

MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THE EDUCATION LABOUR RELATIONS COUNCIL FOR THE YEAR ENDED 31 March 2016

SECTION: 1 EXECUTIVE SUMMARY

17 August 2016

Education Labour Relations Council
Private Bag X126
Centurion
Gauteng
0046

Dear Sir / Madam

REPORT TO MANAGEMENT FOR THE YEAR ENDED 31 March 2016

We have recently completed our final audit of the Education Labour Relations Council for the financial year ended 31 March 2016. This report addresses matters which came to our attention during the audit.

The matters raised in this report are only those which have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. Our report is not a comprehensive record of all the matters arising, and in particular we cannot be held responsible for reporting all risks in the Council.

This report is supplied on the basis that it is for the sole use of the parties to whom it is addressed and exclusively for the purposes set out herein. No party other than those to whom it is addressed may rely upon this report for any purpose whatsoever. Copies may be made available to the addressees' advisors provided that the report is to be used by them solely for the purposes stated herein and provided that they are made aware of the terms of this paragraph. It must not be made available or copied in whole or in part to any other party without our prior express written consent, which consent may be given or withheld at our absolute discretion. This limitation will obviously not apply to the provision of this report in compliance with any order of court, subpoena or other judicially enforceable directive.

Scope of our service

The establishment and maintenance of an internal control structure, necessary to provide reasonable assurance that adopted policies and prescribed procedures are adhered to for the prevention of errors and irregularities, including fraud and illegal acts, rest with management.

Our audit is designed to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements. However, there are inherent limitations in an audit.

Thus, irregularities, if they exist, may not be detected. Moreover, because of the characteristics of irregularities, including concealment through collusion or forgery, a properly designed and executed audit may not necessarily detect a significant irregularity.

In seeking to achieve a cost-effective audit we also take into account your overall approach to controls in the Council and particularly the main information systems used by management for decision-making. In our experience these are the keys to effective control. Naturally, our emphasis is on financial information. As part of our audit engagement we report to management any significant weaknesses in, or our observations on, the internal control structure and other areas which come to our notice, and which we consider should be brought to your attention.

Audit approach

Our audit approach is risk-based and as such we continually attempt to identify and assess risks throughout the audit process.

The principal objective of our audit procedures is to enable us to express our opinion on the fair presentation of the financial statements as a whole. An audit opinion is based on the concept of reasonable assurance.

We consider controls primarily at the corporate level and in overall terms. We cannot in practice examine every operating activity or accounting procedure in the Council, nor can we substitute for management's responsibility to maintain adequate controls at all levels of the business. Our work, therefore, cannot be expected to identify all weaknesses in your systems and procedures, which a special investigation directed at those systems and procedures might reveal.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform our audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- ◆ examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,
- ◆ assessing the accounting principles used and significant estimates made by management, and
- ◆ evaluating the overall classification of financial information in the financial statements.

As our audit procedures rely on selective tests of the accounting records and only those controls we wish to place reliance upon, they may not necessarily disclose all weaknesses in the systems of internal control and accounting procedures which a more comprehensive examination may have revealed.

Objective

We consider it an important part of our audit service to contribute to our clients our experience of good management practice in those areas that we necessarily need to consider for our audit. Our objective is to help management, over and above our duties.

To this end, we have identified areas where we believe that improvements could contribute to increased efficiency and better internal controls within Education Labour Relations Council.

We would like to thank the management and personnel of the Council for the co-operation and hospitality during our audit.

Findings

A detailed management report has been issued and discussed with management. We table this report under the following headings:

- Management of performance information
- Finance
- Information Technology
- Supply Chain Management
- Irregular and Fruitless expenditure

Yours faithfully

Ngubane & Co (JHB) Inc

Education Labour Relations Council

SECTION 2: SUMMARY OF DETAILED FINDINGS

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SECTION 3: DETAILED AUDIT FINDINGS

SIGNIFICANT MATTERS

Performance Information

1. Targets not reported consistently

In terms of the Performance information management policy, 12.4.2 the Annual report must include the performance targets as per the Annual Performance Plan.

Audit Finding

During the audit it was noted on the Annual report that the performance targets for the indicators detailed below were not reported consistently as per the Annual performance plan:

Table 01: Dispute Management Services:

No	Programme	Performance indicator	Performance target as per Annual report	Performance target as per Annual performance plan
1	Dispute Management Services	To schedule cases for arbitration within 45 days after conciliation	All cases within 45 days	All cases scheduled within 45 days
2		Quality Control (QC) done in all arbitration awards concluded during the financial year	All cases awarded	Quality Control (QC) done in all arbitration awards concluded during the financial year

Table 02: National: Collective Bargaining Services

No	Programme	Performance indicator	Performance target as per Annual report	Performance target as per Annual performance plan
1	Collective Bargaining Services	Schedule bargaining and governance meetings within fourteen (14) days from date of agreement	All ad hoc meetings schedule within fourteen (14) days	Schedule bargaining and governance meetings within fourteen (14) days from date of agreement
2		Issue notice to parties for scheduled meetings within fourteen (14) days	All meetings schedule within fourteen (14) days	Issue notice to parties for scheduled meetings within fourteen (14) days
3		Annually table the management plans for approval for the next bargaining cycle	Table management plans annually	Annually table the management plans for approval for the next bargaining cycle

Table 03: Provincial: Collective Bargaining Services

No	Programme	Performance indicator	Performance target as per Annual report	Performance target as per Annual performance plan
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1	Collective bargaining services	Teacher Development Monitoring reports on provision of teacher development programs	Meetings (2)	Meetings (1)
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Indicators not reported consistently

During the audit it was noted on the Annual report that the performance indicators detailed below were not reported consistently as per the Annual Performance Plan:

Table 04: National

No	Programme	Sub Programme	Performance indicator as per Annual report	Performance indicator as per Annual performance plan
1	Collective bargaining services	Collective bargaining	Schedule ad hoc meetings within fourteen (14) days from date of agreement	Schedule bargaining and governance meetings within fourteen (14) days from date of agreement
2			Issue notice for scheduled meetings within fourteen (14) days	Issue notice to parties for scheduled meetings within fourteen (14) days

Internal control deficiency

Management did not adequately review the Annual report against the Annual Performance Plan (APP) to ensure that all the performance targets and indicators are consistent

Recommendation

Management should adequately review the Annual report against the Annual Performance Plan to ensure that all the performance targets and indicators are consistent.

Management should correct the performance targets and indicators in the Annual Report with the targets and indicators in the Annual Performance Plan to ensure that all the targets and indicators are consistent between the two documents.

Management response

Agree and accept the findings. The management will look into them and align all of them as per the recommendations. Consistent reporting of target are corrected in the APP for 2016/17 financial year.

Name: Matlose Moela

Designation: Senior Manager: DMS

Date: 10/08/2016

Name: Selaelo Moloisi

Designation: Senior Manager: CBS

Date: 10 August 2016

Auditor's conclusion

Management comment noted. Management has to correct the Annual report for 2015/2016 to clear this issue; therefore we will wait for updated Annual report. However the finding remains.

2. Targets planned not specific

In terms of the Performance information management policy, “13 Quality of Performance Information”, the Performance indicators that are reliable, well defined, verifiable, cost effective, appropriate and relevant should be sought, with baseline information and targets expressed in terms of actual numbers. Performance targets should be **SMART**.

In terms of the Performance information management policy, “1 Definitions”, **Performance targets** express a specific level of performance that the institution, programme or individual is aiming to achieve within a given time period.

Performance standards express the minimum acceptable level of performance, or the level of performance that is generally expected. These should be informed by legislative requirements, policies and service-level agreements. They can also be benchmarked against performance levels in other institutions, or according to accepted best practices.

The decision to express the desired level of performance in terms of a target or a standard depends on the nature of the performance indicators. Often standards and targets are complementary. **For example**, “the standard for processing pension applications is 21 working days, and a complementary target may be to process 90 per cent of applications within this time”.

Audit Finding

During the audit it was noted on the Annual performance plan that the performance standards were used as targets without specifying or complementing it with performance targets for the indicators detailed below, therefore the performance targets were not expressed in terms of numbers, percentage, ratio and absolute terms:

Table 01: National

No	Programme	Indicator	Performance target
1	Dispute Management Services	Scheduling cases in jurisdiction for conciliation within 30 days of receipt	Scheduling cases in jurisdiction for conciliation within 30 days of receipt
2	Dispute Management Services	To schedule cases for arbitration within 45 days after conciliation	All cases scheduled within 45 days
3	Dispute Management Services	Quality Control (QC) done in all arbitration awards concluded during the financial year	Quality Control (QC) done in all arbitration awards concluded during the financial year
4	Collective Bargaining Services	Schedule bargaining and governance meetings within fourteen (14) days from date of agreement	Schedule bargaining and governance meetings within fourteen (14) days from date of agreement
5	Collective Bargaining Services	Issue notice to parties for scheduled meetings within fourteen (14) days	Issue notice to parties for scheduled meetings within fourteen (14) days
6	Collective Bargaining Services	Annually table the management plans for approval for the next bargaining cycle	Annually table the management plans for approval for the next bargaining cycle
7	Collective Bargaining Services	Administer resources allocated to approved research programmes	Administer resources allocated to approved research programmes

Through inspection of the Annual Report (2015/2016) and the Annual Performance Plan (2015/2016) it was noted that the performance information reported on for the targets being the outcomes/output desired is not specific for the indicators detailed below:

Table 02: Provincial

No	Indicator	Target	Auditor's comment
1	Post Provisioning A consolidated report on the consultation process for post provisioning is available	Reports (4)	The outcome measure for this indicator is reports, however the actual outcome reported was measured in terms of meetings
2	Incentives for Educators Monitoring reports on the implementation of incentives for educators are available	Meetings (4)	The outcome is not the meetings but the actual reports which must be submitted by the Provinces.
3	Employee Wellness Monitor the introduction and implementation of Employee wellness activities	Facilitate and convene meetings in line with the ELRC constitution for tabling of reports	Meetings as measure of the indicator was not specified in terms of numbers or percentage or ratio.
4	Teacher Development Monitoring reports on provision of teacher development programs	Meetings (1)	The outcome is not the meeting but the actual reports which must be submitted by the Provinces.
5	Dispute Prevention Monitoring reports on the categories and status of the Grievances, Misconduct and disputes lodged	Meetings (4)	The outcome is not the meetings but the actual reports which must be submitted by the Provinces.

Internal control deficiency

Management did not ensure that the Performance Information Management Policy include the difference between performance standard and performance target.

Recommendation

Management should ensure that a performance standard is not used as a performance target.

In setting performance targets for new financial year, management should identify the baseline, which in most instances is the level of performance recorded in the year prior and use it as a target as it is suitable and ELRC aims to improve on its current performance going forward.

Management should ensure that performance targets are expressed in terms of numbers, percentage, ratio and absolute terms. And they are achievable.

Management should ensure that the time period or deadline for delivery is specified for each performance target so that all the indicators can add value and assist ELRC in improving its performance in the future.

Management response

Agree and accept the findings. Targets have been reviewed to accommodate the SMART principles in the 2016/17 financial year

Name: Matlose Moela

Designation: Senior Manager-DMS

Date: 10/08/2016

CBS National – Disagree with the findings. The scheduling of meetings within 14 days in within our Committee Work Procedure which is our standard manual procedure. As administrators, we do not have control over how many meetings parties will require. The issue is not in our control. The same applies to issuing of notices, when parties agrees on a date for meeting, a notice is issued an as to how many dates are agreed on, we do not have control over that. On the issue of annually tabling the management plan, the indicator is clear, once a year. The identification and approval of research programs is done by parties and administrators have no control over the number of identified and approved research programs. It's not in our control.

CBS Provincially – Agree and accept the findings. The management will implement as per the recommendations.

Name: Selaelo Moloisi

Designation: Senior Manager

Date: 10 August 2016

Auditor's conclusion

Management comments noted. This will be followed up in the next financial year, however the finding remains and it will be reported as significant finding.

3. Conciliation cases within 30 days issues

In terms of the indicator's definition, only cases in jurisdiction that have been scheduled for conciliation within 30 days should be included.

Audit Finding

During the audit it was noted that the cases detailed below were not scheduled for conciliation within 30 days, however these were included in the cases that were scheduled for conciliation within 30 days:

Table 01

No	CASE NO.	PROVINCE	JURISDICTION	NATURE	Date received per checklist	Scheduled conciliation date per letter to applicant	No of days before conciliation
1	PSES683-15/16	MP	In	Dismissal	8-Jan-16	8-Feb-16	-31
2	PSES729-15/16	KZN	In	Collective agreement	15-Jan-16	19-Feb-16	-35
3	PSES789-15/16	LP	In	Dismissal	19-Feb-16	23-Mar-16	-33
4	PSES804-15/16	KZN	In	App/prom	29-Feb-16	31-Mar-16	-31
5	PSES805-15/16	KZN	In	App/prom	29-Feb-16	31-Mar-16	-31
6	PSES806-15/16	KZN	In	App/prom	29-Feb-16	31-Mar-16	-31
7	PSES844-15/16	KZN	In	App/prom	15-Mar-16	15-Apr-16	-31
8	PSES845-15/16	EC	In	Collective agreement	15-Mar-16	15-Apr-16	-31
9	PSES852-15/16	MP	In	ULP-Other	17-Mar-16	19-Apr-16	-33
10	PSES488-15/16	EC	In	ULP-Other	9-Oct-15	20-Nov-15	-42
11	PSES602-15/16	WC	In	App/prom	25-Nov-15	18-Jan-16	-54
12	PSES636-15/16	KZN	In	Collective agreement	8-Dec-15	8-Jan-16	-31
13	PSES256-15/16	KZN	In	Collective agreement	6-Jul-15	6-Aug-15	-31
14	PSES281-15/16	NW	In	Dismissal	22-Jul-15	24-Aug-15	-33
15	PSES288-15/16	EC	In	App/prom	22-Jul-15	28-Aug-15	-37
16	PSES296-15/16	GP	In	Dismissal-Learner	24-Jul-15	24-Aug-15	-31
17	PSES177-15/16	EC	In	App/prom	9-Jun-15	16-Jul-15	-37
18	PSES62-15/16	GP	In	App/ Prom	30-Apr-15	1-Jun-15	-32
19	PSES112-15/16	FS	In	Collective Agreement	21-May-15	22-Jun-15	-32
20	PSES144-15/16	NW	In	Dismissal	4-Jun-15	6-Jul-15	-32
21	PSES152-15/16	NW	In	Dismissal	5-Jun-15	7-Jul-15	-32
22	PSES154-15/16	NW	In	Dismissal	5-Jun-15	7-Jul-15	-32
23	PSES173-15/16	MP	In	Dismissal	12-Jun-15	13-Jul-15	-31
24	PSES208-15/16	FS	In	Collective Agreement	19-Jun-15	20-Jul-15	-31
25	PSES46-15/16	KZN	In	App/prom	15-May-15	15-Jun-15	-31

It was further noted that the cases detailed below that are out of jurisdiction have been included as part of the in jurisdiction cases that were scheduled for conciliation within 30 days.

Table 02

No	CASE NO.	PROVINCE	JURISDICTION	NATURE	DATE RECEIVED PER CHECKLIST
1	PSES455-15/16	NC	Out	ULP-Other	28-Sep-15
2	PSES456-15/16	NW	Out	ULP-Other	28-Sep-15

Internal control deficiency

Management did not ensure it regularly reviews the register of cases in jurisdiction cases that were scheduled for conciliation within 30 days

Recommendation

Management should create an excel spreadsheet register that will automatically calculate the number of days from the date of receipt of the case to the date of conciliation using formulas such as the IF function, etc. This spreadsheet should be protected to ensure that no unnecessary changes are made and improve its credibility.

By using the formulas from excel management can ensure that only in jurisdiction cases are included.

Management should remove these cases from the conciliation cases register for cases scheduled for conciliation within 30 days.

Management response:

Agree and accept the findings. The calculation of days was done manually without considering that the other months end on the 31st. We have since requested the Auditor to give us the formulas for calculation of days so that same errors cannot be repeated.

Name: Matlose Moela

Designation: Senior Manager-DMS

Date: 10/08/2016

Auditor's conclusion

Management comments noted. We will wait for the updated conciliation cases register for cases scheduled for conciliation within 30 days

4. Arbitration cases within 45 days issues

In terms of the indicator's definition, only cases scheduled for arbitration within 45 days after conciliation that should be included.

Audit Finding

During the audit it was noted that the cases detailed below were not scheduled for arbitration within 45 days, however these were included in the cases that were scheduled for arbitration within 45 days:

Table 01

No	CASE NO.	PROVINCE	CON DATE	ARBITRATION DATE	NO OF DAYS BEFORE ARBITRATION
1	PSES770-15/16	KZN	3-Mar-16	29-Apr-16	-57
2	PSES549-15/16	LP	25-Nov-15	19-Jan-16	-55
3	PSES575-15/16	LP	1-Dec-15	19-Jan-16	-49
4	PSES583-15/16	WC	8-Dec-15	10-Feb-16	-64
5	PSES232-15/16	NW	6-Aug-15	22-Sep-15	-47
6	PSES304-15/16	KZN	14-Aug-15	29-Sep-15	-46
7	PSES30-15/16	GP	12-May-15	13-Jul-15	-62
8	PSES50-15/16	EC	28-May-15	15-Jul-15	-48
9	PSES56-15/16	EC	28-May-15	14-Jul-15	-47

Internal control deficiency

Management did not ensure it regularly reviews the register of arbitration cases that were scheduled within 45 days after conciliation.

Recommendation

Management should create an excel spreadsheet register that will automatically calculate the number of days from the date of conciliation to the date of arbitration using formulas such as the IF function, etc. This spreadsheet should be protected to ensure that no unnecessary changes are made and improve its credibility.

Management response:

Agree and accept the findings - PSES770-15/16; 232-15/16; 304-15/16; 30-15/16; 50-15/16; 56-15/16.

Disagree with PSES21; 289; 46 and 350-15/16 as only the last date of arbitration was considered (Correct dates have been inserted on the table). Cases PSES549-15/16; 575-15/16; 583-15/16 were affected by 08 December to 04 January which were declared to be shut-down periods as schools were closed and no matters could have been scheduled on those dates.

Name: Matlose Moela

Designation: Senior Manager- Dispute Management Services

Date 10/08/2016

Auditor's conclusion

Table 01: Management comment noted, Cases PSES549-15/16; 575-15/16 and 583-15/16 are not cleared as there is no formally documented definition that states that cases that are affected by 08 December to 04 January which were declared to be shut-down periods as schools were closed should be an exception in the calculation. PSES21; 289, 46 and 350-15/16 were cleared.

5. Awards recorded in the incorrect financial year

Audit Finding

During the audit it was noted that the awards detailed below were incorrectly recorded in the current financial year under audit instead of their respective financial years:

Table 01

No	CASE #	DATE OF AWARD	PANELIST	NOTES BY THE REVIEWER	CORRECT FINANCIAL YEAR
1	PSES214-15/16EC	7-Apr-16	R Johnathan	Dear Sonja. I have made certain editorial changes. The award can be issued	2016-2017
2	PSES554-13/14NW	8-Apr-16	R De Wet	This award may be sent out without any changes	2016-2017
3	PSES177-15/16EC	24-Apr-16	C Van Der Berg	Dear Susan. The award should be sent back to the arbitrator to correct. I have edited the award and made some changes to the layout. Attached is a list of comments that the arbitrator should consider when amending the award. The award can be returned to me once redone.	2016-2017
4	PSES394-14/15FS	14-Mar-15	M van der Merwe	Award may go out. Award can be sent out.	2014-2015

Internal control deficiency

Management did not ensure it adequately reviews the awards to ensure that these are recorded in correct financial year and dated.

Recommendation

Management should remove these awards from the awards register for this financial year to the respective financial years.

Management should ensure that all the awards are dated.

Management response:

Accept and agree with finding. Management will ensure that only awards received on the same quarter are reported on.

Name: Matlose Moela

Designation: Senior Manager- Dispute Management Services

Date 10/08/2016

Auditor's conclusion

Management comments noted. The finding remains.

6. Wording incorrect in the annual report

Audit Finding

It was further noted that the actual achieved for the indicator detailed below is 2 meetings and it further detailed that 4 meetings as per the dates below were held, therefore, this is a contradiction:

Table 01

No	PROGRAMME PERFORMANCE INDICATOR	PLANNED TARGET 2015/2016	ACTUAL ACHIEVEMENT 2015/2016	PROVINCE
1	Teacher Development Monitoring reports on provision of teacher development programs	Meetings (2)	Achieved Two (2) meetings were convened during the period under review on Teacher Development Meeting dates: 15th June 2015 30th September 2015 3rd December 2015 15th March 2016	Western Cape

During the audit it was noted that the dates for the following indicators were incorrectly captured:

Table 02

No	PROGRAMME PERFORMANCE INDICATOR	PLANNED TARGET 2015/2016	ACTUAL ACHIEVEMENT 2015/2016	CORRECT DATE	PROVINCE
1	Post Provisioning A consolidated report on the consultation process for post provisioning is available	Reports (4)	4th March 2015	4th March 2016	Free State
2	Incentives for Educators Monitoring reports on the implementation of incentives for educators are available	Meetings (4)	15th February 2015	15th February 2016	Western Cape
3	Employee Wellness Monitor the introduction and implementation of Employee wellness activities	Meetings (4)	One (1) scheduled meeting was postponed as Parties did not form a quorum on the day of the meeting.	30th March 2016	Kwazulu Natal
4	Dispute Prevention Monitoring reports on the categories and status of the Grievances, Misconduct and disputes lodged	Meetings (4)	11th March 2015	11th March 2016	Gauteng

Internal control deficiency

Management did not ensure it adequately reviews the annual report to ensure that the wording is correct and the information is not contradicting itself throughout the indicators.

Recommendation

Management should correct the wording in the annual report to “Over achieved” for this indicator and for the meetings held it should put in the correct dates.

Management should adequately review the annual report to ensure that the information is accurate.

Management response:

CBS on Western Cape- the finding is noted however it was just indicating an over-achievement by two and going forward we will not repeat the same.

CBS on Western Cape, Free State, KZN and Gauteng regarding the incorrect capturing of dates, we note the finding and still to double check if there was no typo errors.

Name: Selaelo Moloisi

Designation: Senior Manager

Date: 10 August 2016

Auditor’s conclusion

Management comments are noted. The finding remains and it will be cleared after the annual report has been corrected.

7. Indicators not well defined in the Annual Performance Plan

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. National Treasury Framework for Managing Programme Performance Information states that:

“An institution should use standards and targets throughout the organisation, as part of its internal management plans and individual performance management system.

A useful set of criteria for selecting performance targets is the "SMART" criteria:

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

Measurable: the required performance can be measured

Achievable: the target is realistic given existing capacity

Relevant: the required performance is linked to the achievement of a goal

Time-bound: the time period or deadline for delivery is specified.”

Audit Finding

Based on the audit of the Annual Performance Plan the following indicators were identified as not being well-defined:

Collective Bargaining Services

No	Indicator	Target	Comment
1	Schedule bargaining and governance meetings within fourteen (14) days from date of agreement	Schedule bargaining and governance meetings within fourteen (14) days from date of agreement	Based on the discussion with Management it was noted that the indicator relates to schedule bargaining and governance meetings from date of agreement for more than 14 days in between the date of the meeting and the date on which a notice was issued. From the indicator itself, we conclude that the indicator is not well-defined since it does clearly state that this applies to Schedule bargaining and governance meetings within fourteen

			(14) days from date of agreement.
2	Issue notice to parties for scheduled meetings within fourteen (14) days	Issue notice to parties for scheduled meetings within fourteen (14) days	Based on the discussion with Management it was noted that the indicator relates to issue notice to parties for scheduled meetings more than 14 days in between the date of the meeting and the date on which a notice was issued. From the indicator itself, we conclude that the indicator is not well-defined since it clearly state that this applies to issue notice to parties for scheduled meetings within fourteen (14) days.

Internal control deficiency

Management did not ensure it complete the indicators.

Recommendation

Management should ensure that all the indicators are well defined by completing the Technical Indicator Description attached as Annexure A.

Trainings should be initiated for the employees in regards to the completion of the Technical Indicator Description to ensure that all the indicators are SMART.

Management response

Agree with the finding.

Management has ensured that the performance indicators for the 2016/17 APP conforms to the SMART criteria.

*Name: Selaelo Moloisi
Designation: Senior Manager
Date: 10 August 2016*

Auditor's conclusion

The following Technical indicator description should be completed and approved as separate document for each and every indicator in the Annual performance plan yearly

Technical indicator descriptions	
Indicator title	Identifies the title of the strategic outcome oriented goal, objective or Programme performance indicator
Short definition	Provides a brief explanation of what the indicator is, with enough detail to give a general understanding of the indicator
Source/collection of data	Describes where the information comes from and how it is collected
Method of calculation	Describes clearly and specifically how the indicator is calculated
Data limitations	Identifies any limitation with the indicator data, including factors that might be beyond the council's control
Type of indicator	Identifies whether the indicator is measuring inputs, activities, outputs, outcomes or impact, or some other dimension of performance such as efficiency, economy or equity
Calculation type	Identifies whether the reported performance is cumulative, or non-cumulative
New indicator	Identifies whether the indicator is new, has significantly changed, or continues without change from the previous year
Desired performance	Identifies whether actual performance that is higher or lower than targeted performance is desirable
Indicator responsibility	Identifies who is responsible for managing and reporting the indicator

Finance

8. Recording of expenditure

Audit finding

While testing the design and implementation of controls on expenditure, it came to our attention that expenditure is not being recorded according to the ELRC finance manual.

- Supplier invoice IN000905 Magnolia Ridge Properties
- According to management, the payment certificate must be prepared according to the suppliers invoice. The payment certificate was not prepared using the invoice; the electronic transfer form was used instead.
- Amount as per invoice R 135 115.03
- Amount as per payment certificate R 136 916.62
- The invoice number as per transfer form (IN000897) did not agree to the supplier's invoice number (IN000905).

Recommendation

We recommend that the recording of expenditure must be performed according to the steps provided in the finance manual.

Management Response

Agree and accept the finding. Prior to current financial year, payment certificates were not prepared by the supply chain management unit for lease contracts. Supply Chain Management standard operating procedures for contract management, requires that accurate and up to date payment certificates be prepared for each contract. The supply chain manager and chief financial officer must review and attach their signatures as evidence of review on a monthly basis. Payment certificates must be updated with the supplier invoices for services rendered or goods received upon receipt of the same.

Subsequently, payment certificates are being prepared for all contracts of lease nature.

Name: Mrs. Nthabiseng Shadung

Designation: Chief Financial Officer

Date: 10 August 2016

Auditors Conclusion

Management's comment is noted and the finding remains.

9. Performance Bonus

Audit finding

During the audit it was noted that performance bonuses are recorded in the financial statements only when it is paid, that is on a cash basis.

Staff performance is measured from 1 April to 31 March each year. Performance bonuses are payable in the following financial year once the executive committee (EXCO) has approved the bonus. Performance bonuses must therefore be accounted for at the end of the financial year and not when it is actually paid.

Recommendation

We recommend that performance bonus be recorded at the end of each year as follows:

- Dr Performance bonus
- Cr Performance bonus payable (Liability)

Once the performance bonus is paid in the next financial year we recommend the following:

- Dr Performance bonus payable (Liability)
- Cr Bank

Management Response

Agree and accept the finding. Performance bonus were reported in the financial statements when they are paid. Accrual basis of accounting only becomes applicable when an obligation (liability) arises.

The Council's obligation in respect of performance bonus only arise when the Executive Committee has evaluated the results of the performance evaluation committee and satisfied themselves that funds are available to pay the bonus.

Subsequent to EXCO's approval of the performance bonus in July 2016, financial statements and records were adjusted to record the liability.

Name: Mrs. Nthabiseng Shadung

Designation: Chief Financial Officer

Date: 10 August 2016

Auditors Conclusion

Management's comment is noted and the finding remains.

10. Annual bonus

Audit finding

During the audit we noted that no provision is made for annual bonus as at the end of the year. The annual bonus cycle ends in December and the bonus is payable in December.

Employees would have worked for three months from January to March as at the end of the year. Since employees are entitled to the pro rata annual bonus, ELRC has an obligation to pay the annual bonus for the three months should an employee for instance resign. It is from this basis that provision should be made at the end of the year for annual bonus.

Recommendation

We recommend that a provision should be raised for the three months at the end of the year.

- Dr: Annual Bonus Expense
- Cr: Annual bonus provision

The amount of the journal is determined as follows:

- $(3/12) * \text{salary of each employee entitled to the annual bonus.}$

Management response

Agree and accept the finding. Accrual basis of accounting requires that a liability be reported in the financial statements when an obligation arises and a related expense also be recorded in the statement of financial performance.

Annual bonus liability must be recorded in the financial statements at the end of each completed month of services as the obligation has arisen.

Management have subsequently adjusted the financial statements and records to report the liability and the related expense.

Name: Mrs. Nthabiseng Shadung

Designation: Chief Financial Officer

Date: 10 August 2016

Auditor's conclusion

Management's comment is noted and the finding remains.

11. Accruals

Audit finding

During the audit it came to our attention that there were items on the accruals listing which were not liabilities at year end. The items listed below were included on the accrual listing at year end, which should have not been part of the listing;

- 11.1. Order forms are prepared by DMS (Dispute Management Services) according to the individual cases from teachers or their representatives. Dates for the hearing are set based on the availability of the Commissioner. The following information is recorded on the order form dates of hearing, case number, panellist and or interpreter.

In the event that a hearing is cancelled or postponed to a later date, a cancellation book is prepared by DMS and hand delivered to Supply Chain Manager (Y. Baninzi) with the instruction to cancel the orders.

An email was sent to DMS Manager (L. Mogotsi) on 21 August 2016 requesting the postponement of Case Nr; PSES130 -13/14 KZN, the Panellist being Anand Dorasamy and the Interpreter Nkabinde CS.

It appears that DMS did not action or respond to this request. A follow up email was sent again on 26 August 2016 to the Case Management Officer (S. Nagel). The purchase order was not recorded in the cancellation book and not sent to SCM for cancellation.

Towards the end of the year on 16 February 2016, a Finance Officer (L. Makgato) sent a list of open orders to DMS for DMS to indicate which matters have been heard. She requested that the cancelled hearings be sent to SCM for cancellation. The email was sent to Case Management Officers (A. Phokojoe and S. Nagel) as well as DMS Manager (L. Mogotsi). No follow up of this email was done.

After discussion with SCM and DMS management it appears that no email was sent to SCM for orders to be cancelled nor were the orders recorded in the cancellation book.

Recommendation

We recommend the journal below to be posted as an adjustment;

- **9400/001 Accruals Panellists 12 687,00**
- **1002/001 Arbitration rate 12 687,00**

Management Response

Agree and accept the finding. SCM standard operating procedures require that orders be cancelled subsequent to written confirmation of the end-user instructing the SCM manager to cancel orders.

Finance department standard operating procedure requires that accruals be raised for all open orders for which services or goods have been received.

Management have subsequently adjusted the financial statements and records to reduce the accruals with the cancelled orders.

- 11.2. An order form was created for a panellist and paid during the year. Duplicate orders were prepared by DMS on the same date for RV Naidoo. One of the orders was not cancelled

and it was not sent to SCM. When the payment pack was prepared by SCM, Finance department was able to only link one of the purchase orders to the invoice payment, leaving the other order as open and transferred to the accrual listing.

Recommendation

Below is a journal to cancel the order

- **9400/001 Accruals Panellists 3 600,00**
- **1001/001 Conciliation rate 3 600,00**

Management Response

Agree and accept the finding. SCM standard operating procedures require that orders be cancelled subsequent to written confirmation of the end-user instructing the SCM manager to cancel orders.

Finance department standard operating procedure requires that accruals be raised for all open orders for which services or goods have been received.

Management have subsequently adjusted the financial statements and records to reduce the accruals with the cancelled orders.

11.3. An order form was created for a panellist and paid during the year. HR (Human Resources) requested for the services of Mr Mafa for disciplinary hearing of an employee in September 2015. An internal submission was prepared by the Senior Manager Corporate Services (O. Makofane) after the hearing, as she was not aware of the process of preparing order forms. The internal submission was prepared in support of the invoice payment checklist requesting a deviation from normal SCM procedures. A purchase order was generated previously on 30/07/2015 by Mrs Estelle Posthumus for the same disciplinary hearing. It is not yet confirmed what information she used to raise the order.

Recommendation

Below is a proposed journal to remove the accrual;

- **9400/001 Accruals panellists 10 000,00**
- **2175/002 DC-Legal Cost-HR 10 000,00**

Management Response

Agree and accept the finding. SCM standard operating procedures require that orders be prepared for all services or goods required subsequent to receipt of the written request from the end-user.

Finance department standard operating procedure requires that accruals be raised for all open orders for which services or goods have been received.

We acknowledge that procedures were not followed. Management have subsequently adjusted the financial statements and records to reduce the accruals with the cancelled orders and enforce that SCM procedures be followed.

11.4. An order form was created by DRS for placing displaced employees by Adv L Bono on 12/11/2015. An invoice was received from Advocate Luvuyo Bono on 8 December 2015. DRS did not attach the specific order form as additional supporting documentation. Therefore the payment pack prepared by SCM did not include the purchase order. The payment for the invoice was not linked to that purchase order by Finance. Payment was made by Finance without the purchase order.

Recommendation

Below is a proposed journal for reclassification

- **9400/001 Accruals panellists 5 000,00**
- **1008/006 Dispute Prevention - Rate 5 000,00**

Management Response

Agree and accept the finding. DMS must attach to the invoice payment checklist, the order linked to the invoice or claim.

Finance department standard operating procedure requires that all invoices prepared for payment should be linked to open purchase orders on the Pastel system. An accrual list will be prepared incorporating all open orders for which services or goods have been received.

We acknowledge that procedures were not followed. Management have subsequently adjusted the financial statements and records to reduce the accruals with the orders paid and enforce that DMS and finance procedures be followed.

11.5. An order form was created for a panellist and paid during the year 2014. The payment pack for L Bono included the invoice and purchase order. This invoice was not linked to the order to remove it from the accrual list by Finance. L Bono was paid during the 2014 year on 24/11/2014.

Recommendation

Below is a proposed journal for reclassification

- **9400/001 Accruals Panellists 15 000,00**
- **5200/000 Retained Income 15 000,00**

We recommend that these accruals be reclassified according to the journals proposed above.

Management Response

Agree and accept the finding. Finance department standard operating procedure requires that all invoices prepared for payment should be linked to open purchase orders on the Pastel system. An accrual list will be prepared incorporating all open orders for which services or goods have been received.

We acknowledge that procedures were not followed. Management have subsequently adjusted the financial statements and records to reduce the accruals with the orders paid and enforce that finance procedures be followed.

Name: Mrs. Nthabiseng Shadung

Designation: Chief Financial Officer

Date: 10 August 2016

Auditors Conclusion

Management's comment is noted and the finding remains.

12. Leave pay accrual calculation inputs

Leave should be accrued for as and when an employ accrues that leave. The rate per day is calculated by dividing an employee's salary by 21, 67 which is the average number of working days in a month as determined by the Basic Conditions of Employment Act section 25 and 35. The leave accrual provision for an employee is calculated by multiplying the balance of the leave days as at 31 March 2016 by the employee's rate per day. Rate per day must therefore equal the basic salary divided by the average number of working days.

Audit finding

During the audit we noted a difference in the rate per day for Mrs Susanna Elizabeth Nagel. The error in calculating the rate per day led to an understatement of her leave accrual provision by R 1 800.03 as at 31 March 2016.

Recommendation

Management must ensure that the inputs used for the calculation of leave accrual provision as at year end are correct. This can be achieved by a review of the calculations by senior management.

Management Response

Agree and accept the finding. Pastel payroll system basic salary figure are used to calculate leave accrual. The figures used in the calculation had taken into account an adjustment for unpaid leave made on the salary.

Finance/ payroll standard operating procedure will be augmented to ensure that the figures to be used in the leave accrual liability is clearly specified.

Name: Mrs. Nthabiseng Shadung

Designation: Chief Financial Officer

Date: 10 August 2016

Auditors Conclusion

Management's comment is noted and the finding remains.

13. Late payment of PAYE, SDL & UIF as well as reconciliations not being performed

- References:
 - Chapter 10 of the TA Act
 - Paragraphs 2(1), 5(1) and 14(2) of the Fourth Schedule
 - Section 6 of the SDL Act
 - Section 7(4) and 8 of the UIC Act
- The employees' tax and UIF contributions as well as SDL must be paid over to SARS within seven days after the end of the month during which the amount was deducted or due or such longer period as the Commissioner determines. Where the seventh day falls on a Saturday, Sunday or public holiday, the payment must be made not later than the last business day prior to such day. These cut-off dates apply to SDL and UIF contributions as well.

Audit Finding

During the audit we noted that there was late payment of PAYE, SDL and UIF to SARS. The April 2015 third party payments were made on 13/05/2015, 6 days late and the payments for June 2015 were made on 19/08/2015, 43 days late. Late payment of third party payments resulted in fruitless and wasteful expenditure of R 37 573.29 in the form of interest and penalties. Reconciliations are performed on the SARS e-filing printed documents only.

Recommendation

Management must ensure that payments are made to SARS before the 7th of each month. Management must also prepare reconciliations and this must be done before the 7th to allow timeous payment.

Management Response

We accept the finding, reconciliations were not performed on the employees' tax liability which resulted in the liability remaining unpaid. Reconciliations are now being performed on SARS statements documents against the payroll records.

Name: Mrs. Nthabiseng Shadung

Designation: Chief Financial Officer

Date: 10 August 2016

Auditors conclusion

Management's comment is noted and the finding remains.

14. Acting allowance – policy non-compliance

ELRC HR Policy clause 17.1.5 states that an acting allowance is payable to an employee who has acted for more than 6 weeks in a position.

Good governance practises recommend that decisions affecting an employee must be authorised by an employee in a position of higher authority than the affected employee.

Audit Finding

During the audit we noted Ms Keyise (ELRC 117) acted as Senior Manager Corporate Services from 1 to 31 April 2015 and was paid an acting allowance of R 10 151.17 in April 2015 which was approved by Mr O. Mafora. Ms Keyise did not act for more than 6 weeks and the amount of acting allowance paid to her in April 2015 was in contravention of the above stated policy clause. Ms Keyise refunded the acting allowance by a deduction from her basic salary in October 2015.

Recommendation

We recommend that all policies be applied correctly when determining if a person in an acting position qualifies for the acting allowance. Acting positions creates a potential of override of controls and therefore management must review the authorisation of decisions made by a person in an acting position.

Management Response

Agree and accept the finding. Enforcement of HR and Finance policies is being ensured by management through reviews of payroll records prior to payment made to employees.

Name: Mrs. Nthabiseng Shadung

Designation: Chief Financial Officer

Date: 10 August 2016

Auditors Conclusion

Management's comment is noted and the finding remains.

15. Acting allowance - delegation of authority

Good governance practises recommend that decisions affecting an employee must be authorised by an employee in a position of higher authority than the affected employee.

Audit Finding

During the audit we noted that the acting allowance for Mr Mafora (ELRC129) for acting as General Secretary from 16 April to 31 August 2015 was approved by Ms Keyise (Acting Senior Manager Corporate Services).

This should have been authorised by ADV L Bono (Chairperson of ELRC) or by a representative of EXCO and not by Ms Keyise (Acting Senior Manager Corporate Services) who was junior to Mr Mafora.

Recommendation

We recommend that all policies be applied correctly when determining if a person in an acting position qualifies for the acting allowance. Acting positions creates a potential of override of controls and therefore management must review the authorisation of decisions made by a person in an acting position.

Management Response

Agree and accept the finding. Enforcement of HR and Finance policies delegation of authority will be ensured by management.

Name: Mrs. Nthabiseng Shadung

Designation: Chief Financial Officer

Date: 10 August 2016

Auditors Conclusion

Management's comment is noted and the finding remains.

16. Tracking of Assets – projector

Assets recorded in the fixed asset register should be adequately monitored and have locations for where they are currently held/located. Any movement of assets should be appropriately documented/recorded by using requisition forms and adequately monitored by tracking records.

Audit finding

During the audit, we were unable to physically verify an Acer Data Projector (ELRCG07962). This asset was recorded as being at Corporate Services with IT. It came to our attention that this asset was requested for training by the DRS Manager to be taken to the Northern Cape. No tracking documentation was recorded and signed as accountability for moving the asset. The projector was couriered to the Northern Cape. Attempts to contact the relevant people in the other provinces did not provide value as they were not aware of the whereabouts of the asset. Upon further investigation it was determined that the projector had at some point in time been returned and was in the ELRC building at the time of the audit.

It is clear that the custody of assets as well as their movements is a cause for concern. The lack of control facilitates loss and theft. Further to this, the asset management exercise which was recently performed will be of no consequence if record-keeping is not maintained.

Recommendation

Controls over safe keeping of assets require improvement. We recommend that a formal documented process is implemented for moving of assets from the recorded location. Change of location must be updated on the fixed register in a timely manner to keep it updated.

Management Response

Agree and accept the finding. Enforcement of SCM policies is being ensured by management through reviews of fixed asset management reports on a monthly basis, asset verification will also be conducted on a quarterly basis.

Name: Mrs. Nthabiseng Shadung

Designation: Chief Financial Officer

Date: 10 August 2016

Auditors Conclusion

Management's comment is noted and the finding remains.

17. Tracking of Assets - laptop

Assets recorded in the fixed asset register should be adequately monitored and have locations for where they are currently held/located. Any movement of assets should be appropriately documented/recorded by using requisition forms and adequately monitored by tracking records.

Audit finding

During the audit we noted that the location of asset ELRCC04738 Lenovo Laptop is recorded as being in the storeroom at Head Office. Per discussion with the client it was ascertained that the laptop was given to a party representative located in Zeerust.

It is clear that the custody of assets as well as their movements is a cause for concern. The lack of control facilitates loss and theft. Further to this, the asset management exercise which was recently performed will be of no consequence if record-keeping is not maintained.

Recommendation

Controls over safe keeping of assets require improvement. We recommend that a formal documented process is implemented for moving of assets from the recorded location. Change of location must be updated on the fixed register in a timeous manner to keep it updated.

Management Response

Agree and accept the finding, Enforcement of SCM policies is being ensured by management through reviews of fixed asset register on a regular basis, asset verification will also be conducted on a quarterly basis. SCM will ensure compliance to the asset tracking form.

Name: Mrs. Nthabiseng Shadung

Designation: Chief Financial Officer

Date: 10 August 2016

Auditors Conclusion

Management's comment is noted and the finding remains.

18. Reconciliations between pastel payroll, the general ledger and the trial balance

Reconciliations between the payroll report, general ledger and trial balance should be performed regularly (at least monthly) in order to identify and investigate differences at an early stage in the financial year. Errors and misstatements in the accounting records are thus minimised or eliminated.

Audit finding

During the audit we noted that no reconciliations are performed between pastel payroll to the general ledgers and trial balance. We also noted that the payroll related general ledgers and trial balance related accounts do not agree to the pastel payroll report. UIF, Medical aid contribution, PAYE, Housing Allowance and Provident fund are the major accounts that are not agreeing to the trial balance. This was caused by cash accounting that was adopted from November until year end as well as posting to incorrect accounts.

Recommendation

Management must perform monthly reconciliations between pastel payroll to general ledgers and trial balance. Management, through the reconciliation process, must identify payroll accounts that do not agree to the trial balance, investigate the reasons and post correct accounting journals to rectify the imbalance.

Management response

Agree and accept the finding. Reconciliations were not performed on the payroll and general ledger records. Financial statements and records have been adjusted to correct the misallocations. Reconciliations are now being performed on a monthly basis.

Name: Mrs. Nthabiseng Shadung

Designation: Chief Financial Officer

Date: 10 August 2016

Auditors Conclusion

Management's comment is noted and the finding remains.

19. Cut-off (timing) of recording of expenses

Expenses incurred in a particular financial year should be recognised and recorded in that financial year. Any adjustment to be made against that expenditure in the statement of profit/loss should be made in the year the expense was recognised. Expenses of prior years are not carried over to the next financial period unless they are accrued expenses which have not been paid.

Audit finding

While performing journal testing, it came to our attention that there are expenses for 2014 and 2015 which were accounted for in the 2015/2016 financial year. These expenses relate to Arbitration, Conciliation, Condonation, Intermediary, Interpreter, Quality Control and T & D Consultants. A journal was processed on 31 March 2016, reference JB03/03 in order to reverse the accrual which was previously raised. However the expense was also reversed and then recorded in the next financial year. As a result the expense is now recorded in the year after it was incurred. The total amount relating to the prior financial years: R502 570.00. Expenditure for 2015/2016 will be overstated.

Recommendation

We recommend that the recording of expenditure must be performed according to the steps provided in the finance manual.

When ELRC receives the suppliers invoice, expenses should not be reversed, instead, the following journal should be passed.

- Dr Accruals
- Cr Creditors

Management Response

Agree and accept the finding. Management will ensure that finance officers adhere to the finance standard operating procedures. Financial statements and records have been adjusted.

Name: Mrs. Nthabiseng Shadung

Designation: Chief Financial Officer

Date: 10 August 2016

Auditor's Conclusion

Management's comment is noted and the finding remains.

20. Unrecorded Liabilities

All liabilities should be raised at each reporting date. This includes liabilities related to the receipt of goods/services which have not been paid, regardless of whether or not an invoice was received from the supplier.

Audit finding

Liabilities are understated by R 256 200 at year end. This is in relation to the supplier IPT Holdings. Computer equipment was purchased during the year. The invoice is dated 29 March 2016. No creditor was raised for the expenditure on 29 March 2016. The computer equipment was recorded in May, when payment was made.

Recommendation

Below is a journal to record the liability as at year end;

31-Mar-16

- | | | | |
|------|-----------|------------|------------|
| • DR | Assets | 256 200,00 | |
| • CR | Liability | | 256 200,00 |

Management Response

Agree and accept the finding. The computer equipment should have been recorded as assets and the related liability be raised as at year end. Financial statements and records have been adjusted.

Name: Mrs. Nthabiseng Shadung

Designation: Chief Financial Officer

Date: 10 August 2016

Auditors Conclusion

Management's comment is noted and the finding remains.

21. Capitalisation and recording of fictitious assets

An asset is only recognised when it meets the definition and recognition criteria of an asset. An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity. The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

- a) it is probable that future economic benefits associated with the item will flow to the entity; and
- b) the cost of the item can be measured reliably.

Audit Finding

During the audit we noted an item recorded as a fixed asset in the previous financial year which does not meet the definition and recognition criteria of an asset. The asset was recognised in order to balance the Fixed Asset register and the Trial balance.

Details of the “asset” are as follows:

Asset Number	x0160
Purchase Date	31/03/2013
Cost	100 199.34
Accumulated Depreciation - 31/03/2015	20 050.84
Depreciation for current year	10 040.53
Carrying Amount which is equal to loss on disposal	70 107.97

Recommendation

We recommend management only capitalise and record assets that meet the definition and recognition criteria as per IFRS for SME'S. When the fixed asset register and the trial balance are not agreeing with each other we recommend management investigate the reason why and make proper adjustments. Such issues should not be rectified by recording of fictitious assets. We also recommend management reclassify the current year depreciation and the loss on disposal to other expenses.

Management Response

Agree and accept the finding. Fixed asset register has been corrected to ensure that all items recorded are verifiable and existing assets.

Name: Mrs. Nthabiseng Shadung

Designation: Chief Financial Officer

Date: 10 August 2016

Auditors Conclusion

Management's comment is noted and the finding remains.

22. Rental Expense

Expenditure should be supported by contracts and purchase orders before payment is made to suppliers.

Audit finding

During the audit it came to our attention that there was no contract or supporting documentation available for the rental paid in Kwazulu Natal by ELRC. The total amount recorded in the general ledger is R 28 000 for account 2112/013 Rental - KZN. No documentation has been provided to verify this amount. It is therefore a concern how this expenditure is budgeted for in the annual budget.

Recommendation

We recommend that the recording of expenditure must be performed according to the steps provided in the finance manual.

Management Response

Agree and accept the finding. Management will ensure that all contracts are concluded prior to receipt of goods and services. We have engaged the landlord in an effort to conclude the lease agreement.

Name: Mrs. Nthabiseng Shadung

Designation: Chief Financial Officer

Date: 10 August 2016

Auditors Conclusion

Management's comment is noted and the finding remains.

23. Changes to payroll master data

Changes to payroll master data must be recorded on pre-numbered forms, the forms must then be filed in the employee files.

Audit Finding

During the audit we noted that there is no standard documentation and approval process for changes to the master data. Changes to payroll data are communicated via email from the affected employee to the HR and the HR department forwards the email to the Finance department to effect the changes. The emails are not filed in the employee files. The completeness and authorisation of the changes are difficult to ascertain because of lack of audit trail. Mokgale Leah, employee Number 039, got married and submitted a marriage certificate for the company to change her status and surname, the changes were only effected in the Pastel system but were not effected in the separate records form HR (list of employees).

Recommendation

We recommend management design a pre numbered standard document to record changes to master data. The standard document must be filed in the employee file.

Management Response

Agree and accept the finding. Management will correct record keeping and standard operating procedures in relation to requests and authorisation for payroll and HR master file changes.

Response: O Makofane

Name: Ms. Octavia Makofane

Designation: Senior Manager Corporate Services

Date: 30 August 2016

Auditor's conclusion

Management's comment is noted and the finding remains.

OTHER MATTERS

25. Assets disposed of have not been removed from the fixed asset register

The Finance Policy requires that assets that are disposed of must be immediately removed from the fixed asset register.

Audit Finding

During the audit we noted that assets that were disposed of after the asset validation exercise performed (by PWC) are still in the fixed asset register. These assets are however reflected at nil carrying amounts.

Recommendation

We recommend that assets disposed of must be removed from the fixed asset register completely.

Management Response

Agree and accept the finding. Enforcement of the SCM policies will be ensured by management through reviews of fixed asset register on a regular basis, asset verification will also be conducted on a quarterly basis.

Name: Mrs. Nthabiseng Shadung

Designation: Chief Financial Officer

Date: 10 August 2016

Auditor's Conclusion

Management's comment is noted and the finding remains.

26. Termination documentation and procedures

ELRC HR policy states that employees resigning from ELRC must complete an asset register (a document where they sign for returning ELRC assets in their possession), exit interview questionnaire and management must document the acceptance or refusal of the termination application by the employee.

Audit Finding

During the audit we noted that Ms Mpolokeng Tshabalala (IT Manager) did not complete an asset register, exit interview questionnaire and there was no formal acceptance of her resignation letter.

Recommendation

We recommend management to follow all the procedures required for terminating employee service to ELRC and complete the required documentation always.

Management Response

Disagree and do not accept the finding. The employee had been in employment for a period of less than one week therefore it was impractical to conduct an exit interview. The employee was still undergoing an induction process and had not received any tools of trade. Therefore we could not have had an asset handover register completed.

Name: Ms. Octavia Makofane

Designation: Senior Manager Corporate Services

Date: 10 August 2016

Auditor's conclusion

Management's comment is noted and the finding remains. The policies do not make exceptions and therefore the duration of the employment does not allow for controls to be bypassed.

IT Security Management**27. ELRC IT policies and procedures are not approved**

According to COBIT management practice **DSS05 Manage Security**: The ICT department should develop and enforce security policies and procedures to protect organisation information to maintain the level of information security risk acceptable to the organisation.

Audit Finding

The following policies are in draft but not approved:

- ELRC Backup & Recovery policy and procedure.
- ELRC Incident management and procedures manual.

Risk and Root Cause

Risk Rating: **High**

If the policy is not approved and enforced there will be lack of guidance on the process of performing backups and recovery from a disaster.

Root Cause

Lack of compliance

Recommendations

Management should ensure that the policies and procedures are formally drafted, approved and enforced.

Management Comment:

Agree and accept the finding. The policy will be submitted to EXCO for approval

Name: Mr. Dakalo Nemavhoini

Designation: IT Manager

Due Date: 27 October 2016

28. The network topology in place does not show other important network devices

According to COBIT management practice **DSS05 Manage Security**: The ICT department should use security measures and related management procedures to protect information over all methods of connectivity.

Audit Finding

The network topology layout is incomplete in that it does not show the firewall.

Risk and Root Cause

Risk Rating: **High**

Lack of proper design of the network layout may affect the management and implementation of IT security protection around information assets.

Root Cause

Inadequate Network layout diagram

Recommendations

Management should ensure that the network layout diagram is designed with all important network devices and setup to reflect the network environment on the ground.

Management Comment

Agree and accept the finding. The network layout was updated on the 8th July 2016 and was submitted to the external auditors.

Name: Mr. Dakalo Nemavhoini

Designation: IT Manager

Due Date: 8th July 2016

29. No password parameter settings for Pastel Partner system and Pastel Payroll system

According to COBIT management practice **DSS05 Manage Security**: The ICT department should use security measures and related management procedures to protect information over all methods of connectivity.

Audit Finding

The password parameter settings are not set for Pastel Partner and Pastel Payroll system.

Risk and Root Cause

Risk Rating: **High**

If password parameter settings are not set this may expose the organization to unauthorized access to the Pastel system which will affect the integrity of the financial and payroll data.

Root Cause

The current version of Pastel partner and Pastel payroll system does not allow password parameter settings to be set.

Recommendations

Management should ensure that the password parameter settings are set to meet best practices as follows:

- Passwords must have at least 6 alphanumeric characters;
- Passwords must be changed every 30 days;
- Passwords may not be re-used within 10 changes of each other; and
- Password complexity must be enabled.
- Password must lock after 3 **unsuccessful** login attempts.

Management Comment

Agree and accept the finding. We would like to bring to your attention that Pastel partner does not have provision for password parameters and this was also confirmed by SAGE. Further note that we are in the process of migrating from pastel partner to pastel evolution the anticipated “go live” date is 30 September 2016.

Name: Mr. Dakalo Nemavhoini

Designation: IT Manager

Due Date: 30 September 2016

30. Administrator activities and audit logs for Pastel Partner system and Pastel Payroll system are not reviewed

According to COBIT 5 “**DSS05.04 Manage user identity and logical access**” requires management to ensure that all users have information access rights in accordance with their business requirements and co-ordinate with business units that manage their own access rights within business processes through performing regular management reviews on all accounts and related privileges.

Audit Finding

Administrator activities and audit logs were not reviewed on Pastel Partner system and Pastel Payroll system.

Risk and Root Cause

Risk Rating: **High**

Failure to review administrator activities and audit logs may result in unauthorized activities being performed and not detected which may negatively affect the business.

Root Cause

Lack of management oversight and involvement.

Recommendation

Management should review the administrator activities and audit logs on a periodic basis to ensure only authorized activities are performed.

Management Comment:

Agree and accept finding. This finding will be addressed by the migration from pastel partner to pastel evolution. The anticipated “go live” date is 30 September 2016.

Name: Mrs. Nthabiseng Shadung

Designation: Chief Financial Officer

Date: 10 August 2016

Logical Access/ User Access controls

31. Review of user access rights for Pastel Partner system and Pastel Payroll system is not performed

According to COBIT management practice DSS05.04: Manage user identity and logical access; business management should review user access rights and privileges on a periodic basis. This will ensure that access rights are still in line with the incumbent users' job responsibilities. All access rights that are no longer relevant to each user should be subsequently removed.

Audit Finding

User access rights on the Pastel Partner system and Pastel Payroll system reviews of are not regularly performed.

Potential Risk

Risk Rating: **High**

Without periodic reviews, it is difficult to ensure that user access rights are still appropriate and in line with the users job responsibilities or whether inactive user accounts are disabled. This could result in users having inappropriate access, which increases the risk of fraud being committed.

Root Cause

Management was not aware of the risk associated with the failure to perform periodic reviews of user access rights.

Recommendation:

Management should ensure that user access rights reviews on Pastel Partner system and Pastel Payroll system are performed regularly. The review process should entail the Pastel system administrator generating the active user listing showing access rights attached to each user profile and submitting it to their managers for review. The managers should confirm that all the users on the list still need access to the respective systems and their access rights are still appropriate and in line with their job roles.

Management Comment

Agree and accept the finding. This finding will be addressed by the migration from pastel partner to pastel evolution. The anticipated "go live" date is 30 September 2016.

Name: Mrs. Nthabiseng Shadung

Designation: Chief Financial Officer

Date: 30 September 2016

Supply Chain Management

SIGNIFICANT MATTERS: Procurement

32. Supplier database not updated

Audit finding

According to the SCM Policy “The Accounting Officer should invite and accept written quotations for requirements with a value of R10 000 but not exceeding R500 000 from as many suppliers that are registered on the list of prospective suppliers”.

Furthermore according to the SOP – SCM Section 5.3 “Where no suitable suppliers are available from the list of accredited suppliers, other quotations must be obtained provided that they are registered on acceptance of the proposal”.

During the audit it was noted that the suppliers detailed below transacted with ELRC and it was not included in the approved supplier database list.

No	Supplier	Transaction description	Evaluation outcome	Amount
1	Velmore Hotel	Accommodation services	Winning supplier	R 105 742,50
2	HSP Renovations	Removal of goods	Winning supplier	R 13 480,00
Total				R 119 222,50

Impact

This resulted in non-compliance with Supply Chain Management policy.

Internal control deficiency

Management did not ensure it registers the suppliers in the list of prospective suppliers after awarding the supplier as required by the SCM.

Recommendation

Management should immediately register the suppliers on the database after the supplier is selected as the winning supplier.

Management Response

Agree and accept the finding. The SCM policy will be amended to ensure that it does not become a requirement to add suppliers that will not be used.

Management are enforcing SCM Policies to ensure that all suppliers are registered on the ELRC database before services or goods are procured from them.

Name: Mrs. Nthabiseng Shadung

Designation: Chief Financial Officer

Date: 10 August 2016

Auditor’s Conclusion

Management comments noted. The amendment of the SCM policy will be audited in the next financial year after the changes have been made.

33. Specifications not compliant with the policy

Audit Finding

In terms of the SCM policy 9.5 which states that “Specifications should be based on relevant characteristics and/or performance requirements. **References to brand names, catalogue numbers or similar should be avoided.** If a specific brand/type of product is required, the general secretary or delegated authority must approve such, after reviewing the motivation from the user department”.

During the audit it was noted that there was no motivation from the user department that was submitted for specifying a brand name in the procurement process. The mentioning of the brand did not promote competition to the broadest competitors, because other bidders who could have provided computers with the required specifications but a different brand name would not win the bid.

No	Supplier	Description	Amount
1	Dynamic Management Worx	Provision of 40 laptops	R 428,587.05
Total			R 428,587.05

Details of the specifications as per the Terms of reference are as follows:

4 Specifications

4.1 CONV LENOVO YOGA 500 I3-4030U 4/ 1TB 14 TOUCH (or equivalent)

Description	Yes/No
4GB RAM	
Intel core I3	
1TB	
14.0 HD TN AG touch(slim)	
Wi-fi 802	
Bluetooth 4.0	
Pre-installed windows 10	
Standard 1 year warranty	
Extended 2 year warranty quoted separately	
USB, HDMI reader	
DVD Rewriter	
MS Office 365 Home & Business Premium 1 year Subs	
Laptop bags	

The evaluation scoresheet indicated the name of laptop “Yoga 500” at the bottom as a specification when bidders were evaluated

Impact

This resulted in non-compliance with Supply Chain Management policy.

Internal Control deficiency

The bid specification committee did not ensure that the user department submitted a motivation as to why a certain brand was selected and mentioned.

Recommendation

Management should ensure that it follows the policy, if a specific brand is to be specified a motivation from the user department must be written to state the reason, it must therefore be sent to the general secretary for approval.

Management response

We agree with the finding. The specification for the procurement of the 40 Laptops for the Council Members was brand specific because the specification was extensively discussed at the EXCO Meetings and approved.

EXCO members requested that the same brand and model as that of the General Secretary be procured for them without providing written reasons. BAC will in future ensure that all procedures are followed.

Name: Mrs. Nthabiseng Shadung

Designation: Chief Financial Officer

Date: 10 August 2016

Auditor's conclusion

Management comments noted, however in terms of the supply chain management policy the motivation from the user department must be submitted to the General Secretary before approval, therefore this was not done then the finding remains.

34. Irregular and fruitless expenditure

Audit finding

In terms of the SOP Contract Management:

16.2 All irregular expenses identified shall be registered and reported to the General Secretary for further investigation and action as per the irregular expenditure policy.

17.2 On a monthly or annual basis or as may be required by the CFO:

(c) irregular/fruitless and wasteful expenditure (with updates on the investigation process)

During the audit it was noted that no register for fruitless and wasteful expenditure was being kept and it was further noted that irregular expenditure register was kept but not updated:

Information as per AFS:

Description	Amount
Irregular expenditure	R 2 086
Fruitless and wasteful expenditure	R 52 977

Impact

This resulted in non-compliance with Supply Chain Management policy.

Internal Control deficiency

Management did not ensure a register for irregular/fruitless expenditure was kept and updated regularly.

Recommendation

Management must ensure that a register for fruitless and wasteful expenditure must be kept, updated and reviewed by the SCM manager and CFO and reported to the General Secretary

Management response

We agree with the finding, management will ensure that registers for irregular, fruitless and wasteful expenditure are maintained and updated monthly.

Name: Mrs. Nthabiseng Shadung

Designation: Chief Financial Officer

Date: 10 August 2016

Auditor's conclusion

Management comments noted, the finding remains and it will be followed up in the next financial year.

SIGNIFICANT MATTERS - Contract management

35. Mweb

In terms of the SOP-Contract management:

5.1.1 Contract renewal or extension will be initiated 6 months prior to expiry;

5.1.4 An approved termination/or intention to discontinue a contract letter will be issued by SCM in agreement with the user on the time and terms and conditions stipulated on the contract.

5.1.6 All cancelled or discontinued contract must be indicated and clearly indicated on the register.

5.1.7 All contracts running after expiry will be deemed irregular if extension has not been formalized.

Audit finding

During the audit it was noted that a letter of termination was written to Mweb Business to terminate Mweb business for the national office. The letter dated 06 October 2015, was signed by the General Secretary, NO Foca, requesting termination of the Internet, telephone and email services provided by Mweb. The termination was to be effective from 31 March 2016, the expiry date of the initial period.

However, it was noted through inspection of the supplier detailed ledger that the amount detailed below was paid to Mweb, from April 2016 and there is no agreement in place supporting the services that are being provided by Mweb

No.	Supplier	Initial Contract term	Termination date	Amount paid after termination date		
				April	May	June
1	Mweb	01 Apr 2015- 31 Mar 2016	31-Mar-16	R45 732.22	R45 563.49	R45 181.3
Total:					<u>136,477.01</u>	

Impact

Non-compliance with SOP Contract Management Policy.

Internal Control deficiency

Management did not ensure that it formalizes the extension of the Mweb contract.

Recommendation

Management should ensure that it follows the policy and formalize the extension of the contract between ELRC and Mweb. Management should be specific about the services it wants to terminate when it compiles a termination letter and whether it intends using another supplier.

Management response

We agree with the finding; however a request for a new contract has been requested from the service provider, as termination was only meant for a telephone. In the discussion with IT Manger, it was discovered that the termination was only for telephone and that the service provider understood that, hence the payment after March 2016.

Name: Mrs. Nthabiseng Shadung

Designation: Chief Financial Officer

Date: 10 August 2016

Auditor's conclusion

Management comments noted, the finding remains until the new contract has been submitted for audit purposes.

36. Contract Reporting

In terms of the SOP Contract Management:

7.1.1 SCM Officer is to prepare monthly contract management reports for the review by the SCM Manager and approved by the CFO.

Audit finding

During the audit it was noted that monthly contract management reports were not compiled by the SCM officer or reviewed by the SCM Manager for the period April 2015 to February 2016. SCM started preparing the monthly management reports from March 2016, thus for the past 11 months there were no monthly contract management reports.

Impact

Non-compliance with SOP Contract Management Policy.

Internal Control deficiency

Management did not ensure that the contract management reports were compiled for the period April 2015 to February 2016 as required by the contract management policy.

Recommendation

Management should continue completing the monthly contract management reports as per the policy.

Management response

We agree with the finding, the reports will be prepared at the end of each month.

Name: Mrs. Nthabiseng Shadung

Designation: Chief Financial Officer

Date: 10 August 2016

Auditor's conclusion

Management comments noted, however the finding remains.

Housekeeping matters

37. Only one supplier was written on the requisition form

Audit Finding

In terms of the SCM policy 9.2 “Proper and unbiased specifications shall be prepared by the user Department based on the relevant characteristics and/or performance requirements of the required services or goods. Specifications shall be worded in such a manner as to encourage the widest possible participation and competition”.

In terms of the SCM policy 9.3 “Standards and technical specifications quoted in bidding documents should promote the broadest possible competition while assuring that critical elements of performance or other requirements for the goods ,services and/or works being procured are achieved”.

It was noted during the audit that the suppliers submitted their bidding documents from 18 to 20 August 2015 (closing date for submission) and were evaluated by the Bid evaluation committee on 15 September 2015 and approval of the selected bidder was on the 30 September 2015 by the Bid adjudication committee, however on the requisition from prepared on the 03 August 2015 it was noted that the supplier detailed below was the only supplier recorded as if it is the only supplier that submitted proposal. It was further noted through discussion with management that it was an oversight from the supply chain management division:

No	Supplier	Description	Amount
1	Dynamic Management Worx	Provision of 40 laptops	R 428,587.05
Total			R 428,587.05

Internal Control deficiency

Management did not ensure that the dates of receipt of bid documents from suppliers are in line with the date on the requisition form.

Recommendation

Management should ensure it puts the correct dates on the requisition forms so that misunderstanding can be avoided.

Management response

We don't agree and accept the finding. The requisition form is completed by the requesting user division. After approval by the requesting manager, SCM then receives the form and sign it on the day of receipt and ensures that all the relevant parties sign it. Proposals / Bids / Quotations are then sourced.

Upon receipt of proposals / bids / quotations, evaluation processes where applicable (bids) are followed and subsequently the same is done for the adjudication processes. Only after the awarding or appointment of the successful service provider, the relevant SCM official completes the list of suppliers with the prices they quoted. This part is more applicable to quotations and sometimes proposals and bids, depending on the number of responses.

For tenders (bids), only the successful bidder with the tender price is written because a list of bids received is kept in the tender file.

Management will ensure that the standard operating procedures are amended to ensure that tenders are prepared on separate documents to those of ordinary procurements.

Name: Mrs. Nthabiseng Shadung

Designation: Chief Financial Officer

Date: 10 August 2016

Auditor's conclusion

Management comments noted, the finding remains and this will be followed up in the next financial year.

38. Policy on delegation of authority not aligned with SCM policy**Audit finding**

In terms of the supply chain management policy section:

11.3.1 The Accounting Officer should invite and accept written price quotations for requirements up to an estimated value R500 000 from as many suppliers that are registered on the list of

prospective suppliers

11.3.3 If it is not possible to obtain at least three (3) written price quotations or proposals, the reasons should be recorded and approved by the Accounting Officer or his/her delegate

22: Deviations from normal procurement processes

“22.1 Should it be impractical to invite competitive bids for specific procurement, e.g. in urgent or emergency cases or in cases of a sole supplier, the Council may procure the required goods or services by other means, such as price quotations or negotiations in accordance

22.2 In urgent and emergency cases, the Council may dispense with the Invitation of bids and may obtain the required goods, works or services by means of quotations by preferably making use of the database of prospective suppliers, or otherwise in any manner that is in the best interest of the Council.

22.3 Urgent cases are cases where early delivery is of critical importance and the invitation of competitive bids is either impossible or impractical. However, a lack of proper planning should not constitute an urgent case.

22.4 Emergency cases are cases where immediate action is necessary in order to avoid a dangerous or risky situation or misery.

22.5 The reasons for the urgency/emergency and for dispensing of competitive bids should be clearly recorded and approved by the General Secretary or his/her delegate.

Through inspection of the Policy on Delegation of Authority it was noted that it is not aligned with the supply chain management policy when it comes to deviations from the normal procurement processes. In terms of the supply chain management policy you can only deviate from normal procurement processes only in terms of the requirements listed above.

However it was noted from the Policy on Delegation of Authority that the following can be approved by the General Secretary:

All deviations from the prescribed laws, regulations, policies, practices, standards and contracts. Approval for deviation must be in writing, stating the reasons for deviations

Internal control deficiency

Management did not ensure that the Policy on Delegation of authority is aligned with the supply chain management policy for deviations from normal procurement processes

Recommendation

Management should align the Policy on Delegation of authority with the supply chain management policy for deviations from normal procurement processes.

Management response

Policies will be reviewed and updated accordingly to ensure alignment.

Name: Mrs. Nthabiseng Shadung

Designation: Chief Financial Officer

Date: 10 August 2016

Auditor's conclusion

Management comments noted, the finding remains and this will be followed up in the next financial year.

Annexure A

No	Supplier	Description	Amount	Irregular expenditure	Reason
1	HSP Renovations	Renovations	R 13 480,00	Irregular expenditure	The supplier transacted with ELRC and it was not included in the approved supplier database list.
2	Velmore Hotel	Accommodation services	R 105 742,50	Irregular expenditure	The supplier transacted with ELRC and it was not included in the approved supplier database list.
3	Dynamic Management Worx	Provision of 40 laptops	R 428 587,05	Irregular expenditure	There was no motivation from the user department that was submitted for specifying a brand name in the procurement process