population. Management should revisit the population to identify and include all items that should be included as part of the actual performance reported.

Internal control deficiency

Internal control deficiency

Financial and performance management

Regular accurate and complete financial and performance reports

Management did not ensure that the employees responsible for the compilation of the portfolio of evidence are adequately trained to ensure that only valid and complete information is captured.

Management has not performed sufficient monitoring and review of the compiled portfolio of evidence to ensure that valid and complete information is captured to support the reported figure in the annual performance support.

Recommendation

Management should provide proper training and guidance to staff involved in compiling the portfolio of evidence used for reporting purposes.

Management should monitor the process of compiling the portfolio of evidence regularly to identify and correct instances where incorrect information is captured timeously.

Management should perform a thorough review of the portfolio of evidence compiled to identify and include any items not included as part of the portfolio of evidence before reporting in the annual performance report.

The annual performance report should be adjusted accordingly to correctly reflect the item reported above.



Management response

Management comment on audit finding		
Management agrees with the audit finding and will amend the actual results on the annual performance report.		
Management comment on internal control deficiencies		
Management agrees with the root cause identified.		
Management comment on recommendation		
Management takes note of the recommendation and will provide proper training and guidance to staff involved in compiling the portfolio of evidence used for reporting purposes; furthermore, management will regularly monitor the process of compiling the portfolio of evidence to identify and correct instances where information is captured timeously.		
Management reviewed the total population and the actual results for the year are 123 job opportunities created. Refer to Annexure A, hereto attached, for the detail of the 123 job opportunities created.		
Remedial action		
<i>What actions will be taken</i>	<i>By whom</i>	<i>By when</i>
If the above finding affects an amount(s) disclosed in the financial statements		
<i>Please give an indication of whether a correcting journal entry shall be processed</i>	YES	NO
<i>If yes, please indicate the accounting entry</i>		
<i>If no, please provide the reason why such a conclusion has been reached</i>		

Auditor's conclusion

Management's response acknowledged. The adjustment was confirmed upon receipt of the adjusted annual performance report. As the internal control deficiency gave rise to the material adjustment the matter will remain and be followed up during the next audit cycle.



Provision

3. Alien vegetation provisions misstatement

Audit Finding

Standards of General Recognised Accounting Practice (GRAP) 19:21 Provision, Contingent liabilities and contingent assets; states that

A provision shall be recognised when:

- (a) an entity has a present obligation (legal or constructive) as a result of a past event;*
- (b) it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and*
- (c) a reliable estimate can be made of the amount of the obligation.*

If these conditions are not met, no provision shall be recognised.

During the audit of provision it was identified that the property listed below does not belong to the municipality but were included in provision calculation, that means the municipality is not the person in control therefore no legal obligation.

Based on the above the recognition criterion is not meet therefore the municipality should have not raised the provision for these assets.

No	Field Map	Erf number	Area
1	1	Erf 35	Rheenendal
2	4	Erf 530	Uniondale
3	6	Erf 1496	Uniondale
4	12	Erf 1370	Wilderness
5	23	148, portion 1	Gold diggings
6	24	148, portion 4	Gold diggings
7	41	Erf 555	Natures Valley
8	46	Erf 434	Harlem, Uniondale

It was also identified that the discounting rate used was not the current CPIX inflation rate of 6.4% but 5%

Based on the calculation the provision and taking into account the rate that should have been used the provision and the increase in provision for Alien vegetation are overstated by R2 147 296.02.

Internal control deficiency

Financial and performance management

Regular, accurate and complete financial and performance reports

The municipal management did not implement adequate controls to ensure that the provision calculations are reviewed for accuracy and completeness. Consequently errors in the provision calculation would not be identified by the municipality and may thus cause material misstatements in the financial statements.

Recommendation

Management should strengthen the review process of the information supporting the financial statements in order to prevent, detect and correct any omissions and/ or errors.



Management should amend the financial statements to correct the misstatement in respect of provision.

Management response

<u>Management comment on the audit finding:</u>			
Management agrees with the audit finding. Subsequently, management has revisited the total population to ensure that the completeness of the properties included in the provision and we concluded to a revised overstated difference of R784 597.90 instead of R2 147 296.02 identified by the Auditor General, please refer to Annexure A.			
<u>Management comment on the root cause identified within the audit finding:</u>			
<u>Management comment on the recommendation:</u>			
The recommendation from the Auditor General is noted by management			
<u>Remedial action:</u>			
<u>What actions will be taken:</u>	<u>By whom:</u>	<u>By when:</u>	
If the above findings affects an amount (s) disclosed in the financial statements:			
Please give an indication of whether the correcting journal entry shall be processed:			
If yes, please indicate the accounting entry:			
If no, please provide the reason why such a conclusion:			

Auditor's conclusion

Management's response is acknowledged, the discounting rate used for the adjustment of R784 597,90 is 5% not the inflation rate. The yearly cash-flow calculation should have been based on the salary increase percentage and the net present value on the current inflation rate for the year under review. The correct adjustment will be confirmed on receipt of audited AFS.

Final auditor's conclusion

Inspected the adjusted schedule that auditors agree on the adjustment of R780 025,15 as per schedule and also confirmed the adjustment on the audited financial statements.

The internal control deficiency resulted in the misstatement therefore the finding will remain in the management report for follow up in next year audit.



Receivables

4. Impairment of receivables is understated

Audit finding

GRAP 104 par 57 states: An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the entity shall apply paragraphs .61 to .63 for financial assets carried at amortised cost.

MFMA 167. Councillors' remuneration. –

1. *A municipality may remunerate its political office-bearers and members of its political structures, but only-*
 - a) *Within the framework of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998), setting the upper limits of the salaries, allowances and benefits for those political office-bearers and members; and*
 - b) *In accordance with section 219(4) of the Constitution.*
2. *Any remuneration paid or given in cash or in kind to a person as a political office-bearer or as a member of a political structure of a municipality otherwise than in accordance with subsection (1), including any bonus, bursary, loan, advance or other benefit, is an irregular expenditure, and the municipality-*
 - a) *Must, and has the right to, recover that remuneration from the political office-bearer or member; and*
 - b) *May not write off any expenditure incurred by the municipality in paying or giving that remuneration.*

During the audit of receivables it was identified that the Eden Municipality incorrectly applied its impairment method in the following manner:

- In the impairment method debtors outstanding for 150 days are supposed to be impaired by 75% and the municipality impaired these debtors by 100%.

During the audit of receivables it was further identified that Eden Municipality interpreted section 167(2) (b) of the MFMA in the following manner:

- The municipality does not have to impair councillors' debts, because the act states that the municipality may not write off the expenditure incurred.

The above interpretation is not in line with section 167(2) (b) of the MFMA as it does not refer to the impairment of the debt at year end and proper application of GRAP 104:57.

- Further as per MFMA section 167(2) (a) the municipality must, and has the right to, recover that remuneration from the political office-bearer or member; and it was noted that the municipality did not recover the remuneration from the councillors when they were still political office-bearers.

Management of the Eden District Municipality incorrectly valued the debt due in their application of section 167(2) of MFMA.

Consequently the provision for impairment of receivables has been understated by R3 072 127.57. This will result in a material misstatement of trade receivables.

Internal control deficiency

Financial and performance management

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



Management did not adequately review their impairment method to ensure that it is correctly applied. Further management incorrectly interpreted the MFMA section 167(2) (b).

Recommendation

It is recommended that management adequately reviews its impairment calculations to ensure that the impairment policies and methods are applied appropriately.

It is also recommended that management ensures that the MFMA is appropriately interpreted. Furthermore management must adjust financial statements to ensure they reflect provision for impairment of debtors accurately and complete.

Management response

Management comment on the audit finding:

We disagree with the audit finding

Management's response is as follows with regards to the findings reported above:

1. Management agrees that the incorrect application of the impairment method for debtors outstanding for 150 days. The entire population of debtors outstanding for 150 days have been revisited and the effect of the incorrect application amounts to R 20,437.38 (R81, 749.51 x 25%) which is immaterial.

2. We disagree in its entirety with the remaining of the finding.

The notion that the impairment of arrear accounts of serving Councillors constitutes to irregular expenditure, is not based only on sec 167 (2) (b) in isolation but in the view of the overall content of the clause where it is explicitly stated that any remuneration, in cash or in **kind**, is in contradiction with the conditions in the Remuneration of the Office Bearers Act.

To recover outstanding amounts from councillors with deductions from their remuneration is not as simplistic as mentioned in the finding, because it can only be executed after due process has been followed and sanctioned by the Speaker and after mutual consent from the particular councillor that amounts could be recovered. This processes are however very political sensitive and Speakers are very hesitant to follow this route.

Furthermore, it is also in contradiction with the spirit of sec 2 (b) and the content of 12 A of the Code of Conduct for Councillors to be in arrears.

The above and the compulsory disclosure of Councillors Debt in terms of sec 124 (1) (b) of the MFMA are all an indication that the writing off of councillors debt is irregular and is management of the opinion that if auditors disagree with this opinion, that it be referred for a technical review.

*For the reasons as stated above, Councillors Debt cannot be written off, as it **must, in terms, of the MFMA, be recovered**. As it **must be recovered**, it logically leads to the conclusion that it has **to be regarded as recoverable** - to regard it as irrecoverable would not only be against the legislative requirements, but also against past history trends, not only at the Eden District Municipality, but also at other municipalities.*

In conclusion, as the debt is regarded as recoverable by management, based on legislative requirements, as well as past history trends, it cannot be impaired in terms of G RAP 104.

We stand by our interpretation of both the MFMA, as well as GRAP 104 and if not resolved, management requests that this be referred for a technical opinion

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

Auditor's conclusion

Management's response acknowledged. Section 124(1)(b) of Municipal Finance Management Act refers to amounts owed by individual councillors to the municipality for rates or services which is not applicable to the finding above. Based on past history there is no evidence that Eden district had recovered these amounts hence we say the debtors amount for councillors is incorrectly valued. We not saying the municipality must write off the debt but to correctly value it by making the provision for impairment of the debt. As suggested by management this will be forwarded for technical consultation.



Final auditor's conclusion

For accounting purposes the councillor's debt will have to be impaired, but for management purposes the entire debt needs to be collected and management need to take the necessary steps to recover this debt (unless the debt has prescribed).

If and when the debt is recovered, GRAP 104 par. 63 allows for an impairment to be reversed.

Inspected audited financial statements and confirmed that the councillor's debt has been impaired and debtors over 150 days were not adjusted for the amount of R20 437,38 will not be transferred to statement of uncorrected misstatement as it is below trivial.



Non-compliance

5. SCM: Informal tender procedures not followed

Audit finding

Sections 5 (1) – (5) of Preferential Procurement Regulations of 2011 states:

The following formula must be used to calculate the points for price in respect of tenders (including price quotations) with a Rand value equal to, or above R 30 000 and up to a Rand value of R1 000 000 (all applicable taxes included):

$$Ps = 80 * (1 - ((Pt - Pmin) / Pmin))$$

"Where

Ps = Points scored for comparative price of tender or offer under consideration

Pt = Rand value of offer or tender consideration

Pmin = Rand value of lowest acceptable tender or offer.

(2) Subject to sub-regulation (3), points must be awarded to a tenderer for attaining the B-BBEE status level of contributor in accordance with the table below.

For procurement equal or below R1 million:

Points were awarded for attaining the B-BBEE status level contributor in accordance with the following:-

<i>B-BBEE Level</i>	<i>Points</i>
1	20
2	18
3	16
4	12
5	8
6	6
7	4
8	2

(3) A maximum of 20 points may be allocated in accordance with sub-regulation (2).

(4) The points scored by a tenderer in respect of B-BBEE contribution contemplated in sub-regulation (2) must be added to the points scored for price as calculated in accordance with sub-regulation (1).

(5) Subject to regulation 7, the contract must be awarded to the tenderer who scores the highest total number of points.

Section 2(1) of the Preferential Procurement Policy Framework Act, 2000 states

Framework for implementation of preferential procurement policy. — an organ of state must determine its preferential procurement policy and implement it within the following framework:

(a) a preference point system must be followed;

Section 18 of the Municipal Supply Chain Management Regulations of 2005 states:



(b) that all requirements in excess of R30 000 (VAT included) that are to be procured by means of formal written price quotations must, in addition to the requirements of paragraph 17, be advertised for at least seven days on the website and an official notice board of the municipality.

Paragraph 18 of the Eden district Municipality Supply Chain Management policy states:

(b) All requirements in excess of R30 000 (VAT included) that are to be procured by means of formal written price quotations must, in addition to the requirements of paragraph 17, be advertised for at least seven days on the website and an official notice board of the municipality.

(f) Acceptable offers, which are subject to the preference points system (PPPFA and associated regulations), must be awarded to the bidder who scored the highest points.

During the audit of supply chain management, it was identified that an award to the value of R38 988 was awarded to Trentyre for supply of 4xTyre 1400x24 12PLY without being advertised.

It was further identified that the prescribed formula to calculate points for price was not applied during the evaluation before the award was made.

This was identified to be due to inventory quantities being low and thus had to be purchased in order maintain the acceptable level of inventory on hand.

This constitutes non-compliance with Section 18(b) of the Municipal Supply Chain Management Regulations of 2005, Section 2(1) Preferential Procurement Policy Framework act, 2000 and Section 5 (1-5) of Preferential Procurement Regulations of 2011.

The contravention of paragraph 18 of the Supply Chain Management policy of the municipality results in a further irregular expenditure to the amount R38 988.

Internal control deficiency

Financial and performance management

Review and monitor compliance with applicable laws and regulations

Management did not ensure that proper planning is done with regards to re-ordering of inventory to ensure that the procurement is done in accordance the municipal supply chain management policy and in compliance with the applicable laws and regulations.

Recommendation

Management should ensure that controls implemented on when to procure inventory is adhered to in order to procure the required inventory timeously.

Management should monitor and review the approvals in the procurement process in order to ensure compliance with the municipal supply chain management policy and applicable laws and regulations relating to procurement.

Management should disclose an amount of irregular expenditure as documented above on their note for irregular expenditure.

Management response

Management comment on the audit finding:

We disagree with the Auditors on their finding, the item identified was cleared with internal auditors please refer to Annexure D. There was a tender already in place for the supply of Tyres and Tubes, the award was made to Malas Pty Ltd. Part of the conditions of the tender as indicated in Annexure A, was that the tyres must be manufactured in South Africa. They



winning bidder could not supply a specific tyre as awarded as the tyres they had that matched the specifications was not manufactured in SA. There were various engagements with the Department of the Transport and Public Works, which we have an agency relationship with and is bulk consumer on these tyres. Malas could not provide an alternative tyre manufactured in South Africa, we then already had a Tender in place for tyres and the future consumption of these tyres could not be forecasted and it was deemed acceptable that those tyres that the appointed supplier could not provide will be sourced on quotation basis. Therefore, when this specific quotation was sourced on that basis and it was identified as above the minimum it followed the deviation process.

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

Disagree with the auditors regarding poor planning, through planning there was a tender established to service this need. The restriction as imposed by the Department of Public Works and Transport regarding usage of only South African Manufactured tyres on their vehicle resulted in situation as established. There was a robust engagement with the Roads department which performs the agency function in trying to resolve the misnomer of the locally manufactured requirement to rely rather on SABS approved tyres in order reduce the encountering deviations.

Management comment on the recommendation:

We take note of the auditors' recommendation and there would be due consideration. We have subsequently implemented a procurement plan to assist the user department in placing due diligence in their procurement strategy for goods and service they may require. There has been an appointment of the Risk Manager and Contract Manager to the Supply Chain Management Committee (Bid Specification and Evaluation) to ensure better interrogation of specifications and evaluations.

With the new tender that was awarded, above was taken into consideration when the specifications were compiled and the tender awarded.

Remedial action:

<u>What actions will be taken:</u>	<u>By whom:</u>	<u>By when:</u>
Better interrogation of specification to ensure better alignment to industry.	User Departments, Bid Specification Committee and Bid Evaluation Committee	Implemented
If the above findings affects an amount (s) disclosed in the financial statements:		
Please give an indication of whether the correcting journal entry shall be processed:		
If yes, please indicate the accounting entry:		
If no, please provide the reason why such a conclusion:		

Auditor's conclusion

Management response is noted. It should be noted that the finding was not on specification but on the award being made to the supplier without being advertised and that the prescribed formula to calculate points for price was not applied during the evaluation before the award was made. With regards to the specification it's not understandable why the supplier that does not meet the specification wins the tender.

The findings remains and its recommendation to adjust the financial for the irregular expenditure identified.



Management response to draft management report

Management will adjust the note in the annual financial statements on irregular expenditure; therefore, this audit finding is resolved.

Final auditor's conclusion

The adjustment had been confirmed on receipt of the adjusted financial statement. The finding resulted in non-compliance with the MFMA but assessed as not being material non-compliance. The matter will remain in management report and will be followed up in next quarterly key controls assessments.

6. SCM-Late submission of quarterly report

Audit Finding

Section 6(3) of the Municipal Supply Chain Management Regulations of 2005 states:

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

During the audit of internal control for supply chain management, it was identified that the first quarterly report for 30 September 2015 was only submitted 02 November 2015 which is later than the 10 days required by the Section 6(3) of the Municipal Supply Chain Management Regulations of 2005.

This constitutes non-compliance with Section 6(3) of the Municipal Supply Chain Management Regulations of 2005.

Internal control deficiency

Financial and performance management

Review and monitor compliance with applicable laws and regulations

Financial and performance management did not review and monitor compliance with applicable laws and regulations section 6(3) of the Municipal Supply Chain Management Regulations of 2005

Recommendation

- (i) It is recommended that the accounting officer implements controls to monitor compliance with Municipal Supply Chain Management Regulations.
- (ii) It is also recommended that the quarterly reports are prepared in advance so as to allow proper review before submission to the mayor.

Management comment on the audit finding:

Management agrees to the finding and although there is plausible reason on why it took place we don't condone nor dispute the late submission. The period in which the late submission took place was during the time where the CFO, Ms. L Hoek, was on her maternity leave and Mr. Johan Stander was the acting CFO. Finance Department at that point had capacity constraints and although the document was submitted on the system the review and approval for submission was late and the submission period for the Agenda items for council items was closed. As a result, the item had to be submitted for the next portfolio committee of November.

Management does however wish to bring to your attention that although the quarterly report was submitted late, the relevant months to which the quarterly reports relate to, were individually submitted within the period to which they relate to. Therefore, council was already informed of the monthly reports as and when they were meant for council submission. Therefore, although qualitatively there were shortcomings in oversight in terms of the quarterly report, the content of the reports had been for council's review in the form of monthly reports and therefore no deliberate omission has been made that council has not been aware of.

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

Management agrees with the root cause and appropriate preventative measures have been put in place as controls to mitigate another occurrence of similar nature.

Management comment on the recommendation:

Management agrees with the auditor's recommendation and is happy to report that this matter in the view of obligatory compliance activities that need to be undertaken, was identified as a



weakness in the controls and measures were put in place to rectify such by the Accounting Officer in conjunction with the Executive Management Team.

Subsequently management has put in place Eunomia Compliance System, that is used as a compliance check list and reminder of all statutory compliance requirements that needs to be undertaken as per the calendar by the Local Government.

The risk manager has been appointed and she oversees the monitoring of the Eunomia system to identify timeously matters or activities which need to be executed and confers with the responsible parties to remind them to execute such activities.

Therefore, we were proactive in our approach as this was identified as part of the risk assessment process

Remedial action:

<u>What actions will be taken:</u>	<u>By whom:</u>	<u>By when:</u>
Actions are in place	Accounting Officer	Implemented
If the above findings affects an amount (s) disclosed in the financial statements:	N/A	
Please give an indication of whether the correcting journal entry shall be processed:		
If yes, please indicate the accounting entry:		
If no, please provide the reason why such a conclusion:		

Auditor's conclusion

Management's response is acknowledged. The finding has resulted in non-compliance with the MFMA but has been assessed as not being material non-compliance. The matter will remain in management report and will be followed up in next quarterly key controls assessments.



7. SCM - improper conduct

Audit finding

SCM Regulation 38(1)(g) states that bids of any bidder must be rejected if that bidder, or any of its directors abused the municipality's SCM system, committed fraud or any other improper conduct in relation to such SCM system or have failed to perform on any previous contract.

During the audit of supply chain management, it was identified that the Eden District Municipality had sufficient evidence to disqualify both Van der Berg Vervoer and Volmoed Quarries CC for improper conduct and abuse of the municipality's SCM system. This supported by the following facts:

- ✓ *The two suppliers have the same owners and directors who owns 70% in the respective companies:
Van der berg transport: 35% Hugo van der berg (ID: 6809225049087), 35% Daniel van der Berg (ID: 6501035040089)
Volmoed Quarries: 35% Hugo van der berg (ID: 6809225049087), 35% Daniel van der Berg (ID: 6501035040089)
The two suppliers have the same administrator who is in charge of tender process for both suppliers (this information was supplied by the municipality during the request to provide reasons for duplicate supplier information).*
- ✓ *Both these entities submitted bids for supply and delivery and off-load of crushed aggregate base course, sub-base material and gravel wearing course for a period of three years which are sourced from the same quarry.*
- ✓ *Both these entities submitted same test results as per the bid specification for supply and delivery and off-load of crushed aggregate base course, sub-base material and gravel wearing course for a period of three years but different prices.*
- ✓ *The fact that the two entities are independently registered on CIPC does not supersede the substance over form in respect of directors role and influence over bid pricing for major projects, thus the municipality have overlooked an indication of possible price manipulation by the directors*

Based on the above reason it can be strongly argued that the owners of the two suppliers committed improper conduct and abuse of the municipality's SCM system in relation to the bidding process relating to tender no R/16/15-16 and that ultimately both companies should have been rejected or disqualified from the bidding process as a result of this improper conduct.

This results in non-compliance with regulation 38 (1)(g) of the SCM Regulations,2005.

Internal control deficiency

Financial and performance management – Compliance monitoring

Management did not perform adequate monitoring over the supply chain management process in order to identify instances of non – compliance before bids that are awarded to prospective suppliers.

Recommendation

Management should ensure compliance with SCM Regulations 38(1)(g) by ensuring that when instances of improper conduct or abuse of the municipality's SCM system involving bids are identified, all suppliers involved in the improper conduct should be disqualified from the bidding process.

Management response

Management comment on the audit finding:

Although the SCM unit, as well as the various bid committees, are fully aware of the risks of bid rigging, or collusive tendering, we cannot concur that the mere fact that two entities with the same ownership structure have submitted two separate proposals for the same tender, is necessarily indicative of bid rigging. We furthermore strongly disagree that because of the fact listed above, the conclusion can be made that the Eden District Municipality had sufficient evidence to



disqualify both Van der Berg Vervoer and Volmoed Quarries CC for improper conduct and abuse of the municipality's SCM system.

In fact, if the suppliers have been disqualified as suggested by the AG and were to challenge our decision, they would in fact have a very good chance of a successful appeal.

Our motivation for the above will follow:

- i) The Eden District Municipality has been conducted business with both Van der Bergh Transport as well as Volmoed Quarries for many years. The fact that the two companies have the same shareholding, has in fact proof to be a huge challenge from an expenditure management process, as we had to perform rigorous checks to ensure that when work was done on one contract, that the other company has not in fact erroneously billed us for services rendered. From the creditors department side, this has resulted, in amongst others, many disputes between the Municipality and the two suppliers, hence also the many invoices not paid within 30 days after date of statement (refer COMAF 5).
- ii) Although we therefore want to ideally only do business with only one of the two entities, as it would ease expenditure and creditor management on our side, we can however not prohibit two separate legal entities that have the right to trade, not to do so.

They may well have very good business reasons to do so, as in this case, was indicated by Johan Scholtz in his e-mail to Mr. Hans Ottervanger on 27 October 2016, refer to Annexure A, hereto attached. Their decision to submit to separate proposals was, amongst others, because of the difference in BEE rating between the two companies.

Management therefore respectfully want to state that the opinion, conclusion and recommendation of the AG on this finding are not founded, and would it have been implemented, would put the Municipality at risk of successful appeals against awards being made.

Auditor's conclusion

Management's response is acknowledged and accepted. Since this is an indicator of abuse in supply chain management is encouraged to investigate the matter. This will remain in the management report.

8. SCM: Supplier with lowest price not selected

Audit Finding

Paragraph 18 of the Eden district Municipality Supply Chain Management policy states:

e) Offers below R30 000 (VAT included) must be awarded based on compliance to specifications and conditions of contract, ability and capability to deliver the goods and services and lowest price.

During the audit of supply chain management, it was identified that the following quotations were obtained where the awards were not awarded to the supplier with the lowest price:

Supplier	Price (R)
Affordable plumber	28 100
Ladismith Handyman	29 950
Marbon Bouers BK	102 400

The above award was made to Ladismith Handyman.

Supplier	Price (R)
Smada	22 314
LVDS	29 880
Risk Mitigators	37 400

The above award was made to LVDS.

As per inspection of the Collaborator process flow documentation it was evident that no deviation process was followed and that the supplier with the lowest price was not selected.

Through inspection of the annual irregular expenditure report prepared by the Chief Financial Officer (CFO), it was noted that the award awarded to Ladismith Handyman was identified as the irregular expenditure and has been disclosed in the AFS.

However the award awarded to LVDS was not identified in the CFO report.

This constitutes non-compliance with Paragraph 18 (e) of the Eden Municipal Supply Chain Management policy and further constitutes to irregular expenditure to the amount of R29 880.

Internal control deficiency

Financial and performance management

Review and monitor compliance with applicable laws and regulations

Management did not implement proper controls for the review and monitoring of compliance with the supply chain management policy.

Recommendation

Management should ensure that proper controls are put in place on the review and monitoring of approvals for procurement on a regular basis to ensure that all awards awarded are in compliance with the SCM policy.

It is further recommended that management make an adjustment of R29 880 to note 41 to include the irregular expenditure identified.

Management response

Management comment on the audit finding:

We disagree with the audit finding, the item was in fact reported in the irregular expenditure summary and disclosed by the Chief Financial Officer. Please refer to Annexure A for the summary of irregular expenditure and Annexure B for the summary of the security services which was included in the irregular expenditure disclosed in the Annual Financial Statements.



<u>Management comment on the root cause identified within the audit finding:</u> We disagree with the audit finding, the item was in fact reported in the irregular expenditure summary and disclosed by the Chief Financial Officer. Please refer to Annexure A for the summary of irregular expenditure and Annexure B for the summary of the security services which was included in the irregular expenditure disclosed in the Annual Financial Statements.		
<u>Management comment on the recommendation:</u>		
<u>Remedial action:</u>		
<u>What actions will be taken:</u>	<u>By whom:</u>	<u>By when:</u>
If the above findings affects an amount (s) disclosed in the financial statements:		
Please give an indication of whether the correcting journal entry shall be processed:		
If yes, please indicate the accounting entry:		
If no, please provide the reason why such a conclusion:		

Auditor's conclusion

Management response is acknowledged, and accepted on irregular expenditure disclosure. The finding though has resulted in non-compliance with supply chain management regulation therefore it will remain in the management report and be followed up in next year audit.

In relation to this finding we have identified that the amount disclosed for LVDS in note 41 and the schedule of irregular expenditure is R28 432.00 which is not related to the amount in the COMAF of R29 880.00.

The note should be adjusted for the R29 880.00 in the AFS also.

Management response on draft management report

Management will adjust the note in the annual financial statements on irregular expenditure; therefore, this audit finding is resolved.

Final auditor's conclusion

Adjustment had been confirmed on receipt of adjusted financial statements. The finding though has resulted in non-compliance with supply chain management regulation therefore it will remain in the management report and be followed up in next year audit.

9. HR management non-compliance with minimum competency requirements

Audit finding

Municipal Finance Management Act 56 of 2003 section 83:

Competency levels of professional financial officials.— states that

(1) *“The accounting officer, senior managers, the chief financial officer and other financial officials of a municipality must meet the prescribed financial management competency levels.*

(2) *A municipality must for the purposes of subsection (1) provide resources or opportunities for the training of officials referred to in that subsection to meet the prescribed competency levels”.*

During the audit of human resource compliance, it was identified that the head of supply chain management did not meet the minimum competency requirements as required by the Municipal Regulations on Minimum Competency Levels, 2007

As a result of the above-mentioned non-compliance, management might not have the full benefit of the minimum competency levels to assist them in the performance of the operations at the municipality.

Internal control deficiency

Financial and performance management

Review and monitor compliance with applicable legislation

Management did not provide resources or opportunities for the training to the official to meet the prescribed competency levels.

Recommendation

Management should ensure that they fulfill the requirements outlined by the Municipal Regulations on Minimum Competency Levels, 2007 and should consider implementing processes to avoid a recurrence of this non-compliance.

Management response

Management comment on the audit finding:

Management agrees with the audit finding that the head of supply chain management did not meet the minimum competency requirements during the 2015/16 Financial Year.

Management disagrees with the statement “As a result of the above-mentioned non-compliance, management might not have the full benefit of the minimum competency levels to assist them in the performance of the operations at the municipality.”, Mr Mpuru is competent to advice council and management on SCM processes; however, it should be noted that the employee is one of 8 members of the Western Cape technical committee in the Western Cape that advises the entire Western Cape, appointment is on merit, Mr. Mpuru chairs the District Regional Forum overseeing technical and operational issues on both operational and technical nature, therefore one outstanding module of MMC is not an indicator of the employee's technical abilities to advise council.

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

A formal tender process had to be followed, resulting in the delay with the completion of the MMC, as the previous tender expired. A new tender was awarded on 30 June 2016 by the BAC committee, refer to Annexure A. Refer to Annexure B for the complete training schedule for the MMC.

Management comment on the recommendation:

The recommendation from the Auditor General is noted by management.

Auditor's conclusion



Management's response is acknowledged. The finding has resulted in non-compliance with the MFMA but has been assessed as not being material non-compliance. The matter will remain in management report and will be followed up in next quarterly key controls assessments.



10. Use of consultants: No policy in place to address the use of consultants

Audit Finding

Par 4.5 of the National Treasury Instruction note 01 of 2013/14 states the following:

"Accounting officers and accounting authorities must develop consultancy reduction plans by 31 March of each year for implementation in the ensuing financial year. The first consultancy reduction plan required in terms of this Treasury Instruction must be developed before 31 March 2015 for implementation in the 2014/15 financial year."

During the assessment of the use of consultants it was identified that the municipality does not have an approved policy/action plan in place that defines the main purposes and objectives for appointing consultants and measures to address over reliance on consultants.

It was further identified that the municipality has a draft policy to address the use of consultants developed but it is still awaiting management approval and has not been implemented.

The consultants that assist the municipality have been used for a number of years as evidenced by the first payments made to these consultants for services rendered as outlined in the table below:

Consultant	First payment made as per Abakus system	Re-appointment
MeyerOtto/Moore Stephens:	25/11/2008	18 March 2016
Mubesko:	20/05/2009	18 March 2016
Ignite:	04/03/2010	1 July 2014

This is in contravention of the requirements as set out in the National Treasury Instruction note.

Internal control deficiency

Leadership

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

Leadership did not approve and implement consultancy reduction plans to ensure that an effective human resource management system is implemented to ensure that adequate and sufficiently skilled human resources are employed and that their performance is monitored.

Recommendation

Leadership should ensure that an effective human resource management system is implemented to ensure that adequate and sufficiently skilled human resources are employed within the municipality and that their performance is monitored and in such way reduce reliance on consultants.

Leadership should further ensure that appropriate processes are implemented to ensure skills transfer from consultants to municipal staff and this should also be monitored by the municipality.

Management response

<u>Management comment on the audit finding:</u>		
<u>Management comment on the root cause identified within the audit finding:</u>		
<u>Management comment on the recommendation:</u>		
<u>Remedial action:</u>		
<u>What actions will be taken:</u>	<u>By whom:</u>	<u>By when:</u>
<u>If the above findings affects an amount (s) disclosed in</u>		



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

Auditor's conclusion

Management's response is acknowledged. The finding has resulted in non-compliance with the National Treasury Instruction but has been assessed as not being material non-compliance. The matter will remain and will be followed up in next year's audit.

11. Bank reconciliation

Audit Finding

In terms of the **National Treasury Instruction 05 of 2014/2015 for the financial year 2015/16:**

The accounting officer must ensure that his or her department performs daily bank reconciliations to detect unauthorised transactions. The chief financial officer must review all bank reconciliations for the reporting month to ensure that unauthorised transactions are detected and that dishonored cheques and long outstanding amounts are followed up and cleared. The chief financial officer must also approve all bank reconciliations by appending his or her signature thereto which shall confirm his or her concurrence and approval thereof.

During the audit of cash and bank it was identified that bank reconciliations were not reviewed by the chief financial officer. Furthermore, bank reconciliations were not performed timeously i.e. each every month, refer to the table below.

Month	Reviewed on
30 November 2015	14 January 2016
31 December 2015	12 April 2016
31 January 2016	13 April 2016
28 February 2016	04 April 2016
31 March 2016	06 May 2016
30 April 2016	03 June 2016
30 June 2016	31 August 2016

It was also identified that on bank reconciliations performed for each month, the preparer does not include the date nor do they sign the reconciliation as evidence of performance the control thereof.

Internal control deficiency

Financial and performance management

Review and monitor compliance with applicable laws and regulations

Management did not ensure compliance with the national treasury instruction no.05 of 2014/15 applicable to financial year 2015/16

Recommendation

Management should ensure that bank reconciliations are performed at least on a monthly basis so as to follow up on reconciling items.

The chief financial officer should perform the review of bank reconciliations.

Management should ensure that the preparers of bank reconciliations indicate the date of preparing the reconciliation and also acknowledge performance of control to isolate the responsibility. Furthermore, management should regularly look out for the national treasury instructions on the treasury website so as to continuously put those into practice.

Management response

Management comment on the audit finding:

We agree with the audit finding



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

Eden DM requested support from the service provider of the financial system (Abakus) when the bank statements could not be imported in the cashbook module for the bank reconciliations as the bank statement number changed to 1 instead of rolling on.

The service provider encountered challenges to rectify the situation and that caused the delay in the compilation of the monthly bank reconciliations on Abakus. However, Eden DM performed monthly draft bank reconciliations before the 10th working day of the next month to be submitted with the monthly S71 financial reports to National and Provincial Treasury. Therefore draft bank reconciliations were performed outside the system until the system issue was resolved.

Management comment on the recommendation:

We take note of the recommendations and will be implemented

Remedial action:What actions will be taken:

Perform monthly bank reconciliations

By whom:

Senior
Accountant:
Debtors/Bank
reconciliations

By when:

10th working day
of the following
month

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

No

Auditor's conclusion

Management's response is acknowledged. The finding has resulted in non-compliance with the National Treasury Instruction 05 of 2014/2015 for the financial year 2015/16 but has been assessed as not being material non-compliance. The matter will remain and will be followed up in next quarterly key controls assessments.

Disclosure

12. High-level review of AFS

Paragraph 62 (1) of the Municipal Finance Management Act 56 of 2003 states:

General financial management functions. - The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure –

(b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards;

Our high-level review performed on the financial statements submitted on 31 August 2016 for audit revealed the following findings:

Finding 1

In terms of the Standards of Generally Recognised Accounting Practice (GRAP) 1 - Presentation of Financial Statements, Paragraph 40: "It is important that assets and liabilities, and revenue and expenses, are reported separately. Offsetting in the statement of financial performance or the statement of financial position, except when offsetting reflects the substance of the transaction or other event, detracts from the ability of users both to understand the transactions, other events and conditions that have occurred and to assess the entity's future cash flows. Measuring assets net of valuation allowances, for example, obsolescence allowances on inventories and doubtful debts allowances on receivables, is not offsetting".

GRAP 1:42: "In addition, gains and losses arising from a group of similar transactions are reported on a net basis, for example, foreign exchange gains and losses and gains and losses arising on financial instruments held for trading. Such gains and losses are, however, reported separately if they are material".

In performing a review of the financial statements it was identified that the Statement of financial performance includes both a loss on disposal of property, plant and equipment as part of expenditure and a gain on disposal of property, plant and equipment as part of exchange revenue.

These gains and losses arising from a group of similar transaction therefore should have been disclosed as the net effect either as part of revenue or expenditure and

Finding 2

GRAP 1:104: "An entity shall present an analysis of expenses using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is reliable and more relevant". Based on the standard management should select the most relevant and reliable presentation of expenses

In performing a review of the financial statements it was identified that the Statement of financial performance includes a line item fruitless and wasteful expenditure and does not reflect the nature of the expenditure relating to the fruitless and wasteful expenditure.

Finding 3

Paragraph 17 of GRAP 1: Presentation of Financial Statements, states that financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses as set out in the Framework for the Preparation and Presentation of Financial Statements. The application of Standards of GRAP with additional disclosures when necessary is presumed to result in financial statements that achieve a fair presentation.

In performing a review of the financial statements in pages 15 to 48 it was identified that of the annual financial statements make reference: Notes to the consolidated financial statements for the year ended 30 June 2016.



In the absence of investments in controlled entities the financial statements is not prepared on a consolidated basis and the word consolidated should not be used.

Finding 4

GRAP 1:129 "In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in the reported financial performance and financial position. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in the Standards of GRAP".

The accounting policies as listed below does not contribute to the understanding of the users of the transactions in the financial statements as the municipality does not have items disclosed that is being affected by these accounting policies. This should thus be removed from the accounting policies applied by the municipality.

- Heritage assets
- Impairment of non – financial assets

Finding 5

The annual financial statements have no reference to note 15 and seem to reflect incomplete disclosure in the financial statements. The number references to the notes should be revised.

Finding 6

In performing a review of the financial statements it was identified that in some cases the totals of the amounts to the notes of the financial statements as listed below does not agree to the amounts presented on the face of the financial statements.

Note reference	Amount per note	Line item affected	Amount per Statement of Financial Performance/Position	Cash Flow Statement	Comments
26	7 813 812	total councillor's remuneration	7 785 720		
11	1 987 896	additions		1 959 050	
18	2 171 788	total other debtors		2 171 782	
18	1 555 605	total other debtors	1 555 599		

Internal control deficiency

Financial management - Regular, accurate and complete financial reports

Management did not perform a complete review of the financial statements submitted for audit by ensuring that financial statement disclosures is presented in accordance with the GRAP reporting framework.

Recommendation

Management should implement processes ensuring that a complete review of the financial statements submitted for audit is performed for compliance thereof to the GRAP reporting framework and thus the Municipal Finance Management Act.

Management should amend the financial statements accordingly for the errors identified.

Management response

Management comment on the audit finding:

Management agrees with the audit finding of incorrect classification of exchange revenue items



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

Management will perform proper reviews on the GL accounts on a monthly basis to ensure that transactions are correctly classified:

- Note 26: Will be corrected.
- Note 11: Amount in cash flow excludes contributed PPE which is a non cash transaction
- Note 18: This amount does not appear in the cash flow statement
- Note 18: R6,00 Immaterial difference

Management comment on the recommendation:

Management will adjust the financial statements and disclose the exchange revenue items under the correct classification as recommended by the Auditor General.

Remedial action:

Finding 1 - Will be Corrected in AFS Finding

2 - Will be Corrected in AFS Finding 3 –

Corrected

Note reference	Amount per note	Line item affected	Amount per Statement of Financial Performance/ Position	Cash Flow Statement	Comments
26	7 813 812	total councillor's remuneration	7 785 720		Will be corrected.
11	1 987 896	additions		1 959 050	Amount in cash flow excludes Contributed PPE which is a non Cash transaction
18	2 171 788	total other debtors		2 171 782	This amount does not appear in the cash flow statement.
18	1 555 605	total other debtors	1 555 599		R6,00 Immaterial Difference

Remedial action:

The financial statements will be adjusted to disclose the exchange revenue items under the correct classification.

What actions will be taken:By whom:

Chief Accountant:
BTO, AFS,
Income and Bank
Reconciliations

By when:

28 October 2016

Auditor's conclusion

Management's response acknowledged. The adjustments had been confirmed upon receipt of the adjusted financial statements. As the internal control deficiency was identified the matter will remain and be followed up during the next audit cycle.



13. Non-disclosure of fruitless and wasteful expenditure in the Annual Financial statements

Audit finding

As per the Municipal Financial Management Act Circular No 68 of 10 May 2013

Register of unauthorised, irregular, fruitless and wasteful expenditure

"All instances of unauthorised, irregular, fruitless and wasteful expenditures must be reported to the mayor, the MEC for local government in the province, the Auditor-General, disclosed in the annual report, and to council as required by section 32(4) and 74 of the MFMA"

As per section 1 of the Municipal Financial Management Act No 56 of 2003, Fruitless and wasteful expenditure is defined as the following:

"Fruitless and wasteful expenditure means expenditure that was made in vain and would have been avoided had reasonable care been exercised."

During the testing of Value Added Tax, it was identified that penalty and interest of a total of R 6 055.71 was incurred during the current financial year from the South African Revenue Services (SARS) and meets the definition of fruitless and wasteful expenditure as per section 1 of the MFMA Act No 56 of 2003.

It was also identified that interest/penalty from SARS as disclosed in note 29 of the Annual Financial statements (AFS), as a result of correction of VAT per journal number E 434 has not been disclosed in the Fruitless and wasteful expenditure note.

This fruitless and wasteful expenditure identified as a result of penalty and interest from SARS was not disclosed in the Fruitless and wasteful expenditure note in the AFS.

This results in non-compliance with the Municipal Financial Management Act Circular No 68 of 10 May 2013 and section 32(4) of the MFMA Act No 56 of 2003.

Internal control deficiency

Financial and performance management

Review and monitor compliance with applicable legislation

Management did not ensure that all fruitless and wasteful expenditure is identified and subsequently disclosed in the Fruitless and Wasteful expenditure note in the financial statements as per Municipal Financial Management Act Circular No 68 of 10 May 2013.

Recommendation

Management should disclose the penalty and interest incurred from SARS as Fruitless and wasteful expenditure in note 40.2 of the Annual Financial statements.

Management response

Management comment on the audit finding:

The amount of R6, 055.71 as identified in the finding above, refers to penalties and interest charged by SARS on the November 2015 return. This was however subsequently disputed by Eden District Municipality - an ADR 1 (Notice of objection) was completed and is available for your perusal (back ground information: The VAT return of November 2015 submitted by Eden was selected for verification by SARS. Eden submitted supporting documentation and SARS amended their assessment as they found that certain invoices were invalid. Subsequently, Eden completed and submitted an ADR1 together with the invoices, which are indeed valid tax invoices and therefore the penalties and interest raised by SARS are incorrect. At the time of submission of the AFS, the ADR1 has not been finalised by SARS).

Therefore, no provision was made for this amount, as Eden is in disagreement with SARS.

The amount of R3, 337.51 as per note 29 refers to interests levied by SARS in the 2015/2016



financial year, but referring to previous periods. This the result of a long and extensive process to resolve outstanding queries with SARS, not because of Eden District Municipality's fault

As this was not a result of management oversight, management is of the opinion that the definition of fruitless and wasteful expenditure is not in fact met (not due to lack of reasonable care). Consequently, the amount was not disclosed in the AFS. However, as we regard the amount as immaterial, we will amend the AFS in an attempt to resolve this AG query.

Management comment on the internal control deficiency:

Disagree. In our opinion, it relates to a difference in interpretation of definition of fruitless expenditure

Management comment on the recommendation:

We will amend the AFS in an attempt to resolve this AG query.

Remedial action:

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

Auditor's conclusion

Management's response is acknowledged. The adjustment of R3 337,51 has been confirmed upon receipt of the adjusted financial statements.

The auditor's further inspected the South African Revenue Service supporting documentation and confirmed that Eden district owed South African Revenue Service.

Original non-compliance still stands. The finding has resulted in non-compliance with the MFMA but has been assessed as not being material non-compliance. The matter will remain in management report and will be followed up in next quarterly key controls assessments.

14. Related parties

As per GRAP 20 paragraph 10

Definition of a related party

Close members of the family of a person are those family members who may be expected to influence, or be influenced by that person in their dealings with the entity. As a minimum, a person is considered to be a close member of the family of another person if they:

- (a) are married or live together in a relationship similar to a marriage; or
- (b) are separated by no more than two degrees of natural or legal consanguinity or affinity.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Management comprises those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions.

A related party is a person or an entity with the ability to control or jointly control the other party or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- (a) A person or a close member of that person's family is related to the reporting entity if that person:
 - (i) has control or joint control over the reporting entity;
 - (ii) has significant influence over the reporting entity; or
 - (iii) is a member of the management of the entity or its controlling entity.
- (b) An entity is related to the reporting entity if any of the following conditions apply:
 - (i) the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
 - (iii) both entities are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
 - (vii) a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Section 45 of the Municipal Supply chain management regulations states:

Awards to close family members of persons in the service of the state – The notes to the annual financial statements of a municipality or a municipal entity must disclose particulars of any award above R 2 000 to a person who is a spouse, child, or parent of a person in service of the state, or has been in a service of the state in the previous 12 months, including –

- (a) name of that person;



- (b) capacity in which that person is in the service of the state; and
 (c) amount of the award

During the testing of the related parties, it was identified that the related party disclosure note 45.4 in the Annual Financial Statements includes other supply chain transactions which do not meet the definition of a related party in terms of GRAP 20 paragraph 10. The other supply chain transaction does not meet the definition of a related party and thus should not be included in the disclosure note of related parties. See extract of note 45.4 as per the annual financial statements:

Note 45.4 Other Supply Chain Transactions

The following purchases were made from close family members of persons in the service of the state :

Supplier	Employee	State Department	2016	2015
			R	R
IGB Trading	NM Boumeester	Eden District Municipality	30 327	-
Shabby to Chick	J Stander	Eden District Municipality	13 210	-
Zeelies Alein Control Services	A Wildeman (Roads)	Eden District Municipality	28 215	-
			71 752	-

The following purchases were made from Suppliers whose shareholders is in service of the state:

Supplier	Employee	State Department	2016	2015
			R	R
Juta & Company Ltd	JD Volmink – Director	North West University	-	10 061
Minolco (Pty) Ltd t/a Konica Minolta	KR Mthimunye – Director	State Information Technology Agency	-	23 780
Vodacom	V Jarana - Director	Legal Aid South Africa	-	900 712
African Oxygen (Pty) Ltd	C Wells – Director	Transnet	187	-
The Courier and Freight Group	JM Mathibe - Director	Rural Housing Loan Fund	76 060	-
Klein Karoo International	J du Preez - Director	SASRIA	13 075	-
Schindler Lifts (Pty) Ltd	Edward	IRBA	29 183	-
Nashua Mobile	D Nchoba - Director	NAT: Arts & Culture	-	676
AON South Africa (Pty) Ltd	MM Maponya – Director	NTP Radioisotopes	-	841 694
MK Construction t/a Africa Co	MA Kula - Member	EC: Health	-	-
			118 505	1 776 923

The disclosure of Other supply chain transactions in note 45.4 results in a misstatement of the Related parties transactions note.

Internal control deficiency

Financial and Performance Management: Regular, accurate and complete financial and performance reports.



Management did not ensure that the disclosure notes are presented in terms of the requirements of the applicable accounting standards which resulted in inaccurate disclosure of related party transactions.

Recommendation

The Other supply chain transactions note 45.4 should be removed from the Related party transactions disclosure note as per note 45 and be disclosed separately in the notes to the financial statements as per paragraph 45 of the Municipal Supply Chain Management Regulations.

Management response

Management comment on the audit finding:

Management agrees with the audit finding and has adjusted the note in the financial statements as per audit recommendation.

Auditor's conclusion

Management's response acknowledged. The adjustment had been confirmed on upon receipt of the adjusted financial statements. As the internal control deficiency was identified the matter will remain and be followed up during the next audit cycle.

Information systems

15. Password configuration settings not in line with ICT Security Management policy**Audit finding**

BAUD password configuration settings are not in line with the ICT Security Management policy in the following instances:

Password configuration setting	ICT Security Management policy	BAUD
Minimum password age (expiry)	30 days	No value set
Password history	6 passwords	No value set
Account lockout	3 unsuccessful attempts.	No value set
Minimum length	8 characters	No value set
Complexity	Enabled	No value set

The following ABAKUS password configuration setting is not in line with the ICT Security Management policy:

Password configuration setting	ICT Security Management policy	ABAKUS
Password history	6 previous passwords	No restriction

The above password setting weaknesses have been noted and formally risk accepted by management.

Weak password configuration settings could result in passwords being compromised. This could lead to unauthorised access to systems and in turn could impact the integrity of financial reporting information.

Internal control deficiency: System constrains / Limited system functionality (capability)

The municipality still utilises BAUD Foxpro, which is a version that does not have password policy functionality. Furthermore, due to the mSCOA compliance regulations, no upgrades can be done to applications that will have a financial impact to the municipalities.

Recommendation

BAUD and ABAKUS password setting weaknesses have been identified and formally risk accepted by management. No further action required.

Management response:	BAUD and ABAKUS password setting weaknesses have been identified and formally risk accepted by management.
Name, surname and position of responsible official:	Rhyn Alberts (Senior Officer Systems Support)
Target date for implementation:	N/A
Auditor's conclusion	Management comments are noted.

ANNEXURE C: ADMINISTRATIVE MATTERS

No matters were identified



ANNEXURE B**REPORT OF THE AUDIT AND PERFORMANCE AUDIT COMMITTEE**

We present our report for the financial year ended 30 June 2016.

RESPONSIBILITY

The EDEN DISTRICT MUNICIPALITY(hereinafter referred to as EDM) has constituted its Audit and Performance Audit Committee(hereinafter referred to as the Audit Committee) to function in terms of the provisions of Section 166 of the Municipal Finance Management Act, 2003 (MFMA).

TERMS OF REFERENCE

The Audit Committee is constituted in terms of the requirements of sound corporate governance practices and operates in accordance with a written charter that incorporates the specific requirements of section 166 of the MFMA. The Committee amended the charter to reflect the revised membership composition as approved by the Council. The Municipal Manager has signed the charter as confirmation.

COMPOSITION OF THE AUDIT COMMITTEE

At the end of the financial year ended 30 June 2016, the Audit Committee comprised of four independent members. An independent member chairs the committee. Both the internal and external auditors had unrestricted access to the Audit Committee during the year under review.

Said members are:

1. Mr. J. Stoffels (Independent Member and Chairperson) – re-appointed 01.09.2014
2. Mrs A. Potgieter – (Independent Member) re-appointed 01.11.2015
3. Mr N. Metelerkamp – (Independent Member) re-appointed 01.09.2014
4. Advocate D. Block - (Independent Member) appointed 01.03.2016

Advocate W.Olivier resigned on 31 October 2015 to take up a government position in Bloemfontein.

ACTIVITIES

The Audit met 6 times during the financial year ended 30 June 2016. We also had 7 monthly engagements with the Municipal Manager and other senior managers, where routine management matters are discussed.

We carried out the following functions in terms of our charter:

1. Reviewed and amended the Audit Committee Charter, and referred it to Council for approval.

2. Reviewed and approved the rolling and annual internal audit plans including the definition of audit units, audit universe, and prioritisation of audit coverage taking into account the outputs of the risk assessments performed.
3. Reviewed executive summaries of all internal audit reports issued.
4. Reviewed the reporting by internal audit on performance management and performance information.
5. Issued reports and recommendations to Council on performance management and performance information.
6. Reviewed the annual financial statements as at 30 June 2016, the Final Management Report of the Auditor General, as well as the Report of the Auditor-General on the annual financial statements and the findings of the Auditor General on predetermined objectives and compliance with certain laws and regulations, and their detailed management letter.
7. Performed assessments on the effectiveness of the Committee for review and comment by the Municipal Manager and for presentation to Council.
8. Deliberated on the implementation of mSCOA
9. Considered other matters as deemed appropriate.

AUDITOR GENERAL'S REPORT AND FINAL MANAGEMENT LETTER

(Please note that for the sake of convenience we will refer to the Auditor-General as the "A-G" in the rest of this report)

Report on the Annual Financial Statements

The municipality achieved a 3rd consecutive clean audit outcome, and we would like to take this opportunity to congratulate Council and management on this significant milestone.

We do not want to restate the pertinent issues highlighted in the A-G's Management Report for the year 2015/2016. These are detailed on pages 3 to 24 of said report, dated 30 November 2016. However, we want to draw Council's attention to the following issues of concern highlighted in these documents.

Significant Uncertainties

EDM is a defendant in the following lawsuits

- Lefatshe – Computer systems – R 9 329 213.00 ;
- A possible dispute with certain B-municipalities regarding properties registered in the name of EDM – R 68 163 662.00
- Uniondale Correctional Facility on behalf of the Dept of Public Works – R 8 323 662.00

This is not the first time that these issues are raised by the Office of the A-G. These issues have also been repeatedly discussed in meetings of the Audit Committee, and we urge Council to bring these matters to finality, as they could have a significant effect on the financial viability of EDM.

Human Resources Management

According to the A-G's Report, an assessment of human resource management has identified the following deficiencies:

Management of vacancies

- The overall vacancy rate at year-end increased from 10.49% in 2015 to 12.78% in 2016.

Competencies of key officials

- The head of supply chain management did not meet the minimum competency requirements as required by the Municipal Regulations on Minimum Competency Levels. Supply Chain Management is one of EDM's main risk areas, and Council should deal with this matter expeditiously.

Preparation of regular, accurate and complete financial and performance reports

According to the A-G's Report (see pages 10 and 11) management did not perform a complete review of the financial statements submitted for audit by ensuring that financial statement disclosures is presented in accordance with the GRAP reporting framework.

INTERNAL AUDIT

Internal Audit operates under a 3-year rolling Internal Audit plan, approved by the Audit Committee, and which has a significant current focus on financial internal controls. We have consistently argued that the internal audit unit has to be strengthened, because the unit still lacks the critical mass to effectively manage the Internal Audit Plan.

It is critical that Internal Audit's recommendations are addressed as a matter of urgency. The committee is concerned about the number and nature of recurring findings and the fact that a number of Internal Audit reports have been issued more than once without the necessary action being taken.

RISK MANAGEMENT

To maintain an overall positive perception of the municipality and confidence in the municipality from the public and other stakeholders, well planned goals and objectives should be coordinated and achieved within the municipality. Section 62(1) of the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003) stipulates that the Accounting Officer must take all reasonable steps to ensure that the municipality has and maintains an effective, efficient and transparent system of financial- and risk management and internal control as well as the effective, efficient and economical use of the resources of the municipality.

The municipality has instituted such a systematic and formalised process in order to identify, assess, manage and monitor risks which effectively ensures achievement of those planned goals and objectives. Thus, risk management is essentially a good governance measure instituted to ensure the municipality accomplish its vision, mission and strategic plans.

The municipality has an approved risk management policy, framework and implementation plan as approved by council. The policy is reviewed annually. The risk management function is facilitated internally by the Risk Officer who reports directly to the Municipal Manager. EDM's risk management process is audited by the Internal Audit unit on an annual basis.

The Risk Officer has issued a number of reports covering risk management including amongst others the Risk Assessment update and Review of risk treatment plans.

SPECIFIC FOCUS AREAS

Financial Viability

The A-G's audit included a high-level overview of the financial viability of EDM as at 30 June 2016. This financial viability assessment provides management with useful information for accountability and decision-making purposes and complements the financial statements by providing insights and perspectives thereon. According to the A-G report on page 17 :

“ the municipality's financial indicators are constantly improving. We commend the municipality for managing current liabilities against available liquid resources to finance the current liabilities. There has been an improvement on the debtor collection period even though provision for debtor's impairment increased almost three times. Overall, the municipality is financial sound and has a robust financial management system”.

Given the financial constraints of EDM, this is a commendable achievement.

Procurement and Contract Management

The audit included an assessment of procurement processes, contract management and the related controls in place.

A summary of the findings from the audit are as follows:

Irregular expenditure

R10,08 million of irregular expenditure incurred in 2016 was as a result of the contravention of SCM legislation. 5% of this irregular expenditure was identified during the audit process and not detected by the municipality's monitoring processes. The root cause is the lack of effective prevention and detection to ensure compliance with applicable legislation.

Procurement processes – general

- Invitations for competitive bids for the procurement of one (1) contract with a value of R38 988 were not advertised.
- An invitation for competitive bids for the procurement of one (1) contract was not advertised for the required minimum number of days.
- Three (3) contracts with a value of R432 385.00 were awarded without applying the preference points system.
- Two (2) contracts with a value R59 830.00 were not awarded to the supplier with the ability and capability to deliver the goods and services and lowest price.

Internal control deficiencies

The review and monitor of compliance with applicable laws and regulations were not adequately performed by management in relation to procurement and contract management

Emerging risks

- **mSCOA**

The mSCOA regulations were gazetted on 22 April 2014, which established the application of the mSCOA in local government as a legislated requirement. mSCOA will take effect on 1 July 2017 and will thus impact on the 2017-18 financial statements and audits of all local government auditees.

EDM is aware of the mSCOA requirements and has made good progress in ensuring that the municipality would be in a better position to implement mSCOA by the due date of 1 July 2017. The Audit Committee would like to thank Mr John Kruyt of the Development Bank of South Africa (DBSA) for the sterling work that he has done to assist EDM with this mammoth task.

What remains now is for Council to ensure that funding is made available to elicit the required capacity (competent staff, external expertise, training, etc) to ensure that EDM is able to implement mSCOA by 1 July 2017.

- **Theft of municipal assets**

The Audit Committee is extremely concerned about the increased occurrence of theft at EDM. Valuable assets of EDM have been stolen lately (eg. a fire engine). Council and management need to give this matter the urgent attention that it deserves, because it has a significant impact on the service delivery objectives of the organisation.

- **Environmental issues**

The current spate of fires raging in the Western- and Southern Cape is a disaster of immense proportions, and perhaps EDM, together with other municipalities in the region, should have a re-think about how to manage these disasters in future. The same argument goes for our drought relief plans for the future.

EVENTS AFTER THE REPORTING DATE

The August 2016 elections brought about a new Council.

We are hopeful that the relationship between the Audit Committee and the new Council and the Mayoral Committee and between the (new) Municipal Manager and his/her management team will be productive and provide the same positive liaison that is currently in place

CONCLUSION

The Audit and Performance Audit Committee acknowledges that the environment within which management is operating is difficult given the many challenges, and the fact that grant funding to District municipalities have decreased. There have also been ongoing changes to accounting practices, systems, policies and procedures (note mSCOA) which have been difficult to adopt especially given the scarcity of skills.

Last but not least ...a number of stakeholders and commentators have recently raised questions and concerns about the validity and credibility of “clean audit outcomes” achieved by municipalities, and the exorbitant costs involved in these external audits. The Audit Committee shares these questions and concerns, and would like to issue a word of caution about complacency in this regard. Yes, EDM has achieved a 3rd clean audit outcome in 2016, but there remain deficiencies in our practices, policies, procedures and systems, and these will be exacerbated by the introduction of mSCOA.

Our work is not done yet. We need to work even harder in future in order to improve the quality of the lives of the people we serve.

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J.STOFFELS – MEMBER AND CHAIRPERSON
(On behalf of the Audit Committee)

16 January 2017.