

# THEMBISILE HANI LOCAL MUNICIPALITY



**1<sup>ST</sup> JULY 2010 TO 30 JUNE 2011**

**DRAFT ANNUAL REPORT**

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### **FOREWORD BY THE EXECUTIVE MAYOR**

Local government is where most of our people have direct and frequent contact with government and therefore where developmental activities are happening or should happen. The ANC – led government continue in ensuring that this is an effective, corruption-free and responsive sphere of government. Chapter 7 of the Constitution of the Republic of South Africa places local government at the centre of service delivery and deepening of democracy. All municipalities are required by the Municipal Finance Management Act (Act 56 of 2003) chapter 12 section 121 to prepare an annual report in accordance with this Chapter.

We should always keep it in our minds that the primary mandate of the African National Congress is to improve the lives of our people including the fight against corruption, fraud and maladministration in all our spheres of government. The councillors in general and specifically the ANC councillors are commended for their great courage to continue fighting against corruption and maladministration within the Thembisile Hani local municipality by blowing the whistle. Their action of exposing the suspected wrong doings resulted to the intervention made by the Province in terms of section 139 (1)(b) of the Constitution of the Republic of South Africa on the 16 April 2010.

The Administration team were provided with terms of reference (TOR) which included amongst the following; implementation of Section 106 Recommendations, Implement turnaround financial strategy to give effect to Section 136 of MFMA, Ensure the municipality is performing key functions as determined by legislation, Facilitate the appointment of critical vacant posts e.g. CFO, Establishment of Supply Chain Management processes, Re- establish trust between communities and municipality, Provide monthly progress reports to the MEC, Re- establish the public participation processes etc. We should recall that the municipality received a 'Disclaimer opinion' in consecutive years i.e. 2008/2009 and 2009/2010 financial years from the Auditor-General.

On the basis of above, therefore in this report we are glad to confess that the majority of terms of reference given to the Administration team were attended, such as all outstanding debts were paid off, monthly reporting to MEC, Provincial Treasury and National Treasury had resumed, the 7 municipal bank accounts were closed with exception of the main account held with FNB and Capitec account that is used for salaries payment, implementation of a manual system that records movement of inventory, the new SCM committee was established and the Specification committee also, a dedicated office for documents management was established, the public participation process was substantially improved through the public consultations for 2010/2011 IDP and Budget, the capacity within the internal audit unit was increased by adding an internal auditor, to name a few.

All these achievements have resulted on receiving a qualified report for 2010/2011 financial year from the Auditor-General. However, while we have had these successes, we have to be realistic in our vision in that we still have many challenges, which we will have to conquer in the next coming financial year.

I would like to extend my appreciation and gratitude to the following people; the Administration team led by Mr Vusi Kubheka, committed staff members, the Members of the Mayoral Committee, councillors and to all the people of this wonderful municipality for huge contributions, co-operation, hard work and support you had provided to us during the past financial year.

The task has started and it must continue vigorously to bettering the lives of the people

CLLR N J MAHLANGU  
EXECUTIVE MAYOR

## EXECUTIVE SUMMARY

### VISION

The municipal vision that was adopted by the municipality as part of its 2007-2011 IDP has not been changed during the 2010/11 review as it still captures the municipality's values and remains relevant to its priorities and aspirations. The municipality's "Vision 2015" is,

**"To better the lives of our people through equitable, sustainable service delivery and economic development".**

### Key Policy Development

Inherent within the Provincial Growth and Development Strategy (PGDS) are the six priority areas of intervention identified as:

- **Economic Development** (i.e. investment, job creation, business and tourism development and SMME development)
- **Infrastructure Development** (i.e. urban/rural infrastructure, housing and land reform)
- **Human Resource Development** (i.e. adequate education opportunities for all)
- **Social Infrastructure** (i.e. access to full social infrastructure)
- **Environmental Development** (i.e. protection of the environment and sustainable development)
- **Good Governance** (i.e. effective and efficient public sector management and service delivery).

All actions and initiatives that the Thembisile Hani Local Municipality (THLM) Council has resolved to focus on are in line with the Provincial Priority Areas for Intervention as highlighted below in order to ensure proper alignment between National, Provincial and local programmes.

Furthermore, in terms of the Provincial Growth and Development Strategy, the following infrastructure projects and "Programmes of Action" are applicable to the Province in general:

- Upgrading of the Further Education and Training colleges;
- Improving the availability and reliability of infrastructure services such as provincial and local roads, bulk water infrastructure and water supply networks, energy distribution, housing, schools and clinics, business centres, and sports and recreation facilities;
- The development of multi-purpose government service centres, including police stations, courts and correctional facilities;
- Maximum exploitation of agricultural potential and opportunities;
- Promotion of the arts and culture industry;
- Tourism growth promotes the preservation and development of heritage sites;
- Export promotion;
- SMME development;
- Extended Public Works Programme (EPWP);
- Local Economic Development (LED);
- Urban and Rural Development Programme; and
- Environmental management.

## **PUBLIC PARTICIPATION**

### **Mechanisms and procedures for public participation**

#### Ward Committees and CDW'S

In terms of the Municipal Structures Act, (Act 117 of 1998) municipalities are required to establish ward committees to enhance community participation in municipal development processes. In compliance with this legislative requirement the Thembisile Hani Local Municipality set up ward committees in each of the thirty wards. The ward committees have since their establishment added much value to municipal processes by providing inputs from a community perspective. They play a major role in the IDP process both in terms of highlighting community priorities but also in maintaining constant communication between the Council and the communities. The municipality has a dedicated Committee Officer (Acting) to deal with matters relating to ward committees on behalf of the Office of the Speaker. A number of training opportunities have been made available for ward committee members to augment their capacity, such as secretariat and report writing.

Thembisile Hani Local Municipality has established 30 ward committees. Proportional Representative Councillors are deployed in wards to strengthen participation and communication. Managers, Assistant Managers and Coordinators have adopted wards. Villages have been grouped to form zones of which a member of mayoral committee has been deployed to each of the five zones.

Community participation is the centre of Thembisile Hani Local Municipality's core function; hence all the necessary mechanisms and processes towards the optimal functioning of structures are explored and implemented accordingly.

#### **Communication and Public Participation**

The Municipal Systems Act provides for municipalities to establish structured mechanisms for public participation to ensure participation of community members in all Municipal programmes. The Act stipulates that the Municipality must develop and adopt a Community Communication Strategy Plan. The strategy should serve as the guiding tool on how the community is engaged to give their inputs and suggestions on services, projects and programmes offered by the Municipality. In order to comply with the Municipal Systems Act, Thembisile Hani Municipality will have to develop a new Community Communication Strategy.

Thembisile Hani Local municipality like any local government is a three legged structure of which all three legs are integrated and interdependent. The legs are council, administration and the community. The cohesion of these parts is underpinning a successful developmental local government.

The Municipality has a formal consultative, participation and communication strategy, which needs to be reviewed, which the council is using in the establishment of mutual trust between council and the community, particularly in the areas of active community participation and the improvement of the level of payment of services.

Of special significance with regard to the establishment of communication and participation strategy are the following:

- Continuation of Municipal Izimbizo and Executive Mayoral Outreach Programme, which allow local leaders the opportunity to interact with communities on issues of service delivery.
- Continuation of engaging sector departments and utilities in the various processes and forums for Integrated Development Planning (IDP).

- Utilise various mechanisms to communicate, such as local newspapers, local radio stations, flyers, ward councillors, community development workers, account statements and loud hailing.
- Ongoing negotiation with provincial departments that no project will be implemented in our area of jurisdiction prior to consultation with the council.
- Ongoing multitude of bi- or multi-lateral processes around a number of development challenges and initiatives such as the youth agricultural projects and the Moloto rail corridor.
- Regular conduct of audit of ward committees and ensuring full functionality.

## **EXECUTIVE SUMMARY AND OVERVIEW BY MUNICIPAL MANAGER**

The year under review has been another year full of problems and variety of challenges resulting for the municipality to be placed under section 139 of the Constitution of the Republic of South Africa.

The people residing in Thembisile Hani Local Municipality need hope. They want local government to lead. Our people want government, business, labour and social organisation to work together to create a better economic future. Our people want to be energised so that they can take initiative to improve their own lives and communities. People want action on jobs, growth and poverty.

The period under review challenged us to look for different answers and solution. It must bear in mind that the municipality has experience a series of service delivery protest and destruction of property. We must thank the MEC of Cooperative Governance and Traditional Affairs for action he took to uproot all the elements of corruption and maladministration.

Based on the above, there is an urgent need to focus on the governance and decision making and financial management to deal with budgeting, tariff setting, revenue collection, customer service operation and maintenance planning and infrastructure asset management.

This annual report outline the details of the various programmes managed by the municipality and how we have performed towards meeting the specific annual targets we have set despite all challenges as explained. We firmly believe that we have made significant progress towards achieving our strategic goal.

And as we rightly enjoy and take pride in this little achievement, we know that we must extend the same extraordinary efforts to addressing our critical social and economic challenges:-

- We will be ambitious yet realistic,
- We will be bold yet pragmatic

We know the resources that we have at our disposal belong to the people. If we do not use these wisely and sensibly, our contract with the people is eroded.

We also realize that none of us can rest or sleep peacefully until every citizen of Thembisile Hani Local Municipality can say:-

***“I can see a better future. I can find a job. I can learn a skill. Hard work will enable me and my family to have shelter and food. If my children work hard at school and college, they will have a better future and thousand opportunities”***

Thembisile Hani Local Municipality’s success could widely be attributed to the contribution and harmonisation between the politicians and administration in ensuring that all systems flourish.

In closing, I would like to sincerely express my gratitude to the dedicated employees of Thembisile Hani Local Municipality who continue to provide quality services to our residents. Without the, the little achievement could not have been accomplished.

## MUNICIPAL FUNCTIONS, POPULATION AND ENVIRONMENT OVERVIEW

### Municipal Functions

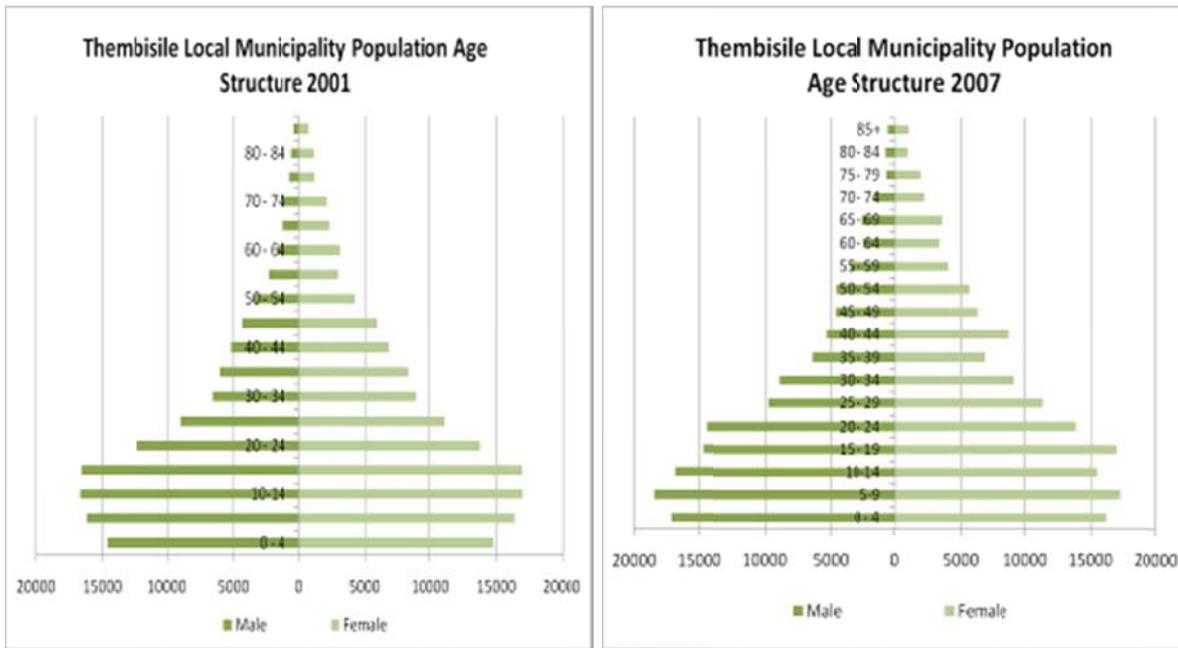
Thembisile Hani Local Municipality is according to the Municipal Structures Act No. 117 of 1998, classified as a category B4 Municipality, and the following sub-section provides an overview of its powers and functions.

Powers and Functions	Function currently with Thembisile Hani Local Municipality	
	Yes	No
Building regulations		•
Child care facilities	•	
Fire-fighting		•
Local tourism	•	
Storm water		•
Trading regulation		•
Billboard and display advertisement	•	
Cemeteries, funeral parlours and crematoria		•
Cleaning	•	
Control of public nuisance		•
Licensing and control of undertakings that sell liquor to the public		•
Facilities for the accommodation, care and burial of animals		•
Fencing and fences		•
Licensing of dogs		•
Licensing and control of undertakings that sell food to the public		•
Local amenities	•	
Local sport amenities	•	
Markets	•	
Municipal abattoirs		•
Municipal roads	•	
Noise pollution		•
Pounds		•
Public places	•	

**POPULATION REALITIES**

The total population of Thembisile Hani is approximately 278,518 according to the 2007 Community Survey. The total area of Thembisile Hani is **2493.49 km<sup>2</sup>**. The following chart summarises the population distribution within the Municipal area. The following chart and table provides details of the population according to gender and race within the municipal area.

**Age and sex structure of Thembisile Hani Local Municipality between 2001 and 2007**



Community Survey 2007: by municipality, population group and gender										
	Black		Coloured		Indian or Asian		White		Total	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
<b>MP315: Thembisile Local Municipality</b>	132 682	145 128	226	269	116	0	9	88	133 033	145 485

Gender composition of the municipality indicates that 47.8% of the population are male, over the whole age spectrum. From the above graph however, it is clear that there is an increased distortion in the gender composition in the age groups ranging between 15 and 45 where there is a noticeably less males. This is indicative of a male population relocating to the nearby Gauteng owing to better employment opportunities.

The population of Thembisile Hani Local Municipality shows a typical age structure of a very young population distribution. In 2001, there is strong evidence of declining fertility, which is observable from a steady decline in the population 10-14, 5-9 and 0-4, this is also observed in 2007. Also evident is that the population of the municipality is concentrated in younger age groups, with the group between 10 and 19 being the largest. The distribution is similar for both males and females, except observably larger female population at all age groups. It is furthermore clear from the graph that there is a noticeable decline in the population in both men and women in from the 15 – 20 year range.

This also indicates that there is a decline in the population in the municipality owing to the ableling workers of the population, relocating to the cities in search of employment.

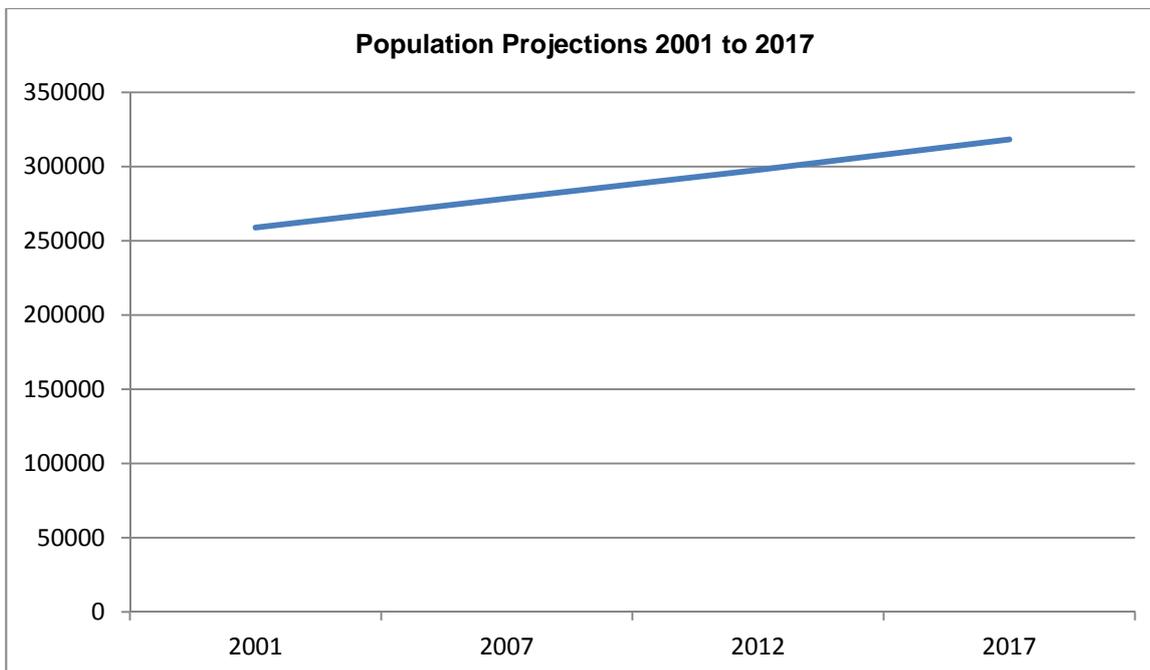
The population of the municipality has only increased by 19656 from 258,862 according to the 2001 census, to 278,518 according to the 2007 Community Survey. This is an increase of less than 2% per annum. This slow increase of the population could be attributed by a number of factors such as the prevalence of Tuberculosis, Cholera, and HIV/AIDS within the municipality that has led to expectations for the population to grow at a slightly decreasing rate. However, the main contributor of the decrease in the population growth could be attributed to the migration of people to the cities in search of employment. From the above population pyramid graph, it is apparent that there is a clear decrease in population among the age groups that are eligible for the labour market.

This leaves the municipality with a majority of the population (55%) outside the labour market, meaning 45% of the population ranges between the ages of 15 and 50 years of age needs to look after 55% of the population which are either too young or old to generate income.

#### Projection Population Growth

The population of Thembisile Hani local municipality from the census count of 2001 was 257,113 persons, and it increased to 278,517 persons based on the estimates from the 2007 Community Survey. This implies an annual growth rate of 1.3% between the 6 year periods as indicated in figure 2 below. If one applies this growth rate over-time, the projected population of the local municipality is expected to be 297,709 by 2012 and reach 318,223 in 2017.

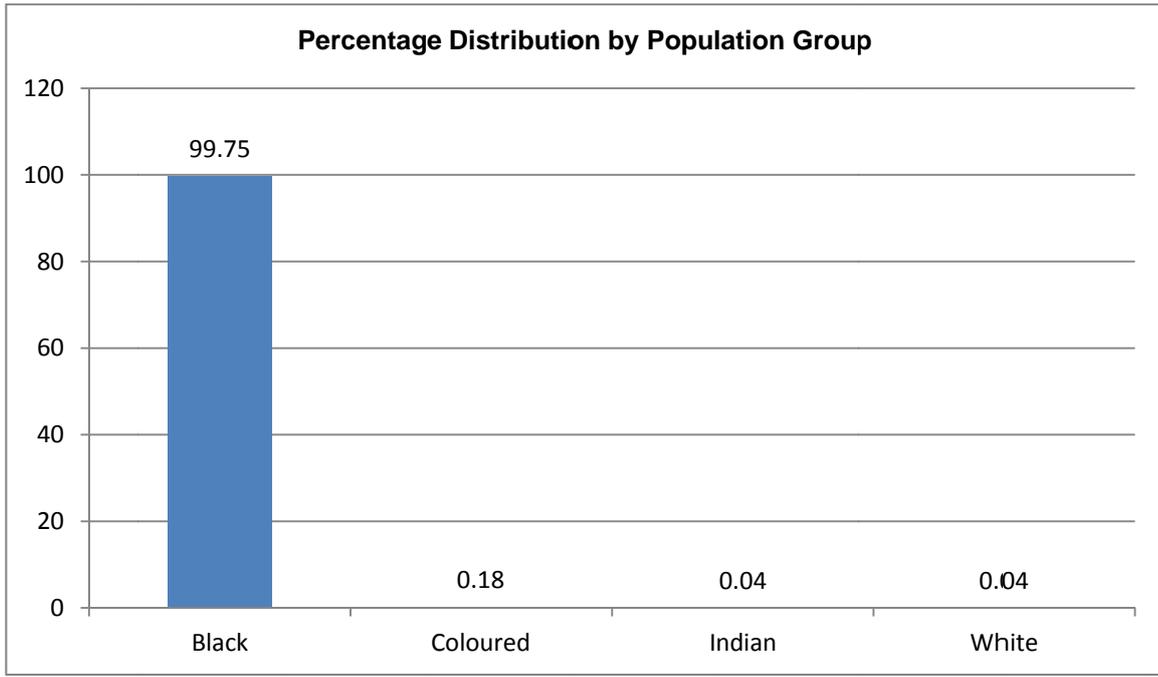
#### POPULATION PROJECTION OF THEMBISILE HANI LOCAL MUNICIPALITY



#### Population groups

Figure 9 shows that the population of Thembisile local municipality was mostly Black based on the estimate from the 2007 Community Survey. 99.7% of the population is Black, and there was hardly any representation of the other race groups.

**PERCENTAGE DISTRIBUTION BY POPULATION OF THLM**



**ENVIRONMENTAL REALITIE**



Derived from the above Bio-diversity plan it is evident that there are certain areas to the eastern side of the municipal area that are of high bio-diversity importance. Certain areas are included in established nature reserves but a

significant amount of areas are unprotected. There are numerous threatened and red data species that are prevalent in the municipal area and the near threatened Giant Bullfrog.

The most critical areas in respect to bio diversity and environmental sensitivity are the Loskop Dam Nature Reserve and the ecological corridors linking the Loskop Dam Nature Reserve with SS Skosana and Mabusa Nature Reserves.

The northern part of the Thembisile Hani Local Municipality is characterized by a mountainous area, which forms part of a number of existing nature reserves. These include the SS Skosana Nature Reserve between Goederede and Mathyszensloop; the Mabusa Nature Reserve between the R573 and the R25; and the Loskop Dam Nature Reserve.

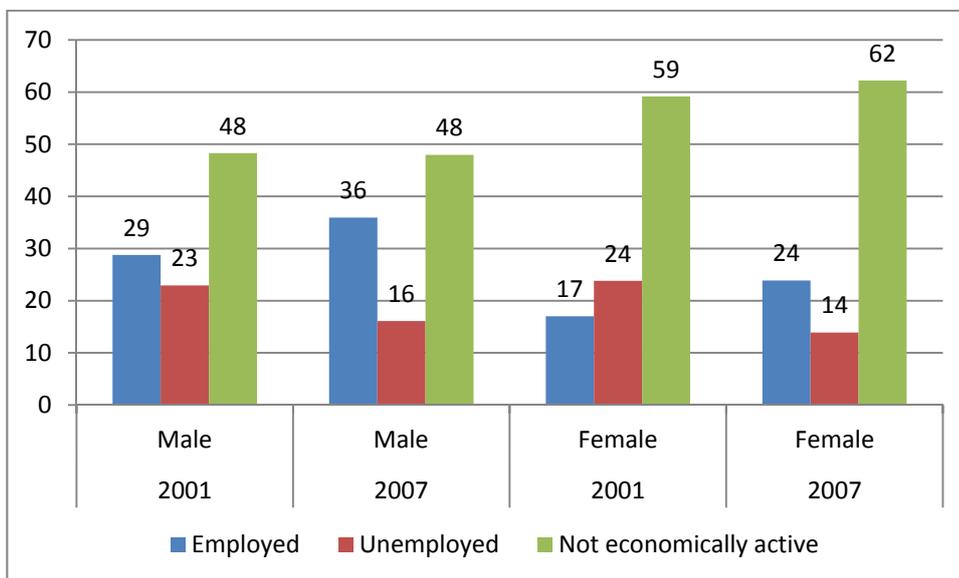
At regional level, there is potential to link all these nature reserves to one another as well as to the Mkhombo Nature Reserve in Dr. J.S. Moroka to form a continuous macro nature reserve. The KwaMhlanga Show Ground it is in the hand of Department of Roads and Public works, we need to speed-up the process of handing over to the municipality for effective utilisation.

**ECONOMIC REALITIES**

**Employment levels**

Employment status for the population in the economically active group (15 to 65 years old). Percentage Employment increased modestly in the municipality between 2001 and 2007. About 36% of males and 24% females were employed in 2007. Figure 6 further indicate that there has been a reduction in the percentage unemployed in the district between 2001 and 2007 for both males and females, although employment remains higher for males than for females. About 23% of females were unemployed in 2001 compared to 22% of males in economically active ages. By 2007, this was reduced to 16% for males and 15% for females. The higher percentage of unemployment among men compared to females in 2007 is a function of a higher percentage of females in the economically inactive group compared to males.

**EMPLOYMENT STATUS 2001 AND 2007**



**Source: StatsSA, Census 2001 and Community Survey 2007**

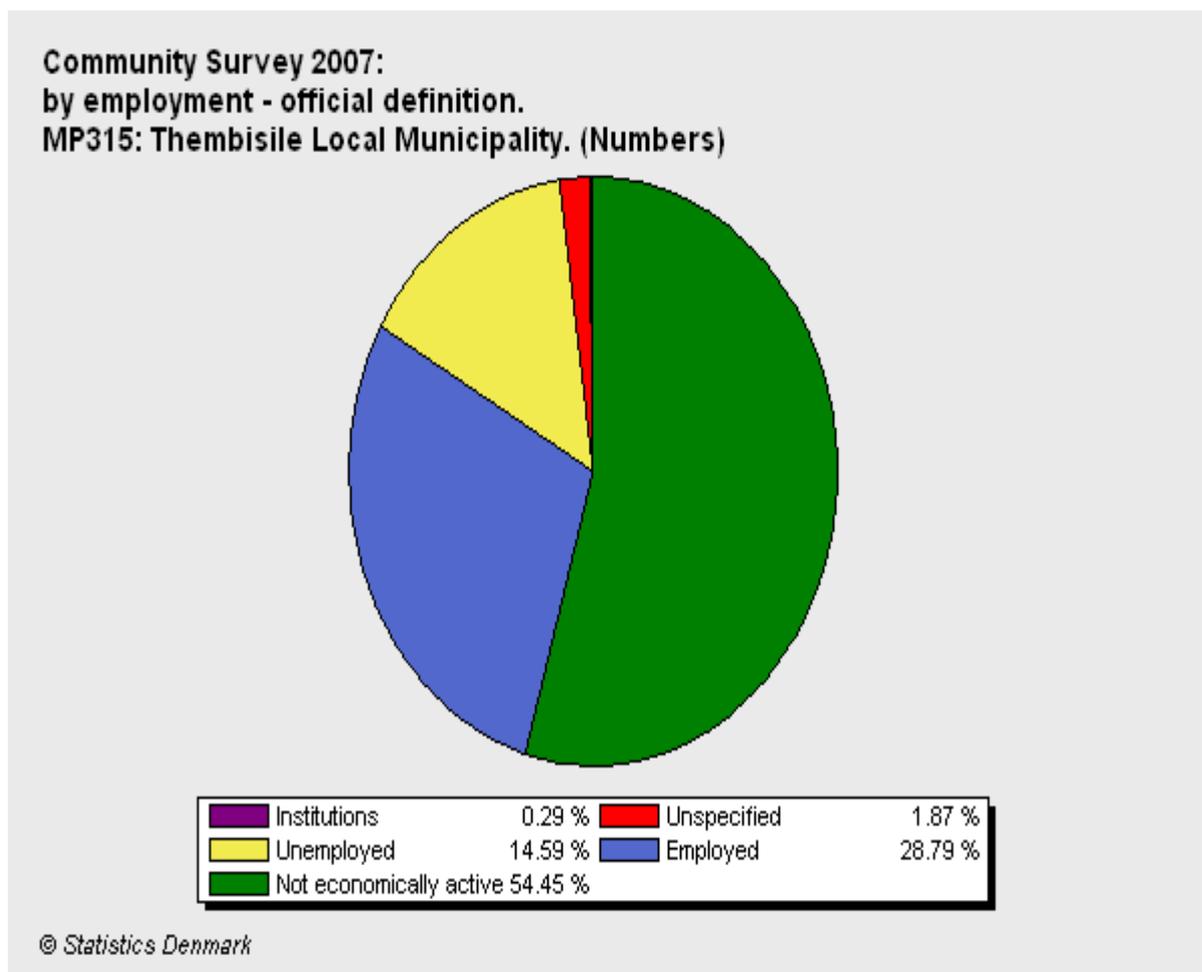
The Thembisile Hani Local Municipality is characterized by high levels of unemployment and poverty. Based on IDP 2009-2010. The 2007 Community Survey it is estimated that only 28% of the population between the ages of 15 and 65 are employed. While the exact figures are not yet available to the municipality, there are already indications that the

global economic downturn is beginning to impact negatively in the Thembisile Hani Local Municipality area as it does to the rest of the country.

It is also noticeable from the table above that there are significant distortions in gender and employment status, with a noticeable higher amount of women who are unemployed.

The loss of jobs and the decline in new job opportunities that are taking place in some of the industries in neighbouring urban areas such as Witbank, Middelburg and Pretoria herald a difficult era for areas such as Thembisile from which people have moved to seek employment opportunities in urban centres.

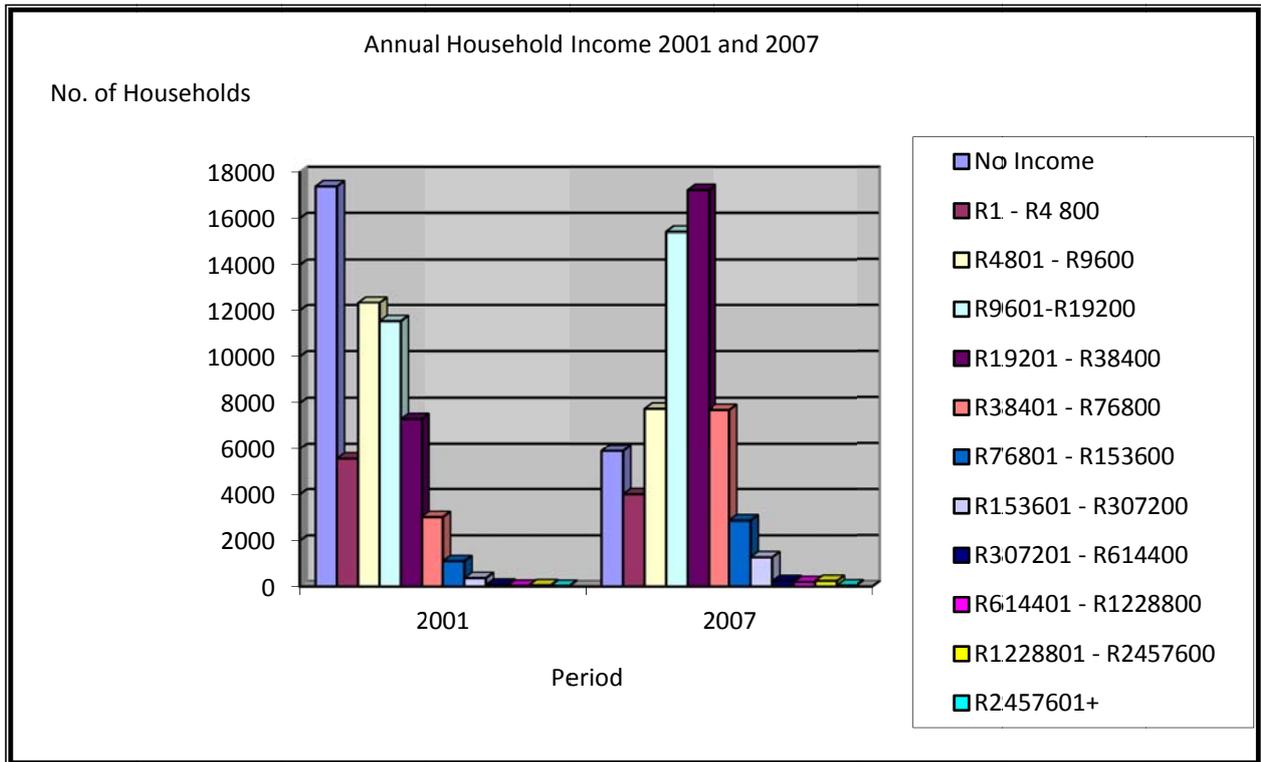
#### EMPLOYMENT-OFFICIAL DEFINITION



#### Income Levels

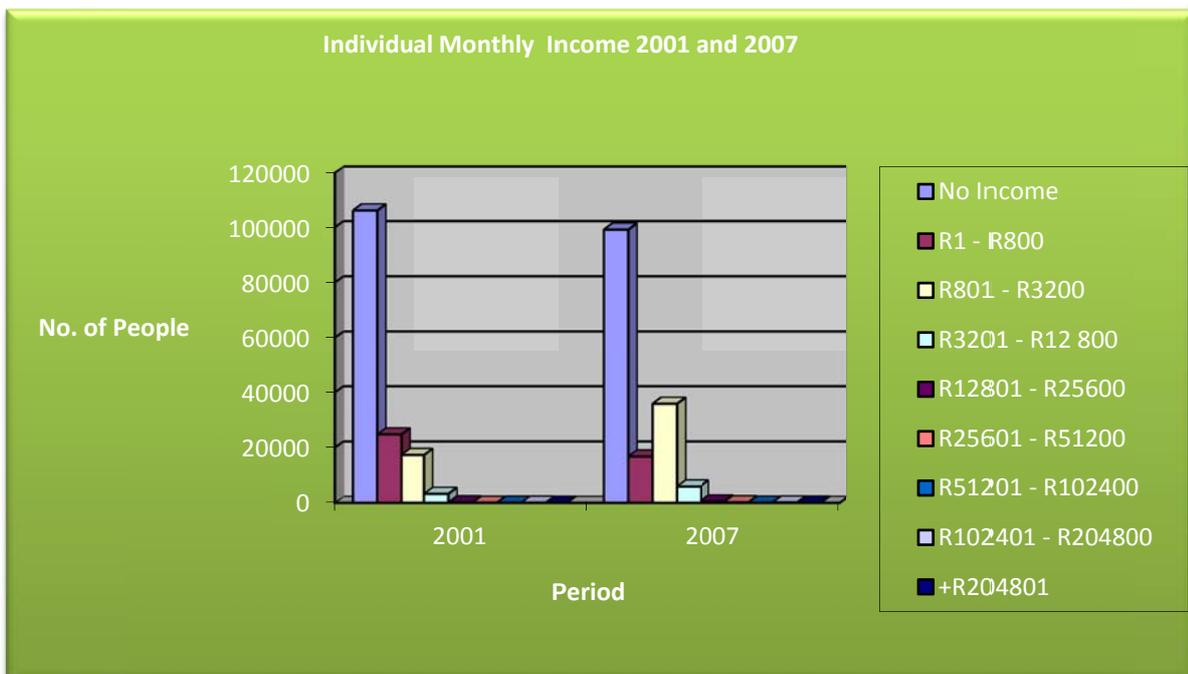
The main sources of income in the municipality are from social services; work in the manufacturing sector, trade and farming. This means that the municipality must concentrate on labour intensive programmes and skills development when rendering municipal services. As indicated above this situation also indicates that social services programmes e.g. social relief must be intensified within the area. The table below depicts this situation.

**ANNUAL HOUSEHOLD INCOMES 2001 AND 2007**



The graph above depicts a decrease in the number of households with no income between 2001 and 2007. This is a positive sign which indicates that there are quite a number of households that are earning something to sustain themselves regardless of how much that is. Another decline was recorded in the number of households with an annual income of between R1 to R4 800 as well as between RR4 801 and R9 600. However, there are increases in the other income brackets up to the highest category. That is, between R9 601 and plus R2 457 601.

**INDIVIDUAL MONTHLY INCOMES 2001 AND 2007**



The graph above indicates a decline in the number of individuals without income. There are also increases in the number of individuals in all the income brackets. This is a sign that individuals and could be favorably compared with a

drop in unemployment rate in the municipality. In the towns and villages, specifically the towns along the regional activity spines are characterised by both formal and informal commercial activities. The economic base of Thembisile Hani local municipality is made up of government services, agriculture and informal economy. As mentioned above, the current global and economic situation is likely to hit areas like Thembisile Hani Local Municipality the hardest as loss of jobs and the decline in households' spending power would mean difficulties in payments for municipal services but also the increase in the number of indigent households.

## **AUDITOR GENERAL REPORT**

### **MANAGEMENT REPORT**

### **THEMBISILE HANI LOCAL MUNICIPALITY**

**30 JUNE 2011**

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## **FINAL MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THE THEMBISILE HANI FOR THE YEAR ENDED 30 JUNE 2011**

### **INTRODUCTION**

1. This management report includes audit findings arising from the audit of the financial statements, reporting on predetermined objectives and compliance with laws and regulations for the year ended 30 June 2011 which were communicated to management and includes their response to these findings. The report also includes information on the internal control deficiencies that were identified. Addressing these deficiencies will assist in ensuring an improvement in the audit outcomes.
2. The management report consists of executive summary and detailed audit findings which are contained in annexures A, B and C.

### **THE AUDITOR-GENERAL'S RESPONSIBILITIES**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003), our responsibility is to express an opinion on the financial statements and to report on findings relating to our audit of the report on predetermined objectives and compliance with material matters in laws and regulations applicable to the entity. Our engagement letter sets out our responsibilities in detail. These include the following:
  - Performing procedures to obtain audit evidence about the amounts and disclosures in the [consolidated] financial statements, the report on predetermined objectives and compliance with laws and regulations applicable to the entity. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the [consolidated] financial statements, the report on predetermined objectives and material non-compliance with laws and regulations.
  - Considering internal controls relevant to the entity's preparation and fair presentation of the financial statements, the report on predetermined objectives and compliance with laws and regulations.
  - Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management.
  - Evaluating the appropriateness of systems and processes that ensure the accuracy and completeness of the financial statements, the report on predetermined objectives and compliance with laws and regulations.
4. Because of the test nature and other inherent limitations of an audit, we do not guarantee the completeness and accuracy of the financial statements or the report on predetermined objectives or compliance with all applicable laws and regulations.
5. Having formed an opinion on the financial statements, we may include additional communication in the auditor's report that does not have an effect on the auditor's opinion. These may include:
  - an emphasis of matter paragraph to draw users' attention to a matter presented or disclosed in the financial statements which is of such importance that it is fundamental to their understanding of the financial statements.
  - an additional matter paragraph to draw users' attention to any matter, other than those presented or disclosed in the financial statements, that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

### **THE ACCOUNTING OFFICER'S RESPONSIBILITIES**

6. The accounting officer responsibilities are set out in detail in the engagement letter. These include the following:
  - The preparation and fair presentation of the financial statements in accordance with the Standards of Generally Recognised Accounting Practice (GRAP).
  - Planning, monitoring of and reporting on performance against predetermined objectives.

- Review and monitoring of compliance with laws and regulations and disclosing known instances of non-compliance or suspected non-compliance with laws and regulations.
- Designing, implementing and maintaining proper record keeping and internal controls necessary to enable the preparation of financial statements and the report on predetermined objectives that are free from material mis-statement whether due to fraud or error, and compliance with laws and regulations.
- Designing and implementing formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.
- Implementing appropriate risk management activities to ensure that regular risk assessments are conducted.
- Disclosing all matters concerning any risk, allegation or instance of fraud.
- Accounting for and disclosing related-party relationships and transactions.
- Providing access to all information that is relevant to the preparation of the financial statements and performance information, such as records and documents.

## **SECTION 1: Meetings with oversight bodies and those charged with governance**

7. During the audit cycle we met with key stakeholders to communicate matters relating to the audit outcomes of the municipality and emerging risks. Insight was provided on the key controls that impact these audit outcomes to enable corrective action to be taken.
8. Meetings were conducted as follows:
  - Executive Mayor : ( 21/07/2011)
  - Accounting officer:
    - (28/09/2011)
    - (04/10/2011)
    - (11/10/2011)
    - (18/10/2011)
    - (25/10/2011)
    - (01/11/2011)
    - (08/11/2011)
    - (15/ 11/2011)
    - (18/11/2011)
  - Audit committee : (23 /02/ 2011)
9. At these meetings commitments were made to address improvements in the internal control environment with the objective of achieving clean administration. Progress made on these commitments is discussed later in this report.

## **SECTION 2: MATTERS RELATING TO THE AUDITOR'S REPORT**

### **PART A – MISSTATEMENTS IN THE FINANCIAL STATEMENTS**

10. Material misstatements in the financial statements were identified during the audit. These misstatements were not prevented or detected by the Municipality
11. Quality's system of internal control. These material misstatements also constitute non-compliance with the MFMA and DoRA. The misstatements not corrected form the basis for the qualified opinion on the financial statements.

Material mis-statements		Impact  R	Internal control deficiency
Financial statement item	Finding  (brief description of mis-statements as per findings and audit report)		
<b>Material misstatements not corrected</b>			
Accumulated surplus	No supporting documentation to verify reconciling items adjusted from the previous year	12 969 837	Lack of controls over daily and monthly processing and reconciling of transactions
Trade and other receivables	No supporting documentation to verify amount included in receivables – prior year adjustments	14 228 018	Lack of controls over daily and monthly processing and reconciling of transactions
Trade and other payables	No supporting documentation to verify amounts included in payables – prior year adjustments	2 171 099	Lack of controls over daily and monthly processing and reconciling of transactions
Property, plant and equipment	Physical existence of infrastructure and assets under construction could not be verified	57 875 766	Lack of controls over daily and monthly processing and reconciling of transactions. No regular fixed asset verifications reconciled to FAR.
Revenue: licences and permits, service charges, rates	No system of internal control, no procedures could be performed to determine completeness accuracy and occurrence of revenue	38 267 354	Lack of controls over daily and monthly processing and reconciling of transactions.
Cash flow statement	Unable to determine completeness and accuracy of the cash flow information, due to other bases for the qualification	Unknown	Lack of controls over daily and monthly processing and reconciling of transactions.
Irregular expenditure	Could not determine completeness of irregular expenditure disclosed	Unknown	Lack of controls over daily and monthly processing and reconciling of transactions.
Leases	Non-disclosure of future commitment of operation lease payments	Unknown	Lack of controls over daily and monthly processing and reconciling of transactions.

Material mis-statements		Impact  R	Internal control deficiency
Financial statement item	Finding  (brief description of mis-statements as per findings and audit report)		
<b>Material misstatements corrected</b>			
Provisions and operating expenses	Cost of rehabilitation of the dumping site not provided for	8 626 160	No review and monitoring of compliance with applicable laws and regulations
Trade and other payables and accumulated surplus	Reversal of incorrectly recognised debtors, debtors were raised for deposit not actually received	6 550 547	Lack of controls over daily and monthly processing and reconciling of transactions
Operating expenses and cash and cash equivalents	Reversals of incorrect journals processed (double counted)	2 821 045	Lack of controls over daily and monthly processing and reconciling of transactions
Trade and other receivables	Reversal of overstatement of provision for bad debts	6 550 547	Lack of controls over daily and monthly processing and reconciling of transactions
Accumulated surplus and cash and cash equivalents	Processing of various debit orders for 2008 and 2009 not recorded in the accounting records	3142 890	Lack of controls over daily and monthly processing and reconciling of transactions
2010 Operating expenses and cash and cash equivalents	Processing for various debit for 2010 not recorded in the accounting records	2 343 910	Lack of controls over daily and monthly processing and reconciling of transactions
2011 Operating expenses and cash and cash equivalents	Processing of various debit orders for 2011 not processed at the reconciliation (Could not be verified)	2 088 349	Lack of controls over daily and monthly processing and reconciling of transactions
Accumulated surplus and cash and cash equivalents	Recording of cash payments previously not recorded on the cash book	12 969 837	Lack of controls over daily and monthly processing and reconciling of transactions
Other Debtor	Clearing items not reconciled 2009/2010	14 078 188	Lack of controls over daily and monthly processing and reconciling of transactions

Material mis-statements		Impact  R	Internal control deficiency
Financial statement item	Finding  (brief description of mis-statements as per findings and audit report)		
Other Creditors	Clearing items not reconciled 2009/2010	2 171 099	Lack of controls over daily and monthly processing and reconciling of transactions
Trade and other receivables and cash and cash equivalents	Recording of cash payments that were previously not recorded in the cash book but recorded on bank	14 078 188	Lack of controls over daily and monthly processing and reconciling of transactions
Accumulated surplus and property, plant and equipment	Write down of moveable assets not physically verified by management to R1 each	9 944 288	No proper record keeping to ensure that complete, relevant and accurate information is accessible and available to support financial reporting
Property, plant and equipment and accumulated surplus	Recognition of donated assets at fair value (2010 donations)	10 050 834	Lack of controls over daily and monthly processing and reconciling of transactions
Property, plant and equipment and other income	Assets acquired through donations (2011)	2 154 407	Lack of controls over daily and monthly processing and reconciling of transactions
Accumulated surplus and property, plant and equipment	Correction of typing error on fixed assets register	232 582 863	No proper record keeping to ensure that complete, relevant and accurate information is accessible and available to support financial reporting
Operating expenses and property plant and equipment	2010/2011 Sanitation for VIP Toilets incorrectly capitalised	15 328 380	Lack of controls over daily and monthly processing and reconciling of transactions
Operating expenses and property plant and equipment	2010/2011 Expenses for VIP Toilets incorrectly capitalised	19 276 588	Lack of controls over daily and monthly processing and reconciling of transactions

Material mis-statements		Impact  R	Internal control deficiency
Financial statement item	Finding  (brief description of mis-statements as per findings and audit report)		
Interest income and cash and cash equivalents	Interest on FNB current account not accounted for in the current year	2 140 838	Lack of controls over daily and monthly processing and reconciling of transactions
Unspent conditional grants and revenue	Understatement of grant income recognised in income and overstatement of unspent grant revenue	17 487 275	Lack of controls over daily and monthly processing and reconciling of transactions
Unspent conditional grant and accumulated surplus	Grant not recognised as per the GRAP requirements rather than per IAS	42 207 283	Lack of controls over daily and monthly processing and reconciling of transactions
Unspent conditional grants and revenue	Reversal of duplicated adjustment for unspent grants	42 207 283	Lack of controls over daily and monthly processing and reconciling of transactions
Trade and other payables and trade and receivables	Reclassification of licence fees from trade and other payables to trade and other receivables	4 570 787	Lack of controls over daily and monthly processing and reconciling of transactions
Trade and other payables and cash and cash equivalents	Recording of reconciling items (deposits in bank statement and not in cash book) relating to 2010/2011 financial year end.	2 475 758	Lack of controls over daily and monthly processing and reconciling of transactions
Trade and other payables and cash and cash equivalents	Recording of reconciling items (deposits in bank statement and not in cash book) relating to 2010/2011 financial year end.	2 171 100	Lack of controls over daily and monthly processing and reconciling of transactions
Operating expenses and cash and equivalents	Amount incorrectly recorded duplicated in the general ledger	3 409 693	Lack of controls over daily and monthly processing and reconciling of transactions

## **PART B – MATTERS TO BE BROUGHT TO THE ATTENTION OF THE USERS**

### **EMPHASIS OF MATTER PARAGRAPHS**

An emphasis of matter paragraph will be included in our auditor's report to highlight the following matters to the users of the financial statements:

#### **Financial reporting framework**

12. Not applicable

#### **Significant uncertainties**

13. No matters identified

#### **Restatement of corresponding figures**

14. As disclosed in note 26 to the financial statements, the corresponding figures for 30 June 2010 were restated as a result of errors identified during 2011 in the financial statements of the Thembisile Hani Municipality at, and for the year ended, 30 June 2010.

#### **Funding of operations/ financial sustainability/ going concern**

15. No matters identified

#### **Unauthorised / irregular /fruitless wasteful expenditure**

16. As disclosed in note 31 to the financial statements, the municipality incurred irregular expenditure to the value of R39 499 002 as a result of non-compliance to the supply chain management regulations.

#### **Material losses/ Impairments**

17. No matters identified.

#### **Material under spending of the conditional grant / Conditional grant not spent in accordance with the purposes for which it was intended**

18. No matters identified.

#### **Other**

19. No matters identified.

### **ADDITIONAL MATTER PARAGRAPHS**

20. An additional matter paragraph will be included in our auditor's report to highlight the following matters to the users of the financial statements:

#### **Prior year audit conducted by a predecessor auditor**

21. Not applicable.

#### **Material inconsistencies in other information included in the annual report**

22. I have not received the draft annual report to verify if there are any material inconsistencies with the financial statements.

#### **Unaudited supplementary schedules**

23. Not applicable.

#### **Financial reporting framework**

24. Not applicable.

## **Other**

25. Not applicable.

## **PART C – REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

### **FINDINGS ON THE REPORT ON PREDETERMINED OBJECTIVES**

Included below are the findings raised during our audit of the report on predetermined objectives.

#### **Presentation of information**

26. The Thembisile Hani Local Municipality did not prepare the annual performance report in terms of section 46 of the MSA, and section 121(3) (c) of the MFMA.

#### **Usefulness of information**

27. For the selected objectives 100% of the planned and reported targets were not measurable in identifying the required performance;

#### **Planned and reported measures not well defined**

28. For the selected objectives, 100% of the planned measures were not clear, as unambiguous data definitions were not available to allow for data to be collected consistently.

### **FINDINGS ON COMPLIANCE WITH LAWS AND REGULATIONS**

Included below are findings on material non-compliance with laws and regulations applicable to the municipality

#### **Annual Financial Statements and annual report**

29. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act. Material misstatements of capital assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

30. The mayor did not table the 2009-10 annual report of the municipality in the council within seven months after the end of the financial year, as required by section 127 of the MFMA.

31. The performance report for the financial year under review was not prepared as required by section 46 of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA), read with section 121(3)(c) of the MFMA.

2

#### **Budgets**

32. The mayor did not submit all quarterly reports to council on the implementation of the budget and the financial state of affairs of the municipality within 30 days after the end of each quarter, as required by section 52(d) of the Municipal Finance Management Act.

33. The accounting officer did not always submit the monthly budget statements to the mayor and/or the relevant provincial treasury, as required by section 71(1) of the Municipal Finance Management Act.

#### **Internal Audit**

34. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes as required by section 45(1)(a) of the Municipal Systems Act and Municipal Planning and Performance Management Regulation 14.

35. The internal audit processes and procedures did not include assessments of the functionality of the

municipality's performance management system and whether the system complied with the requirements of the Municipal Systems Act as required by Municipal Planning and Performance Management Regulation 14.

36. The internal auditors of the municipality did not audit the performance measurements on a continuous basis and did not submit quarterly reports on their audits to the municipal manager and the performance audit committee as required by Municipal Planning and Performance Management Regulation 14.

### **Procurement and contract management**

37. Awards were made to providers whose directors or principal shareholders were persons in the service of other state institutions, in contravention of the requirements of SCM Regulation 44. Furthermore, the providers failed to declare that they were in the service of the state, as required by SCM Regulation 13(c).

### **Human resource management**

38. The municipal manager did not provide job descriptions for each post on the staff establishment, as required by section 66(1)(b) of the MSA.

### **Expenditure**

39. The accounting officer did not take reasonable steps to prevent irregular expenditure, as required by section 62(1)(d) of the Municipal Finance Management Act.

### **Asset management**

40. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which accounts for the assets of the municipality as required by section 63(2)(a) of the Municipal Finance Management Act.

41. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of internal control for assets (including an asset register), as required by section 63(2)(c) of the MFMA.

### **INTERNAL CONTROL**

42. In accordance with the PAA and in terms of General notice *1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for [qualified/adverse/disclaimer of] opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

### **Leadership**

43. The accounting office did not implement effective human resource management to ensure that adequate and sufficiently skilled resources were in place and that performance was monitored.
44. The accounting officer did not establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities.

### **Financial and performance management**

45. The accounting officer did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
46. The accounting officer did not implement controls over daily and monthly processing and reconciling of transactions.
47. The accounting officer did not review and monitor compliance with applicable laws and regulations.

### **Governance**

48. The accounting officer did not ensure that there is an adequately resourced and functioning internal audit unit

that identifies internal control deficiencies and recommends corrective action effectively.

49. The accounting officer did not ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.

**PART D – OTHER REPORTS**

**INVESTIGATIONS**

50. Investigations in progress

Description (include information on types of transgressions being investigated)	Reason		
	Supply chain management	Fraud	Financial misconduct
Information requested and not received			

51. Investigations completed during the financial year

Description (include information on types of transgressions being investigated)	Reason		
	Supply chain management	Fraud	Financial misconduct
Information requested and not received			

**PERFORMANCE AUDITS**

52. None

**AGREED-UPON PROCEDURES ENGAGEMENT**

53. None

**DONOR FUNDING**

54. None

**SPECIAL AUDITS**

55. None

**SECTION 3: CONCLUSION ON THE REPORT ON PREDETERMINED OBJECTIVES**

Included below are the findings resulting from the audit of the report on predetermined objectives:

**Presentation of information**

56. The Thembisile Hani Local Municipality did not prepare the annual performance report in terms of section 46 of the MSA, and section 121(3) (c) of the MFMA.

**Usefulness of information**

57. For the selected objectives 100% of the planned and reported targets were not measurable in identifying the required performance;

**Planned and reported measures not well defined**

58. For the selected objectives, 100% of the planned measures were not clear, as unambiguous data definitions were not available to allow for data to be collected consistently.

**Additional matter**

59. No other matters

**SECTION 4: SPECIFIC FOCUS AREAS**

**PART A – SIGNIFICANT FINDINGS FROM THE AUDIT OF PROCUREMENT AND CONTRACT MANAGEMENT**

60. The audit included an assessment of procurement processes, contract management and controls of the municipality, which should ensure a fair, equitable, transparent, competitive and cost-effective supply chain management (SCM) system that complies with legislation and minimises the likelihood of fraud, corruption, favouritism and unfair and irregular practices. The assessment has indicated the following deficiencies:

**Irregular expenditure**

61. R 60 021 977 of irregular expenditure was incurred in the period as a result of the contravention of SCM legislation. 100% of the irregular expenditure was identified during the audit process. The incomplete identification of SCM irregular expenditure was as a result of lack of inadequate processes and procedures to identify irregular expenditure with regards to SCM.

**Limitations on audit**

62. Sufficient appropriate audit evidence could not be provided that 17 of the 27 of selected contracts awarded and that 8 of the 82 of selected quotations . No alternative audit procedures could be performed to obtain reasonable assurance that the expenditure incurred on these awards was not irregular. The client was not able to provide the following :

- No minutes were provided for the bid evaluation and bid adjudication committees
- No minutes were provided for the bid specifications committee.
- Payment vouchers were not received
- Tender documents were not received
- Declarations of interest as required by the SCM model policy

63. The limitations experienced were as a result of missing documentation and inadequate documents management systems . As a result of the limitations experienced, the findings reported in the rest of this section might not reflect the true extent of irregularities and SCM weaknesses at the entity.

64. Awards to the value of R1 832 240 were made to persons or entities whose directors/members/principle shareholders/stakeholders were in the service of other state institutions.

**SECTION 5: SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL**

**PART A – ASSESSMENT OF THE ACHIEVEMENT OF CONTROL OBJECTIVES**

65. The achievement of the objectives of internal control is demonstrated by the implementation of key controls. The assessment below is based on significant deficiencies relating to the fair presentation of the financial statements, material misstatements corrected as a result of the audit, findings on predetermined objectives and findings on non-compliance with laws and regulations. Significant deficiencies occur when internal controls either do not exist or are not appropriately designed to address the risk or are not implemented and which either had or could cause the financial statements or report on predetermined objectives to be materially misstated and material non-compliance with laws and regulations to occur. When a significant deficiency is not applicable, it is assessed with a , to indicate that the deficiency still exists but significant progress had been made to address it, while

indicates that urgent attention to the matter is required. Part B gives additional information on the deficiencies that should be addressed. Other deficiencies in internal control, which require the attention of management, are included in the detailed findings attached to this report.

3 Audit dimensions  Fundamentals of internal control	Financial	Performance objectives	Compliance with laws and regulations
	Assessment		
<b>Leadership</b>			
• Provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the best interests of the entity			
• Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls			
• Implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored			
• Establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities			
• Develop and monitor the implementation of action plans to address internal control deficiencies			
• Establish an IT governance framework that supports and enables the business, delivers value and improves performance			
<b>Financial and performance management</b>			
• Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting			
• Implement controls over daily and monthly processing and reconciling of transactions			
• Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information			
• Review and monitor compliance with applicable laws and regulations			
• Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information			
<b>Governance</b>			

<ul style="list-style-type: none"> <li>Implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored</li> </ul>			
<ul style="list-style-type: none"> <li>Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively</li> </ul>			
<ul style="list-style-type: none"> <li>Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment including financial and performance reporting and compliance with laws and regulations</li> </ul>			

**PART B – DETAILS CONCERNING THE ACHIEVEMENT OF INTERNAL CONTROL OBJECTIVES**

**LEADERSHIP**

**Ethical business practices**

66. Management established a formal code of conduct which addressed appropriate ethical and moral behaviour, but the code was not communicated to all staff to properly understand the code and implement it.

**Oversight responsibility regarding reporting and compliance**

67. The accounting officer does not do a paper review of the financial statements and / or the report on predetermined objectives prior to their submission for audit and thus the following matters were not identified and corrected:

- Provision for rehabilitation was not raised and accounted for
- Non disclosure of operating lease
- Incorrect opening balances
- Non disclosure of bank account
- Interest received understated
- Accruals for the current year was not accounted for and disclosed
- Bank reconciliation had uncleared amounts

**Effective human resource management**

68. An assessment of human resource management has identified the following deficiencies:

**Human resource planning and organisation**

69. Findings

- A human resource plan based on the strategic plan of the municipality was not in place.
- The human resource plan did not adequately determine the gap between the existing and required human resources and the actions necessary to address the gap.
- The recruitment, retention, deployment and development actions in the human resource plan were substantially not implemented.
- An approved organisational structure was not in place.
- The organisational structure was not aligned to the strategic plan of the municipality
- Job descriptions did not exist for each post or group of posts.

**Management of vacancies**

## 70. Findings

- Positions in senior management were vacant for more than 12 months.
- Positions in the finance department were vacant for more than 12 months.
- Vacant positions in senior management were not advertised within six months.
- Vacant positions in the finance department were not advertised within six months.
- Vacant positions in the internal audit department were not advertised within six months.

## Overtime

71. Employees worked more than the maximum hour's overtime allowed.

## Implementation of policies and procedures

72. The Thembisile Hani Local Municipality did not have documented and approved internal policies and procedures to address the process of collection/recording/processing/monitoring /reporting of performance information.

## Establishment of an IT governance framework

73. The municipality has not implemented an IT governance framework.

## Status of SCOPA/ oversight resolutions

74. MPAC has been established for municipalities after year end. There has been no resolution taken by MPAC for the year under review.

## FINANCIAL AND PERFORMANCE MANAGEMENT

### Availability of expected information

75. As indicated in our engagement letter, we agreed that all information requested for purposes of the audit would be submitted within 3 working days of the request by the auditors. Despite this agreement, management did not supply the documentation requested within the specified time.

### Controls over daily and monthly processing and reconciling of transactions

76. The municipality's application systems, Munsoft (financial), VIP (payroll) and Natis (traffic fees), are not integrated and no adequate reconciliations are performed

Management did not implement proper monthly bank reconciliation controls as designed for the entity's business processes. Monthly bank reconciliations were not prepared and reviewed

### Formal control over IT systems

77. The municipality has no formal framework that governs the IT controls.

### Adequacy of IT systems for the preparation of the financial statements and the report on predetermined objectives

78. The Thembisile Hani Local Municipality did not adopt a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players, as required in terms of sections 36, 38 and 41(2) of the MSA, and regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

### Adoption of accounting policies/ accounting estimates

79. The municipality has to be fully GRAP compliant by the 2012 financial year end as the transitional provisions will expire then

### **Use of consultants for financial statement preparation**

80. Consultants were appointed by province to assist with the preparation of the financial statements and the preparation of the fixed asset register

The consultants have assisted the municipality in reducing the material misstatement.

There was inadequate transfer of skills and knowledge to the municipality staff.

### **Budget processes**

81. The budget is consistent with relevant National Treasury guidance and format requirements.
82. The budget structure is consistent with the programme structures and strategic objectives as per approved strategic plan.

### **Related-party transactions**

83. The municipality has not implemented controls to: identify, account for and disclose related party relationships and transactions.

### **Monitoring of compliance with laws and regulations**

84. There is a monthly checklist that monitors compliance with laws and regulations . Although the municipality has implemented a process , there were still significant issues raised regarding non-compliance with laws and regulations

### **Accuracy and completeness of financial statements and report on predetermined objectives**

85. The financial statements presented were not accurate and complete financial and performance reports that are supported and evidenced by reliable information. Staff members don't understand the performance information reporting requirements.

The financial statements contained numerous misstatements that were corrected. This was mainly due to staff members not fully understanding the requirements of the financial reporting framework.

## **GOVERNANCE**

### **Risk management**

86. A risk management strategy was drafted by the internal audit unit however this was not communicated to employees. The document was presented to Council in August 2010.

### **Fraud prevention, detection and response**

87. The municipality does not have a formal process to prevent and detect fraud.

### **Internal audit**

88. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes as required by section 45(1)(a) of the Municipal Systems Act and Municipal Planning and Performance Management Regulation 14.
89. The internal audit processes and procedures did not include assessments of the functionality of the municipality's performance management system and whether the system complied with the requirements of the Municipal Systems Act as required by Municipal Planning and Performance Management Regulation 14.
90. The internal auditors of the municipality did not audit the performance measurements on a continuous basis and/or did not submit quarterly reports on their audits to the municipal manager and the performance audit committee] as required by Municipal Planning and Performance Management Regulation 14.

### **Audit committee**

91. The audit committee was appointed after year end. For the year under review the municipality utilised the shared audit committee at Nkangala District Municipality.
92. The workings of the audit committee were hampered by the non-performance of the internal audit unit.

#### **PART C – ACTIONS TAKEN TO ADDRESS MATTERS PREVIOUSLY REPORTED**

##### **Municipal council**

93. Council makes use of MPAC and portfolio committees to investigate matters

##### **Accounting officer**

94. Disciplinary proceedings against any members implicated in fraudulent activities

##### **Chief financial officer**

95. With assistance of the CFO the municipality has been able to reduce the material misstatement in the financial year in comparison to the prior year financial statements. Consultants assisted with the preparation of the fixed assets register for the moveable assets ,

Consultants also assisted the municipality in preparing reconciling items on the bank reconciliation

##### **Other**

96. N/A

#### **PART D – EMERGING RISKS**

##### **Accounting and compliance matters**

97. The municipality has to be fully compliant with GRAP by next financial year of 2012
- New pronouncements/requirements : The CFO relies on updates from the treasury .and Treasury provides training for the new pronouncements and requirements
  - Susceptibility and subjectivity of complex accounting estimates and fair values: In consultation with the Auditor General and Treasury
  - New legislation : The CFO relies on updates from the treasury .and Treasury provides training for the new pronouncements and requirements

##### **Subsequent events**

98. There are no material events after the reporting period to report on.

#### **SECTION 5: ENTITIES CONTROLLED BY THE MUNICIPALITY**

99. In terms of the MFMA, the municipality does not have any entities that are under its control

#### **SECTION 6: RATINGS OF DETAILED AUDIT FINDINGS**

100. For the purposes of this report, the detailed audit findings included in annexure A to C have been classified as follows:
- Matters to be included in the auditor’s report - These matters should be addressed as a matter of urgency.
  - Other important matters – These matters should be addressed to achieve clean administration.
  - Administrative matters – These matters are unlikely to affect the decisions of the users of the financial statements or performance information and should be addressed at the discretion of the entity.

## SECTION 7: CONCLUSION

101. The matters communicated throughout this report relate to the three fundamentals of internal control which should be addressed to achieve sustained clean administration. The AGSA staff remains committed to assisting in the process of identifying and communicating good practices to improve governance and accountability, so as to build public confidence in government's ability to account for public resources in a transparent manner.

Yours sincerely

Nadia Bruwer

30 November 2011

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**Distribution:**

CFO

Audit committee

Head of internal audit

**SUMMARY OF DETAILED AUDIT FINDINGS**

Page. no.	Finding	Classification					Rating			In which years was it reported		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2009/10	2008/09	2007/08
Predetermined objectives												
34	Annual performance report not submitted		✓				✓					
35	Targets not specific, measurable and time bound		✓				✓					
38	Indicators not well defined		✓				✓					
39	Process Management System		✓	✓			✓					
Property, plant and equipment												
40	Assets not on register	✓		✓			✓					
42	Assets not verified	✓		✓			✓					



Page. no.	Finding	Classification					Rating			In which years was it reported		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2009/10	2008/09	2007/08
44	Difference between register and trial balance	✓		✓			✓					
76	Assets not barcoded			✓	✓			✓				
81	Asset manager duties not performed				✓		✓					
118	No controls over movement of assets				✓				✓			
132	Assets verification report not submitted				✓				✓			
151	Contracts not given for audit				✓				✓			
Inventory												
73	Inventory carried at R1	✓						✓				
74	Inventory not verified	✓						✓				
Provisions												

Page. no.	Finding	Classification					Rating			In which years was it reported		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2009/10	2008/09	2007/08
50	Dumping Site Provision	✓					✓					
VAT												
104	VAT 201's not submitted timeously			✓	✓			✓				
Compliance and Procurement												
51	Report not submitted on time			✓			✓					
52	Quartly report not submitted			✓			✓					
60	No supporting document			✓			✓					
62	No information provided for conflict of interest			✓			✓					
64	No Bid evaluation & adjudication minutes			✓			✓					
66	No Bid specification minutes			✓			✓					

Page. no.	Finding	Classification					Rating			In which years was it reported		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2009/10	2008/09	2007/08
103	No segregation of duties for procurement			✓				✓				
167	Composition of Bid adjudication committee			✓				✓				
Revenue												
164	Receipt not banked promptly				✓			✓				
55	No valuation of properties	✓					✓					
53	Limitation of scope on Rental Income and License income	✓				✓						
149	Interest on consumer debtors				✓			✓				
54	No register of properties	✓					✓					
56	Rates not charged on all properties	✓					✓					
83	Grant allocated not received	✓			✓			✓				



Page. no.	Finding	Classification					Rating			In which years was it reported		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2009/10	2008/09	2007/08
115	Customer information not validated							✓				
116	Receipt book not used sequentially											
148	Income from services ( segregation )				✓			✓				
Expenditure												
134	Lease contract not signed				✓			✓				
117	Order book not controlled											
110	No procurement document	✓			✓		✓					
135	Payment on expired lease agreement	✓		✓			✓					
101	Prior year cut off	✓			✓			✓				
102	Recorded supplier different from invoice				✓			✓				

Page. no.	Finding	Classification					Rating			In which years was it reported		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2009/10	2008/09	2007/08
109	Payment made on Proforma invoice				✓			✓				
57	Invoices not paid within 30 days	✓					✓					
58	Irregular expenditure	✓		✓			✓					
59	Payment without documentation	✓					✓					
39	Financial Statements 2011- General	✓					✓					
46	No journals provided for audit	✓					✓					
Cash and cash equivalents												
48	Unclear Items on reconciliation	✓					✓					
46	Journals not provided for audit	✓					✓					
Employee costs												



Page. no.	Finding	Classification					Rating			In which years was it reported		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2009/10	2008/09	2007/08
68	Vacant Post				✓			✓				
86	Employee related costs	✓			✓			✓				
130	Employees not medical aid				✓			✓				
89	Overtime hours not captured	✓			✓			✓				
92	Excessive overtime			✓				✓				
94	No accruals raised for payroll costs	✓						✓				
95	Suspense account not reconciled				✓			✓				
119	HR policy not adopted				✓				✓			
121	Inadequate controls over overtime process				✓				✓			
96	Leave forms not submitted				✓			✓				



Page. no.	Finding	Classification					Rating			In which years was it reported		
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2009/10	2008/09	2007/08
100	Employees not physically verified	✓			✓			✓				
162	Appointment letter not filled				✓			✓				
106	No job descriptions				✓			✓				
128	Acting allowance not accrued				✓			✓				
91	Annual tax reconciliation not performed				✓		✓					
125	No segregation of duties				✓			✓				
127	Organisational structure not approved				✓			✓				
123	Reconciliation between VIP and Munsoft				✓			✓				

70	Overpayment of councillors				✓				✓			
Receivables												
146	Trade receivable - Policy on provision for doubtful debt not approved				✓				✓			
140	Properties with same erf number on munsoft						✓		✓			
84	Valuation Roll not updated	✓					✓					
85	No documentation of indigent debtors	✓					✓					
136	Poor collection measure				✓				✓			
137	Statement not sent out				✓				✓			
139	Difference between age analysis and TB				✓				✓			
143	Property registered on different owner				✓				✓			
144	Inconsistency between debtors list & valuation roll				✓				✓			
IT controls												
152	Inadequate IT Strategic Management				✓				✓			
153	Lack of a formal IT Project Management Framework				✓				✓			



154	No formal IT risk management framework				✓			✓				
155	Inadequate Vendor management practices				✓			✓				
157	Inadequate Information Technology policy				✓			✓				
158	User Account Management				✓							
160	Password parameters settings				✓				✓			
112	Physical Security & Environmental Controls				✓			✓				
113	Inadequate Disaster Recovery planning				✓			✓				
114	Inadequate backup process				✓			✓				
166	Capacity Planning				✓							
154	No formal IT Risk management framework				✓			✓				



ANNEXURE A: MATTERS AFFECTING THE AUDITOR'S REPORT

**1. Predetermined objectives - Annual performance report not submitted for audit**

**Audit finding**

In terms of Section 121(3) of the Municipal Finance Management Act (MFMA), the annual report of a municipality or municipal entity must include amongst other reports, the annual performance report of the municipality prepared in terms of 1 Section 46 of the Municipal Systems Act as amended by Act 44 of 2003.

The annual performance report that will be included in the annual report of the municipality was not submitted for audit purposes. The municipality instead submitted the integrated Development Plan updated for actual performance.

The accounting officer did not prepare regular, accurate and complete performance reports that are supported and evidenced by reliable information.

Non-submission of the annual performance report would result in non-compliance with the Municipality System Act

**Internal control deficiency**

*Financial and performance reporting*

The accounting officer did not prepare regular, accurate and complete performance reports that are supported and evidenced by reliable information.

**Recommendation**

The accounting officer must develop and implement policies to ensure that the performance reports of all the departments are submitted promptly for audit purposes.

**Management response**

The annual performance report was submitted at the same time with the AFS.

Name:

Position:

Date:

**Auditor's conclusion**

Management response is not valid as the IDP report was submitted for the audit. The indicators could not be reliably measured

This matter will be remain in the management letter to be followed up by management and will form part of the audit report.

## 2. Predetermined objectives - Targets not specific, measurable and time bound

### Audit finding

Chapter 3, paragraph 3.3 of the Framework for Managing Programme Performance Information issued by National Treasury requires that SMART criteria should be used when selecting performance targets, i.e., the target must be Specific, Measurable, Achievable, Relevant and Time-bound. Furthermore, paragraph 12(2) (a) of the Systems Act Regulations requires that a performance target set must be practical and realistic.

However for the selected objectives the planned targets were not:

1. specific in clearly identifying the nature and the required level of performance;
2. measurable in identifying the required performance;
3. time bound in specifying the time period or deadline for delivery.

<b>Public Liaison</b>		<b>Audit comment</b>
<b>KPI</b>	<b>Time frame</b>	
Number of meeting held by ward committees, number of service delivery report submitted, number of refresher courses and training provided	Quarterly	Not specific
Number of complaints registered and feedback given	Oct 2010	Not specific
Appointment of prospective service provider and erection of village name boards	Oct 2010	
Submission of report to council, distribution of newsletter to all strategic points in THLM.	Ongoing	
Appointment of prospective service provider and erection of art works and displaying units	Oct 2010	
<b>Finance Services</b>		
<b>KPI</b>	<b>Time Frame</b>	
An updated data base	Dec 2010	Not specific
Improved collection rate	Dec 2010	Not specific
Improved payment rate by businesses	Dec 2010	Not specific
Implemented MPRA	Dec 2010	
Implementation of online consumer and creditors payment system	Sept 2010	
Implementation of Supply chain policy	Dec 2010	
Preparation of Bank reconciliation	Monthly	

Preparation of Treasury reports, Annual report and Oversight report	Ongoing	
MFMA Steering Committee	Not specified	Not specific and not time bound
<b>Water Services</b>		
<b>KPI</b>	<b>Time Frame</b>	
Water Serviced Plan developed	June 2010	
Identification of wetlands	Dec 2010	
Maintenance and repairs of all pipes, valves, pumps and reservoir.	Not Specified	Not time bound
<b>Sanitation</b>		
<b>KPI</b>	<b>Time Frame</b>	
11500 VIP toilets to be built	March 2011	
Sanitation master plan to be approved	March 2011	
<b>Electricity Services</b>		
<b>KPI</b>	<b>Time Frame</b>	
Completion of reticulation and Installation of the back-up system in the municipal offices	March 2010	
Practical usage of solar system	June 2010	Not specific
<b>Refuse Removal</b>		
<b>KPI</b>	<b>Time Frame</b>	
construction of a landfill site	Aug 2010	
5000 new households registered in the municipal database for refuse collection	Ongoing	Not time bound
<b>Social Development Services</b>		
<b>KPI</b>	<b>Time Frame</b>	

Relocation to the new developed cemeteries	Not specified	Not time bound
Reduced unemployment and increase in number of households with basic income	Ongoing	Not specific and not time bound
Increased human resource performance	Ongoing	Not specific and not time bound
Accessible health service.	Ongoing	Not specific and not time bound

The set targets do not comply with the framework and hence the non-achievement of the targets in the period under review.

### **Internal control deficiency**

#### *Leadership*

The accounting officer does not exercise oversight responsibility over performance information reporting and internal control.

### **Recommendation**

Management must ensure that the SMART criteria are used when selecting performance targets as guided by the Framework for Managing Programme Performance Information.

### **Management response**

Name:

Position:

Date:

### **Auditor's conclusion**

This matter will be included in the audit report.

### **3. Predetermined objectives - Planned indicators not well defined**

#### **Audit finding**

Section 9(1) (b) of the Systems Act Regulations states that a key performance indicator must be measurable, relevant, objective and precise. Furthermore, section 3.2 (b) of the Framework for Managing Programme Performance Information states that a good performance indicator should be:

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.

For the selected objectives the following planned indicator was not clear, with an unambiguous definition to allow for data to be collected consistently.

<b>Water Services</b>	
<b>KPI</b>	<b>Timeframe</b>
Develop waste management by-laws, strategy, programmes and plan	Dec 2010

The set indicators are not in line with the set guidelines which may lead inappropriate reporting of the performance results.

#### **Internal control deficiency**

##### *Leadership*

The accounting officer does not exercise oversight responsibility over performance information reporting and internal control.

#### **Recommendation**

Management must use the set guidelines to set performance indicators for effective reporting of the performance results.

#### **Management response**

Name:

Position:

Date:

#### **Auditor's conclusion**

This matter will be included in the audit report.

#### **4. Predetermined objectives: No performance management system**

##### **Audit finding**

Thembisile Hani Local Municipality did not adopt a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players, as required in terms of sections 36, 38 and 41(2) of the MSA, and regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

##### **Impact**

The information reported in the annual report may not be accurate, valid and complete due to lack of monitoring and evaluation procedures in place.

#### **Internal control deficiency**

##### *Financial and performance management*

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

#### **Recommendation**

Accounting officer should ensure

- that all reported information to be disclosed in the annual report is accurate valid and complete in order to reflect the appropriate results for the period.
- compliance with laws and regulations.

**Management response**

Management agrees with the finding:

The performance management system will be implemented following the organ gram review at the end of October 2010.

Name: Tumelo Ratau

Position: Acting Chief Financial Officer

Date: 20 October 2010

**Auditor’s conclusion**

This matter will be included in the audit report

**5. Property, plant and equipment - Assets not on asset register**

**Audit finding**

As per MFMA Act No. 56, 2003:

**63.** (1) the accounting officer of a municipality is responsible for the management of—

(a) the assets of the municipality, including the safeguarding and the maintenance of those assets; and

(2) the accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure—

**1.** that the municipality has and maintains a management, accounting and Information system that accounts for the assets and liabilities of the

Municipality;

**2.** that the municipality’s assets and liabilities are valued in accordance with Standards of generally recognised accounting practice; and

**3.** that the municipality has and maintains a system of internal control of assets And liabilities, including an asset and liabilities register, as may be prescribed.

We inspected the annual financial statements and identified that the assets with details as listed below were not included on the fixed assets register:

### Assets not on the fixed assets register

	R
Additions for 2010/2011 Financial year ended	24 549 579
Land	3
Building	14
Total	24 549 596

This resulted from the management's failure to implement review control procedures, to ensure completeness of financial information.

This resulted into incomplete recording of assets on the fixed assets register.

### Internal control deficiency

#### *Financial and performance management*

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

### Recommendation

Management should implement procedures to ensure that the asset register is updated regularly. A regular asset count should be performed to verify assets that can be physically verified to those listed on the fixed asset register.

### Management response

Discussed and rectified with the audit team.

Name:

Position:

Date:

### Auditor's conclusion

This matter will be considered in the basis for audit opinion on conclusion of completeness and accuracy of the fixed asset register.

### Property, plant and equipment - Assets not verified

#### Audit finding

As per MFMA Act No. 56, 2003:

**63.** (1) the accounting officer of a municipality is responsible for the management of—

(a) the assets of the municipality, including the safeguarding and the maintenance of those assets; and

(2) the accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure—

(a) That the municipality has and maintains a management, accounting and Information system that accounts for the assets and liabilities of the Municipality;

(b) That the municipality's assets and liabilities are valued in accordance with Standards of generally recognised accounting practice; and

(c) That the municipality has and maintains a system of internal control of assets and liabilities, including an

asset and liabilities register, as may be prescribed.

The following assets that were selected in the sample for verification of assets could not be physically verified for existence:

<b>Asset #</b>	<b>Serial #</b>	<b>Amount (Cost) as per FAR</b>
00038	Computer laptop	14 958
00040	Telephone digital	997
00339	System hi fi speaker	2 676
00340	System hi fi speaker	2 293
00023	Desk corner unit	1
00024	Pedestal 3 drawer	1
00008	Computer monitor	997
00009	Pedestal mobile	1
00010	Computer CPU	2 493
00012	Computer laptop	27 929
00016	Telephone digital	997
00096	Motor vehicle tractor Massey Ferguson	179 506
00098	Grader	1 495 886
00101	Compactor	790 127
00262	Chair boardroom	4 487
00263	Chair boardroom	4 487
00264	Chair boardroom	4 487
00011	Computer printer deskjet	1 994
00275	Chair boardroom	4 487
0001S	Cellphone	7 109
0002S	Cellphone	9 972.58
0003S	Cellphone	9 972.58
00092	Motor vehicle Toyota corolla	145 819.20
06482	Monitor – Mecer	1 625.00
06473	Hard drive	3 900.00

06476	Keyboard	975.00
06484	Monitor	1 625.00
06487	Keyboard	975.00
06475	Hard drive	3 900.00
		2 724 6851

Inadequate controls over movement of assets.

Assets of the municipality may be misappropriated resulting in overstatement of assets.

**Internal control deficiency**

*Financial and performance management*

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

**Recommendation**

Fixed assets verification should be performed by the Municipality at least once annually and the Municipality should maintain a loss register where all stolen or lost assets are recorded and reported to insurance company of the municipality for possible replacement.

Investigations should be instituted by the municipality for all lost assets identified during physical verification of assets and derecognised in the accounting records.

**Management response**

This finding was resolved with the audit team.

Name:

Position:

Date:

**Follow-up s**

**Auditor’s conclusion**

This matter has been considered in the basis for audit opinion on conclusion of completeness and accuracy of assets.

**6. Property, plant and equipment - Difference between asset register and trial balance**

**Audit finding**

In terms of Section 62. (1) Of the MFMA 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—

That full and proper record of the financial affairs of the municipality is kept in accordance with any prescribed norms and standards;

**In terms of Section 63.** (1) of the MFMA the accounting officer of a municipality is responsible for the management of—

(a) The assets of the municipality, including the safeguarding and the maintenance of those assets; and

(2) The accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure—

(a) that the municipality has and maintains a management, accounting and information system that accounts for the assets and liabilities of the Municipality;

(b) that the municipality's assets and liabilities are valued in accordance with Standards of generally recognised accounting practice; and

(c) that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register, as may be prescribed.

A difference, which was not reconciled, was noted between the fixed asset register and the trial balance as detailed below.

	<b>Trial balance (R)</b>	<b>AFS (R)</b>	<b>Fixed asset register (R)</b>	<b>Difference (R)</b>
Other assets	337 483 167	337 483 167	466 503 430	(129 020 263)
Infrastructure	37 447 385	37 447 385	245	37 447 140
	<b>374 930 552</b>	<b>374 930 552</b>	466 503 675	(91 573 123)

The impact of these differences may result in misstatement of financial statements.

#### **Internal control deficiency**

##### *Financial and performance management*

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

#### **Recommendation**

Management should develop and implement processes to ensure that Fixed Assets Register is reconciled regularly to the Trial balance.

#### **Management response**

This matter discussed and rectified with the audit team.

Name:

Position:

Date:

#### **Auditor's conclusion**

The fixed asset register is not updated. This issue is going to remain in the audit report

## 7. Cash and cash equivalents - Journals not provided for audit

### Audit finding

In terms of section 62(1) (c) (i) of the MFMA, the accounting authority of a municipality must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

Good internal controls principles require that prepared non routine journals should be reviewed and authorised by a senior staff member before they are processed into the financial systems. The reviewer should assess the appropriateness and reasonability of journals.

Certain journals which were processed to the general ledger did not have any supporting documentation or explanation. This relates to the following that were selected for audit:

Account Number	Account Description	Date	Journal Number	Details	Amount
MC997601350	FNB Call Account 62147052427	20100730	2072	Acc 1203714251	1 103 425
MC997601350	FNB Call Account 62147052427	20100730	2072	Acc 1203714251	1 084 686
MC997601350	FNB Call Account 62147052427	20110630	2184	Correction Of Error	(2 188 112)
MC997601380	Nedbank 7881527927 Call Dep	20100730	2074	Reversal Of Incorrect	(2 619)
MC997601380	Nedbank 7881527927 Call Dep	20101130	2077	Reversal Of Jnl 2074 Post	2 619

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

Unauthorised journals may be passed without supporting evidence which may lead to misstatement of the cashbook

### Internal control deficiency

#### *Financial and performance management*

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

### Recommendation

Management should design and implement a system of internal control to ensure that all journals processed are filed, together with supporting documentation and are properly authorised.

### Management response

**Name:**

**Position:**

**Date:**

### Auditor's conclusion

## 8. Cash and cash equivalents - uncleared items on the reconciliation

### Audit finding

Section 62(1)(b) of the MFMA state that the Accounting Officer of a Municipality is responsible for managing financial administration of the Municipality and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the Municipality are kept in accordance with prescribed norms and standard.

There were certain long-outstanding items on the bank reconciliation that were not adequately explained due to unavailability of supporting documents. These items dated back to before the year ended 30 June 2008 and continuing to the 2010 financial year. The prior year audit reports included a basis for disclaimer of opinion which also included these items. These items included payments that were either only recorded on the cash book only or the bank statements only as well as deposits that were only recorded on the bank statement and not the cash book.

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

Financial statements could be materially misstated due to these transactions.

### Internal control deficiency

#### *Financial and performance management*

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

### Recommendation

Management should prepare reconciliations on a timely basis in order to identify items that have not been accounted for

The following journals have been proposed to adjust for these unsupported items:

	<b>R</b>
Dr Accumulated surplus	12 969 837
Cr Cash and cash equivalents	12 969 837
Clearing items that could not be reconciled for 2008 and 2009	
Dr Other Debtors	14 078 188
Cr Cashbook	14 078 188
Clearing items that could not be reconciled for 2009/2010 year	
Dr Cash and cash equivalents	2 171 099
Cr Other creditors	2 171 099

Clearing items that could not be reconciled for 2009/2010 year

Dr	Other debtors	149 830
Cr	Cashbook	149 830

Clearing items that could not be reconciled for 2009/2010 year

Dr	Cashbook	158 593
Cr	Interest	158 593

Recording interest on FNB Current Account

### **Management response**

Name:

Position:

Date:

### **Auditor's conclusion**

#### **9. Provisions - Dumping site permit**

##### **Audit finding**

In terms of section 62(1) of the MFMA, the accounting officer of a municipality must ensure that the entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control and is responsible for the management of the expenditure and liabilities of the municipality.

Section 28 of National Environmental Management Act No 107 of 1998 (refer guidance tab) imposes an obligation on every person who causes damages to the environment to take remedial action to remedy the damage caused.

The municipality is dumping waste at the Kwaggafontein site and KwaMhlanga sites, without dumping permits as required by the National Environmental Management Act.

Non-compliance with National Environmental Act-Section 28.

##### **Internal control deficiency**

*Financial and performance management*

The municipality did not review and monitor compliance with applicable laws and regulations.

##### **Recommendation**

The municipality should apply for dumping site permits as required in terms of the Act.

### **Management response**

Name:

Position:

Date:

### **Auditor's conclusion**

These items have been considered in the basis for audit opinion paragraph for audit conclusion.

**10. Noncompliance: Section 71 reports not submitted on time.**

**Audit finding**

The accounting officer must submit to the mayor and the provincial treasury, the monthly budget statements no later than 10 days after the end of each month as required by section 71 of the MFMA.

However, the monthly budget statements for June tabled to treasury

**Impact**

Non-compliance with the set laws and regulations.

**Internal control deficiency**

*Financial and performance management*

The municipality did not review and monitor compliance with applicable laws and regulations.

**Recommendation**

The accounting officer must submit the monthly budget statements to by the 10th of the following month to ensure compliance with the set laws and regulations

**Management response**

Name:

Position:

Date:

**Auditor's conclusion**

This matter will be remain in the management letter to be followed up by management and will form part of the audit report.

**11. Compliance: quarterly reports not submitted.**

**Audit finding**

The requirement in terms of the Municipal Finance Management Act no 56 of 2003 section 11 paragraph 4 states that the accounting officer must within 30 days after the end of each quarter must table in the municipal council a consolidated report of all withdrawals made during the quarter and submit a copy to the relevant provincial treasury and the Auditor General

However, quarterly reports of cash withdrawals were not submitted during the year under review.

Non-compliance with the set laws and regulations.

**Internal control deficiency**

*Financial and performance management*

The municipality did not review and monitor compliance with applicable laws and regulations.

**Recommendation**

The Accounting officer must submit the quarterly reports as required by the act to ensure compliance with the set laws and regulations.

**Management response:**

Name:

Position:

Date:

**Auditor's conclusion**

This matter will be remain in the management letter to be followed up by management and will form part of the audit report.

**12. Revenue – Limitation of Rental income and license income**

**Audit finding**

According to MFMA Section 97, the accounting officer of a municipal entity must take all reasonable steps to ensure—

- (a) that the entity has and implements effective revenue collection systems to give effect to its budget;
- (b) that all revenue due to the entity is collected;

The register of rental income and license incomes were requested on audit request # 19 on 10 October 2011 for audit purposes but the client could not provide the two registers. Thus audit work could not be performed on these revenue categories.

The registers of rental income and license fees are not kept by the municipality.

Limitation of scope on the audit since audit work could not be performed.

**Internal control deficiency**

*Financial and performance management*

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

**Recommendation**

Management should ensure that all audit requests are provided to the auditors for audit purposes within a reasonably time.

**Management response**

Name:

Position:

Date:

**Follow-up s**

**Auditor's conclusion:**

### **13. Revenue – No register of properties**

#### **Audit finding**

Section 23 (1) of the Municipal Property rates no 6 of 2004, stipulates that a municipality must draw up and maintain a register in respect of properties situated within that municipality, consisting of a part A and a Part B. Part A should consist of the current valuation roll of the municipality including supplementary valuations. Part B must specify properties that are subject to exemptions, rebates, phasing in of rates or exclusions referred to in section 17 (1)(a), (e),(g),(h) and (i) of the Act.

The municipality being a local municipality with most area being remote areas, does not maintain a register of properties.

Policies and procedures related to financial reporting are not established and communicated.

Non-compliance to the Municipality System Act

#### **Internal control deficiency**

##### *Financial and performance management*

The municipality did not review and monitor compliance with applicable laws and regulations.

#### **Recommendation**

Register of properties should be kept of properties within the municipality in compliance with the relevant regulations.

#### **Management response**

The assets register was compiled.

Name:

Position:

Date:

#### **Auditor's conclusion**

Impact of the control deficiency is considered not significant as the municipality does not recover most of its revenue from customers.

### **14. Revenue - Valuation of properties not performed**

#### **Audit finding**

Municipal Property Rates Act no. 6 of 2004 section 45 (1) states that, property must be valued in accordance with generally recognised valuation practices, methods and standards, and the provision of this Act.

We noted that the properties in the municipal area were not valued as stipulated by the Act.

There is lack of knowledge and understanding of the relevant regulations.

Contravention of the stipulated regulations may lead to penalty which could result in financial loss to the municipality.

**Internal control deficiency***Financial and performance management*

The municipality did not review and monitor compliance with applicable laws and regulations.

**Recommendation**

Properties in the municipal area must be valued by qualified persons that is registered as Professional Valuers or as a professional associated valuers in terms of the Property Valuers Profession Act, 2000 (Act No. 47 of 2000) (sec 39(a)).

**Management response**

The supplementary valuation roll was compiled.

Name:

Position:

Date:

**Auditor's conclusion**

Management response is not satisfactory as the valuation report was not submitted for the audit. This issue is going to remain in the report to Management as this is a limitation of scope

**15. Revenue - Rates not charged on all properties****Audit finding**

Section 7 (1) of the Municipal Property Rates Act No.6 of 2004 states that: When levying rates, a municipality must, subject to subsection (2), levy rates on all rateable property in its area.

Furthermore, section 97 (b) states that the accounting officer of a municipal entity must take all reasonable steps to ensure that all revenue due to the entity is collected.

A selected number of properties were loaded unto the municipal system for billing and not all rateable properties in the valuation roll were loaded.

All revenue due to the municipality is not charged since not all rateable properties within the municipality area are loaded on Munsoft for billing.

**Internal control deficiency***Financial and performance management*

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

**Recommendation**

In compliance with the Act, the municipality must, subject to subsection (2), levy rates on all rateable property in its area.

**Management response**

The data cleansing project will address the billing errors identified.

Name:

Position:

Date:

**Auditor’s conclusion**

Management response is satisfactory as it address the root cause of the problem .The issue is going to remain in the management report as it is a limitation of scope

**16. Expenditure - Invoices not paid within 30 days**

**Audit finding**

Section 65 2(e) of the Municipal Finance Management Act states that the accounting officer is responsible for managing the expenditure of the municipality and must take reasonable steps to ensure that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement.

We noted that the following expenditure was not paid within 30 days. As per the supplier invoice / statement the difference relates to prior months invoices.

Doc No	supplier	amount more than 30 days overdue as per invoice
22150	RAND WATER	3 880 171
22495	RAND WATER	3 915
BTORAND5	RAND WATER	5 052 098
22805	RAND WATER	5 073 756

This will result in the interest being charged by suppliers on the outstanding amount and such interest will amount to fruitless and wasteful expenditure.

**Internal control deficiency**

*Financial and performance management*

The municipality did not review and monitor compliance with applicable laws and regulations.

**Recommendation**

All suppliers must be paid within 30 days of receiving the invoice. A creditors’ reconciliation should be prepared by expenditure clerk Jessica and approved by the CFO after checking the accuracy of the reconciliation.

### **Management response**

Management agrees with the finding:

There are delays in verifying the water consumption on the meters from Rand Water and Kungwini.

Name:

Position:

Date:

Follow-up s

### **Auditor's conclusion**

Management comment is acceptable but the issue is going to remain on the management report

## **17. Expenditure - Irregular expenditure**

### **Audit finding**

According to Chapter 3 section 1.2.1 of the Supply Chain Management policy, stipulates that the SCM unit shall, after consultation with managers, compile a schedule of procurements for capital projects in respect of each financial year, which schedule shall be attached to the Municipality's budget implementation plan.

Section 6 of the SCM policy requires all procurement documentation for the procurement of goods and services above R30,000 up to R200,000 must be submitted to the SCM unit for advertisement of quotations from the public.

The legal confirmation from Ngwenya Attorneys disclosed that some tenders on civil work and water supply and reticulation projects were awarded without following the municipality's Supply Chain Management policy and without the approval of the Council. Mr Ruiters together with other Municipal Officials awarded tenders without following the Municipality Supply Chain Management.

The number of charges of fraud and corruption were originally 75 against Mr Ruiters and other municipal officials. We refer you to the Gobodo Forensic and Investigative Accounting (Pty) Ltd Report for more details on this irregular expenditure.

### **Internal control deficiency**

#### *Financial and performance management*

Policies and procedures related to financial reporting are not established and communicated.

### **Recommendation**

Management should put in place measures to ensure that appropriate procedures are followed on awarding of tenders.

### **Management response**

Name:

Position:

**Date:**

**Follow-up s**

**Auditor's conclusion**

This has been considered in the basis for audit opinion on concluding on completeness of disclosure for irregular expenditure.

**18. Expenditure – Payment without documentation**

**Audit finding:**

Section 62 (1) (b) of the Municipal Finance Management Act, 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 that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribe

Certain amounts paid to a supplier did not agree to the contract and were there were no invoices provided to support the validity, accuracy and completeness of the expense.

This relates to the following payments made:

Supplier	Doc no.	Recorded amount	Contract amount	Difference
TUKULUGO SECURITY SERVICE	22148	405 942	303 485	102 457
TUKULUGO SECURITY SERVICE	22261	405 943	303 485	102 457
TUKULUGO SECURITY SERVICE	22405	405 943	303 485	102 457
TUKULUGO SECURITY SERVICE	BTTUKULO	405 943	303 485	102 457
TUKULUGO SECURITY SERVICE	BT621719	405 943	303 485	102 457
<b>TOTAL</b>				<b>512 289</b>

Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.

As there is no attached supporting documents for extra payments made, this could be classified as irregular expenditure.

**Internal control deficiency**

*Leadership*

Management has not established and communicated policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities.

**Recommendation**

- All payment supporting documents must be attached to the payment voucher.
- Management should make a disclosure of R 512 289 as irregular expenditure

Management response

Name:

Position:

Date:

Auditor's conclusion

**19. No supporting documentation**

**Audit finding**

According to section 62 (d) of the Municipal Finance Management Act the accounting officer of a municipality should take all reasonable steps to ensure that unauthorised expenditure and other losses are prevented.

No supporting documentation has been provided for the following expenditure.

**Invoices**

Supplier	Amount	Cheque number
MS MOLEBALOA ATTORNEY INC	2112.28	11563
MAANDA AVHAFUMAKADZI	7000	23174
MS MOLEBALOA ATTORNEY INC	2112	BT011563
MABHUDZWANA	2175	22546
VTT INDUSTRIES	26 500	23427
CWENGISA BUSINESS ENTERPR	27 200	23255
YELELA CONSTRUCTION AND P	28600	22152
SANZA TRADING ENTERPRISE	13000	22218
Total	108,699	

**Tender documents**

Supplier	Total payments
VTT INDUSTRIES      CBK	511700.40
MS MOLEBALOA ATTORNEYS CBK	228214.32
BOSUN BRICK (MIDRAND) PCBK	492138.00
Total	1232052.72

Management inappropriately addresses intervention or overriding of internal control

Contravention of section 62 (d) of the Municipal Finance Management Act.

This is unauthorised expenditure

**Internal control deficiency**

*Financial and performance management*

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

**Recommendation**

Management should ensure that payments should be made only for expenditure that has been authorised.

**Management response**

Name:

Position:

Date:

**Follow-up notes**

**Auditor's conclusion**

**20. No information provided for conflict of interest.**

**Audit finding**

According to section 13 (c) of the Municipal SCM Model Policy, a written quotation or bid may not be considered unless the provider who submitted the quotation or bid has indicated:

- (i) whether he or she is in the service of the state, or has been in the service of the state in the previous twelve months;
- (ii) if the provider is not a natural person, whether any of its directors, managers, principal shareholders or stakeholder is in the service of the state, or has been in the service of the state in the previous twelve months; or
- (iii) whether a spouse, child or parent of the provider or of a director, manager, shareholder or stakeholder referred to in subparagraph (ii) is in the service of the state, or has been in the service of the state in the previous twelve months.

No declaration of interest information has been provided for the following suppliers

NGWENYA ATTORNEYS
GOBODO FORENSIC AND INVES
T.P PHAHLA ATTORNEYS
T.S JOKA ATTORNEYS
MS MOLEBALOA ATTORNEY INC
MUNICIPAL & FINANCIAL ADM
VTT INDUSTRIES
ODIRILE INVESTMENTS AND C
CWENGISA BUSINESS ENTERPR
NOMASWAZI CONSTRUCTION AN
YELELA CONSTRUCTION AND P
EYASEKHETH.B.CONSTRUCTION
TIYANE NICHENSANE CC
NGWENYA ATTORNEYS
TRENTYRE
PRAXOS 792 CC
HATFIELD HOLDING (PTY) LT
SANZA TRADING ENTERPRISE
ZEBRATOS TRADING CC
ZITHABISENI RESORT & CONF
SAKHA I AFRICA DEVELOPMEN
ISAKHA I AFRICA DEVELOPME
MEGA
ZITHO TRADING
SANZA TRADING ENTERPRISES
CASNAN CIVILS/LAWMAK CONS
IGODA PROJECTS
ZITHO TRAVEL

Management inappropriately addresses intervention or overriding of internal control.

Non compliance with the Municipal SCM Model Policy.

**Internal control deficiency**

*Financial and performance management*

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

**Recommendation**

Management should ensure suppliers complete a declaration of interest form before their quotation is considered.

**Management response**

Name:

Position:

Date:

**Follow-up notes**

**Auditor's conclusion**

**Follow-up notes**

**Auditor's conclusion**

**21. No bid evaluation and bid adjudication committees minutes**

**Audit finding**

According to the Municipal SCM Model Policy section 28 and 29.

A bid evaluation committee must evaluate bids in accordance with the points system and

**evaluate each bidder's ability to execute the contract.**

A bid adjudication committee must consider the report and recommendations of the bid evaluation committee; and depending on its delegation make a final award or recommendation to the accounting officer to make the final award.

There are no evaluation and adjudication minutes for the following projects:

Supplier Name	Tender number	Total payments
SIPHETSILE CONSULTANT CBK	THLM/MIG/2009/10/Ref no 3	305735.79
LAMOLA INC ATTORNEYS CBK	THLM/SCM/12/2010/11	1471000
PHALA CONSULTING ENGINEERCBK	THLM/MIG/2009/10/REF NO:7	1324524.46
ZITHO TRADING CBK	THLM/SCM4/2010/2011	1760593.08
QUBEKELA PHAMBILI CONSTCBK	THLM/MIG/2009/10/REF8	534529.71
CASNAN CIVILS/LAWMAK COCBK	THLM7/MIG/2009/10	2071788.12
BONANG CONSTRUCTION CC CBK	THLM/MIG/2009/10/REF10	3754904.98
MAHLALERWA CONSTRUCTIONCBK	THLM2/MIG/2009/10	5370832.82
CHILANDO ELECTRICAL CBK	THLM/01/2009	267232.34
GENERIC CORE ENGINEERINCBK	THLM/RS1/2010/11	432054
SAPHUKILE BUSINESS ENTECBK	THLM/MIG/2009/10	2973283.04
Sobek Engineers (Pty) LCBK	THLM/RS1/2010/11	469222.42
STAR-MIRLS CONSTRUCTIONCBK	THLM/MIG/2009/10/REF9	2415419.73
VENUS AFRICA SECURITY CBK	THLM/SCM/18/2010/11	5260664.43
Total		28411784.92

Management inappropriately addresses intervention or overriding of internal control.

Noncompliance with the Municipal SCM Model Policy.

### Internal control deficiency

#### *Financial and performance management*

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

### Recommendation

Management should ensure that SCM policies are adhered to during the procurement process.

### Management response

Name:

Position:

Date:

### Follow-up notes

### Auditor's conclusion

#### **22. No minutes were provided for the bid specifications committee.**

### Audit finding

According to section 27 of the Municipal SCM model Policy a bid specification committee must compile the specifications for each procurement of goods or services, specifications must be drafted in an unbiased manner to allow all potential suppliers to offer their goods or services.

There are no minutes for the bid specifications committee for the following tenders:

Supplier Name	Tender number	Total payments
SIPHETSILE CONSULTANT CBK	THLM/MIG/2009/10/Ref no 3	305735.79
KHABO NO THEMBA INV / LCBK	THLM/6/MIG/2009/10	2184941.31
CASNAN CIVILS/LAWMAK COCBK	THLM7/MIG/2009/10	2071788.12
BONANG CONSTRUCTION CC CBK	THLM/MIG/2009/10/REF10	3754904.98
MAHLALERWA CONSTRUCTIONCBK	THLM2/MIG/2009/10	5370832.82
CHILANDO ELECTRICAL CBK	THLM/01/2009	267232.34
GENERIC CORE ENGINEERINCBK	THLM/RS1/2010/11	432054
QUEBEC LOGISTIC SOLUTIOCBK	THLM/1/MIG/2009/10	4538241.05
SAPHUKILE BUSINESS ENTECBK	THLM/MIG/2009/10	2973283.04
Sobek Engineers (Pty) LCBK	THLM/RS1/2010/11	469222.46

STAR-MIRLS CONSTRUCTIONCBK	THLM/MIG/2009/10/REF9	2415419.73
Total		24783655.64

Management inappropriately addresses intervention or overriding of internal control.

Noncompliance with the Municipal SCM Model Policy.

**Internal control deficiency**

Control activities are not regularly evaluated to ensure that they are still appropriate and working as intended.

**Recommendation**

Management should ensure that SCM policies are adhered to during the procurement process.

**Management response**

Name:

Position:

Date:

**Auditor's conclusion**

**Employee costs - Vacant posts**

**Audit finding**

Section 62 1(c) of the Municipal Finance Management Act states that the accounting officer is responsible for managing the financial administration of the municipality and must take reasonable steps to ensure that full records of the financial affairs of the municipality are kept in accordance with the prescribed norms and standards.

Management could not provide us with the reasons following vacant posts:

MUNIPAL MANAGER
Municipal Manager
Manager Planning
Manager Finance
Manager Technical Services
Manager Social Development Services
Manager Corporate Services
Risk Officer
Internal Auditor x2

**Other Division Vacancies**

Division	Number Vacant Post
Corporate Service	26
Social Service	27
Traffic Department	8
Finance Department	27


Turnaround time to fill vacancies too long

Delay in filling newly created posts

Organisational structure may not be aligned to the integrated development plan and therefore impacting on the achievement of strategic objectives of the municipality.

**Internal control deficiency**

*Leadership*

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

**Recommendation**

Management should implement internal controls over maintenance of records for evidence purposes.

**Management response**

Name:

Position:

Date:

**Auditor's conclusion**

**ANNEXURE B: OTHER IMPORTANT MATTERS**

**Employee costs - Overpayment of Councilors**

**Audit finding**

The Municipal Structures Act, 117 of 1998, section 26 (1) thereof, provides that "a person is elected as a member of a municipal council for a period ending when the next council is declared elected or is appointed as a representative of a local council to the district for a period ending when the next local council is declared elected". It goes further in section 26(2) to provide that "a person assumes office as a councilor when declared elected or when appointed as the case may be".

The aforementioned legislative provisions imply that that the term of office for councilors that were holding office ended on 22 May 2011 and the new term of office will started on the same date.

We noted that the services of approximately 42 Councilor's were terminated on 31 May instead of 22 May resulting on overpayment by 7 days. It was also noted that the municipality has not made any attempts to recover these monies from the Councilor's:

The Councilor's:

Pers Nr.	NAME	Remuneration			
		Per annum	Per month	Per day	X7DAYS

501174	Nkosi V V	582,758	48,563	2,331	16,317
500905	Mahlangu P S	466,205	38,850	1,865	13,054
502813	Ntuli B J	437,068	36,422	1,748	12,238
500894	Mahlangu B N	437,068	36,422	1,748	12,238
500887	Mahlangu N	437,068	36,422	1,748	12,238
501111	Msiza W S	437,068	36,422	1,748	12,238
500735	Danisa M	174,826	14,569	699	4,895
502771	Hlope N E	174,826	14,569	699	4,895
500936	Khumalo T N	174,826	14,569	699	4,895
500013	Kubheka N T G	174,826	14,569	699	4,895
500823	Mabena T L	174,826	14,569	699	4,895
502644	Madihlaba P K	174,826	14,569	699	4,895
502725	Mahlaela L L	174,826	14,569	699	4,895
502636	Mahlangu L N	174,826	14,569	699	4,895
500855	Mahlangu M J	174,826	14,569	699	4,895
502958	Mahlangu M M	174,826	14,569	699	4,895
502629	Mahlangu T N	174,826	14,569	699	4,895
500101	Makwakwa N E	174,826	14,569	699	4,895
500929	Maluleka M G	174,826	14,569	699	4,895
502820	Masango M S V	174,826	14,569	699	4,895
500125	Masombuka D D	174,826	14,569	699	4,895
500968	Masombuka S M	174,826	14,569	699	4,895
502605	Matsheni K M	174,826	14,569	699	4,895
500291	Mlambo M J	174,826	14,569	699	4,895
502732	Moekwa R M	174,826	14,569	699	4,895
P531936	Mohapi A T L	174,826	14,569	699	4,895
501062	Mokone M P	174,826	14,569	699	4,895
502891	Mokwena O E	174,826	14,569	699	4,895

501087	Monareng T M	174,826	14,569	699	4,895
501104	Msiza M	174,826	14,569	699	4,895
502512	Mtshweni K M	174,826	14,569	699	4,895
502876	Mtswene M W	174,826	14,569	699	4,895
P533703	Mahlangu J P	174,826	14,569	699	4,895
502837	Ndlovu S E M	174,826	14,569	699	4,895
502852	Nkosi S	174,826	14,569	699	4,895
502683	Nkwanyana B A	174,826	14,569	699	4,895
502902	Ntuli D	174,826	14,569	699	4,895
501182	Ntuli D J	174,826	14,569	699	4,895
501216	Phakathi N E	174,826	14,569	699	4,895
501223	Ramalekane S A	174,826	14,569	699	4,895
502965	Ndala J	174,826	14,569	699	4,895
502926	Skosana R J	174,826	14,569	699	4,895
502675	Ramphisa M S	174,826	14,569	699	4,895
		<b>9,265,797</b>	<b>772,150</b>	<b>37,063</b>	<b>259,442</b>

### Recommendation

Management should take steps to recover the monies overpaid to Councilor's and ensure that fruitless and wasteful expenditure in relation to these payments is disclosed on the annual financial statements. Management should institute processes to ensure that councilors are terminated on the accurate date in accordance with the laws and regulations.

### Management response

Management agree with the finding

The Municipality performs its payroll on 21<sup>st</sup> of each month. The payroll for May 2011 was processed before the election results were issued.

The SALGA notification was received by the Municipality after the payroll had already been processed.

The Municipality will recover the monies as follows:

- Write letters to all councilors;
- All councilors that served reside around the Municipality, we can include the amount in their monthly bills.

Name

Position:

Date:

### **Follow-up s**

#### **Auditor's conclusion:**

Fruitless and wasteful expenditure and the steps being undertaken by Municipality to recover this has been disclosed in the annual financial statements. The completeness of fruitless and wasteful expenditure has been included in the basis for audit opinion with regards to this and other instances identified.

### **23. Inventory - Inventory carried at R 1**

#### **Audit finding**

In terms of section 63(2), "The accounting officer is should take reasonable steps to ensure that the municipality:

- (a) Has and maintains a management, accounting and information system that accounts for the assets of the municipality.
- (b) That the municipality's assets and liability are valued in accordance with standards of generally recognised accounting practice.

In terms of GRAP 12, Inventories that qualify for recognition as assets shall initially be measured at cost. Furthermore, where inventories are acquired at no cost, or for nominal consideration, their costs shall be their fair value as at the date of acquisition.

Most of the inventory items on the inventory list provided for audit, had items valued at R1. No date of acquisition was included in the list to indicate purchase date/invoice date and therefore acquisition period could not be verified.

There are no policies and procedures that have been established.

This could result in non-compliance with Grap 12 and misstatement of financial statements.

#### **Internal control deficiency**

##### *Financial and performance management*

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

#### **Recommendation**

All inventory should be valued at cost or at net realisable value. Slow moving items should be considered for impairment and impaired to their realisable amounts.

#### **Management response**

The inventory will be recognized against the opening balance of retained earnings since management does not have details about the purchase price of the items.

Name:

Position:

Date:

### Auditor's conclusion

The possible understatement of inventory has not been quantified. The understatement based on total value has been included in the schedule of audit differences for evaluation.

#### 1. Inventory could not be traced to the inventory list

### Audit finding

In terms of section 62(1) states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and take reasonable steps to ensure that:

- (b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards
- (c) the Municipality maintains an effective, efficient and transparent system systems of financial and risk management and internal control.

Inventory items selected on the inventory list could not be physically verified on the stores, furthermore, inventory selected on the store floors could not be traced back to the inventory list provided to the audit team.

Items on the inventory list but not on the floor:

Description	Quantity	Description	Quantity
Aqualock Joint 300x250	2	Water Pipe 75mm	5
Aqualock Ranger 350mm	4	Pressure pipes 110 mm	83
Reducing Bushes 22	22	Tee Adapters Plastic 90 mm	10
Plastic Elbow 20 mm	21	THR Surface Bags	210
Gasket 350 mm	19	Settle Plastic 90mm	14
Aqualock 400 mm	1	Hippo pipes Class 12	21
Water pump machine	3	Settle Plastic 75mm	4
Strainers 200mm	3	Water pipes 110 mm	8
Strainers 150mm	3	Sanitation Pipes	2
Tee Aluminum 160mm	7	Tee Adapters Plastic 63 mm	10
Plastic Settle 110 mm	22	Stand pipe socket 15mm	30
Steel clamp 200mm	3	Valve casket bolts and nuts 350 mm	16
Pipes PVC250 mm	6	Stand pipe T elbow	76
Elbow Steel 15	10	Aqualock 355mm	1
Tee Aluminum 110mm	45	Wheelbar body	60

Items on the floor but not on the inventory list:

Description	Quantity	Description	Quantity
Coupling 400mm		1Cobra Tap	60
Valves 110 mm	31	Saddle 98 mm	98
Valves	13	Saddle Galvause 150mm	20
Strainers Meters = 300mm	1	Plastic Saddle 50 mm	116
Pressure pipes	130	PVC Saddle 160mm	60
Wheel Barrows	62	Stock lock 50 mm	100
Tee Aluminum 200 mm	5	Black Fluid	3
UPVS Tee 250	21	Water pipe	1
Clamp 200 mm	2	Plastic Bolts	240
Clamp 150 mm	16	Stand Pipe socket	30
Honde -Gempower	4	Pressure pipes 160mm	146
Valves 300 mm	6	Strainers Meters = 300mm	
Valves 200 mm	4	Tee Aluminum 160 mm	7
Gas Laps	2	Pressure Pipes 90 mm	137
Cash Power Subre	150	Elbow Steel 15 mm	10

There are no policies and procedures that have been established for inventory.

This could result in loss of inventory and misstatement of inventory on financial statements.

#### **Internal control deficiency**

##### *Leadership*

Management has not established and communicated policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities.

##### *Financial and performance management*

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

#### **Recommendation**

Regular inventory counts should be performed and any differences observed follow upon.

Senior personnel should be dedicated to inventory management for accurate recording of items

**Management response**

Management will implement controls for management of inventory when the inventory lists have been finalized and recognized.

Name:

Position:

Date:

**Follow-up s**

**Auditor's conclusion**

Misstatement of inventory has been included in the schedule of audit differences for evaluation with other errors identified. The finding will be followed up on future audits.

**1. Assets not bar-coded**

**Audit finding**

As per Accounting Guideline for GRAP 17, The Municipality is required to safeguard and maintain its assets, to value them in accordance with the related standards of GRAP, maintain a system of internal control over assets and to keep an asset register. An adequate asset register is integral to effective asset management and provides details of the values (figures) to be disclosed in the financial statements. All assets owned and controlled (which includes leased assets and assets expensed but in use) should be included in an asset register regardless of the funding source or value thereof.

In order to comply with above, a GRAP compliant asset register should be prepared which should consist of the following information as a minimum:

Detail asset description;

Bar code, unique identifier, serial number (where applicable), erf number (where applicable) (or other number to distinguish it from other assets);

Location;

Purchase price;

Acquisition date;

Estimated useful life (original);

Estimated residual value;

Remaining useful life;

Upon inspecting the Fixed Asset Register certain Assets were not barcoded.

**Management response**

Management will implement controls for management of inventory when the inventory lists have been finalized and recognized.

Name:

Position:

Date:

**Follow-up s****Auditor's conclusion**

Misstatement of inventory has been included in the schedule of audit differences for evaluation with other errors identified. The finding will be followed up on future audits.

**2. Assets not bar-coded****Audit finding**

As per Accounting Guideline for GRAP 17, The Municipality is required to safeguard and maintain its assets, to value them in accordance with the related standards of GRAP, maintain a system of internal control over assets and to keep an asset register. An adequate asset register is integral to effective asset management and provides details of the values (figures) to be disclosed in the financial statements. All assets owned and controlled (which includes leased assets and assets expensed but in use) should be included in an asset register regardless of the funding source or value thereof.

In order to comply with above, a GRAP compliant asset register should be prepared which should consist of the following information as a minimum:

Detail asset description;

Bar code, unique identifier, serial number (where applicable), erf number (where applicable) (or other number to distinguish it from other assets);

Location;

Purchase price;

Acquisition date;

Estimated useful life (original);

Estimated residual value;

Remaining useful life;

Upon inspecting the Fixed Asset Register certain Assets were not barcoded.

<u>Barcode</u>	<u>Room #</u>	<u>Location</u>	<u>Description</u>	<u>Acquisition date</u>	<u>Cost</u>
TO BE BAR CODED	R0561	Municipal building extension	Desk executive	2011/01/19	10 123.51
	R0561	Municipal building extension	Credenza	2011/06/06	2 423.51
	R0561	Municipal building extension	Pedestal	2011/06/06	3 193.51
	R0561	Municipal building extension	Chair high back –leather	2011/06/06	5 153.51
	R0561	Municipal building extension	Chair mid back- leather	2011/06/06	2 003.51
	R0561	Municipal building extension	Chair mid back- leather	2011/06/06	2 003.51
	R0561	Municipal building extension	Credenza	2011/06/06	6 413.51
	R0561	Municipal building extension	Coat stand	2011/06/06	1 387.51
	R0561	Municipal building extension	Desk executive	2011/06/06	1 677.41
	R0561	Municipal building extension	Desk executive	2011/06/06	6 482.60
	R0561	Municipal building extension	Desk executive	2011/06/06	6 482.60
	R0561	Municipal building extension	Desk executive	2011/06/06	6 482.60
	R0561	Municipal building extension	Desk executive	2011/06/06	6 482.60
	R0561	Municipal building extension	Desk executive	2011/06/06	6 482.60
	R0561	Municipal building extension	Desk executive	2011/06/06	6 482.60
	R0561	Municipal building extension	Credenza	2011/06/06	1 583.30
	R0561	Municipal building extension	Credenza	2011/06/06	1 583.30
	R0561	Municipal building extension	Credenza	2011/06/06	1 583.30
	R0561	Municipal building extension	Credenza	2011/06/06	1 583.30
	R0561	Municipal building extension	Credenza	2011/06/06	1 583.30
	R0561	Municipal building extension	Credenza	2011/06/06	1 583.30
	R0561	Municipal building extension	Pedestal	2011/06/06	2 073.23
	R0561	Municipal building extension	Pedestal	2011/06/06	2 073.23
	R0561	Municipal building extension	Pedestal	2011/06/06	2 073.23
	R0561	Municipal building extension	Pedestal	2011/06/06	2 073.23
	R0561	Municipal building extension	Pedestal	2011/06/06	2 073.23
	R0561	Municipal building extension	Chair high back –leather	2011/06/06	2 213.51
	R0561	Municipal building extension	Chair high back –leather	2011/06/06	2 213.51



	R0561	Municipal building extension	Desk office	2011/06/06	4 764.26
	R0561	Municipal building extension	Pedestal	2011/06/06	1 186.76
	R0561	Municipal building extension	Credenza	2011/06/06	1 544.51
	R0561	Municipal building extension	Cabinet 3 shelves	2011/06/06	4 425.71
	R0561	Municipal building extension	Chair high back –leather	2011/06/06	2 213.51
	R0561	Municipal building extension	Chair mid back- leather	2011/06/06	2 003.51
	R0561	Municipal building extension	Chair mid back- leather	2011/06/06	2 003.51
	R0561	Municipal building extension	Desk office	2011/06/06	1 563.51
	R0561	Municipal building extension	Desk office	2011/06/06	1 563.51
	R0561	Municipal building extension	Desk office	2011/06/06	1 563.51
	R0561	Municipal building extension	Desk office	2011/06/06	1 563.51
	R0561	Municipal building extension	Desk office	2011/06/06	1 563.51
	R0561	Municipal building extension	Desk office	2011/06/06	1 563.51
	R0561	Municipal building extension	Blinds	2011/06/06	937.91
	R0561	Municipal building extension	Blinds	2011/06/06	937.91
	R0561	Municipal building extension	Blinds	2011/06/06	937.91
	R0561	Municipal building extension	Blinds	2011/06/06	937.91
	R0561	Municipal building extension	Blinds	2011/06/06	693.01
	R0561	Municipal building extension	Blinds	2011/06/06	693.01
	R0561	Municipal building extension	Blinds	2011/06/06	693.01
	R0561	Municipal building extension	Blinds	2011/06/06	693.01
	R0561	Municipal building extension	Blinds	2011/06/06	693.01
	R0561	Municipal building extension	Blinds	2011/06/06	693.01
	R0561	Municipal building extension	Blinds	2011/06/06	693.01
	R0561	Municipal building extension	Blinds	2011/06/06	693.01

Also chairs we'd were not barcoded on the fixed asset register. The information is as follows:

Chairs at the Community Hall;

Chairs 2000 @ R95.99 = R191,800

There are no adequate review control procedures of senior personnel to ensure that the fixed asset register is GRAP compliant.

This leads to inaccurate and incomplete asset balances reported by the municipality.

#### **Internal control deficiency**

##### *Financial and performance management*

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

#### **Recommendation**

The Accounting officer should ensure all moveable assets are barcoded and the barcode numbers are included in the asset register.

#### **Management response**

The management started with the assets register that will be followed by making sure that all assets are bar coded.

Name:

Position:

Date:

#### **Auditor's conclusion**

Management comment is accepted. This matter will be followed up on future audits.

### **3. Asset Manager responsibilities not performed**

#### **Audit finding**

In terms of the Asset Management Policy of the Thembisile Municipality:

The Asset Manager is to ensure that:

- Appropriate systems of physical management and control are established and carried out for asset in their area of responsibility
- The municipality resources assigned to them are utilized effectively, efficiently, economically and transparently;
- Any unauthorised, irregular or fruitless or wasteful utilization, and losses resulting from criminal or negligent conduct, are prevented;
- Their asset management systems and controls can provide an accurate, reliable and up to date account of assets under their control.
- They are able to justify that their asset plans, budget, purchasing, maintenance and disposal decisions optimally achieve the the municipality's strategic objectives.
- The Asset Manager may delegate or otherwise assign responsibility for performing these functions but they will remain accountable for ensuring these activities are performed.

We have noted that the following is not implemented by the municipality in terms of setting out the duties of the Asset Manager in order to ensure sound internal controls of safeguarding the fixed assets:

1. The municipalities Asset Management systems and control must provide accurate, reliable and up to date account of assets under their control.
  - a) We have identified that certain rooms where assets are located have changed without the register being updated, thus assets could not be located during verification.

2. The Asset Manager may delegate or otherwise assign responsibility for performing other Asset Management functions but they will remain accountable for ensuring these activities are performed.
  - b) We found that there are no other personnel working at Asset Management, except Asset Manager to assist the Asset Manager in carrying her duties to ensure the safeguarding of assets is maintained.
3. Asset Manager must be able to justify that their plans, budgets, purchasing, maintenance and disposal decisions optimally achieve the municipality's strategic objectives.
  - c) We found that there is no evidence to support justifications of plans, budgets, purchases, maintenance and disposal decisions for the achievement of the municipality's objectives.

This could or has resulted in the following:

- Incomplete and unreliable information provided on the Register of Assets.
- Asset locations unknown
- Purchase of Assets in excess of need.

### **Internal control deficiency**

#### *Leadership*

The accounting officer does not exercise oversight responsibility over financial reporting and internal control.

### **Recommendation**

The accounting officer should ensure that responsibilities to Asset Manager are set out, and other experienced staff is assigned to Asset Management.

### **Management response**

Thembisile Hani Local Municipality does not have sufficient capacity to address the IT challenges, an Assistant Manager will be appointed in due course to address the challenges relating to all IT issues. This will start and strategic IT issues to operational areas.

Name:

Position:

Date:

### **Auditor's conclusion**

#### **4. Grant revenue – Grant allocated not received**

### **Audit finding**

According to par8 subsection (2)(a) in conjunction with subsection (3) of the Municipal Finance management Act No.56 of 2003, states that the following money must be paid into the municipality's primary bank account : All allocations to the municipality including those made to the municipality for transmission to the municipal entity or other external mechanism assisting the municipality in the performance of its function(2)(a).

A municipality must take all reasonable steps to ensure that all money referred to in subsection 2 is paid into its primary bank account.

The municipality did not receive the full amount allocated as per DoRa. A difference between DoRa allocation and the amount received as per bank statement was as follows:

Description	DoRa Allocation	Bank Statement	Differences
Water Subsidy	R9 672 000	R7 917 000	R1 755 000

This could lead to the financial loss due to the money not being fully paid into the primary bank account and poor service delivery as there will be enough fund to enable the municipality to perform effectively its duties.

**Internal control deficiency**

*Leadership*

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

**Recommendation**

Management must ensure that all money allocated to the Thembisile Hali Local municipality as per Dora should be paid into their primary bank account, if not, reasonable steps should be followed to ensure the whole grant is paid.

**Management response**

Management will investigate and follow up with DWA regarding the discrepancy identified.

Name:

Position:

Date:

**Auditor’s conclusion:**

The management response is satisfactory

**5. Trade receivables - Valuation roll not updated**

**Audit finding**

Section 23 (1) of the Municipal Property rates no 6 of 2004, stipulates that a municipality must draw up and maintain a register in respect of properties situated within that municipality, consisting of a part A and a Part B.

We noted that some properties were not easily identifiable in the valuation roll because they were stated under a township name different to the current name of the township.

The current valuation roll has been in used since 2009 and has not been updated with the changes in the township names.

Debtors for rates and taxes may not be traceable to the registered properties for collection of outstanding balance if the exact location/township is not identifiable. This could result in bad debts and loss of revenue to the municipality.

**Internal control deficiency**

*Financial and performance management*

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

## **Recommendation**

The Supplementary valuation roll being prepared should incorporate the changes in the township names. All the townships where the ratable properties are located should be stated in their new/current names in the valuation roll.

## **Management response**

**Name:**

**Position:**

**Date:**

**Follow-up s**

## **Auditor's conclusion**

### **6. Trade receivables – No documentation of indigent debtors**

#### **Audit finding**

Paragraph 9.7 of the credit and debt collection policy states that: 'household must apply on a specific council application form at service centres designated to their respective areas and not at any other places, and the following documentary proof will be required to be submitted with the application forms :

9.7.1 Identity document

9.7.2 Latest municipal account

9.7.3 Documentary proof of income

9.7.4 Sworn affidavit to the effect that all information supplied is true and that income from all sources has been declared

9.7.5 In additional recommendation by a Ward Councillor.

The policy on indigence also requires that indigent debtors be reviewed every twelve (12) months to determine that they are still eligible for recognition as such.

We requested the list of new application of indigent debtors in order to select a sample for testing but the municipality could not provide any of such applications.

From the list of indigent debtors submitted, a sample was selected and their application was requested, but the municipality could also not provide their applications.

This is non-adherence to the policy. Non-qualifying debtors may be approved for indigency if control measures are not taken by management resulting to loss of revenue by the municipality.

Internal control deficiency

#### *Leadership*

Policies and procedures are not established and communicated to enable and support understanding and execution of internal control objectives, processes, and responsibilities.

Recommendation

Management should ensure that all audit requests are provided to the auditors for audit purposes within a reasonable time.

Management response

Name:  
Position:  
Date:

Follow-up s

Auditor's conclusion

Employee related costs - Housing Allowance paid without proof

Audit finding

DPSA circular 17\_8\_P dated 21 August 2007 states the following with regard to the determination on housing:

**"2. REQUIREMENTS FOR ACCESSING THE HOUSING ALLOWANCE**

**2.1. ELIGIBILITY FOR EMPLOYEES**

2.1.1 An employee appointment on a full time basis, i.e. permanent or on a fixed-term contract of six months and longer and who receives his/her salary plus benefits, may receive a Housing Allowance if he/she meets the requirements regulating the payment of the said allowance

2.1.2 The Housing Allowance shall be paid-

2.1.2.1 for one home only;

2.1.2.2 or one spouse only if both spouses are in the employ of the Public Service,

Unless for operational reasons they are stationed in different magisterial districts and occupy and maintain two separate rental agreements, live in one house, each employee will qualify for the allowance

**2.2 Housing Tenure**

2.2.1 An employee could either own or rent a home to qualify for the Housing Allowance, provided that s/he meets all the other qualifying requirements set out in this determination.

**2.5 Bond/ Loan Requirement**

2.5.1 An employee who wishes to access the maximum Housing Allowance in terms of the Housing Allowance Scheme as a new home owner on or after 29 September 2004, must hold a bond/home loan at a registered bank; or

an National Housing Finance Corporation (NHFC)

a company granting Home Loans

**2.6 Documentary proof**

2.6.1 Documentary proof to support the requirements is being prescribed in terms of this determination

2.6.2 An employee, who wishes to access the Housing Allowance Scheme, must submit the prescribed documentary proofs with his/her application for Housing Allowance. Failure to do so or submitting incomplete/ invalid documentation may result in the delay/ refusal of the application "

Supporting documents for the following allowances were not obtained from the employee's personal file:

Number	Employee no	Designation	Initials	Surname	Housing Allowance
1	P532862	MR	ZS	NTULI	800
2	P532912	MI	SS	KE MAHLANGU	800
3	P532782	MR	AB	SHABANGU	800

4	P532905	MR	MJ	MAHLANGU	800
5	P532337	MI	SS	E MASOMBUKA	800
6	P532295	MR	HD	MARINGA	800
7	P532743	MI	SS	GZ SKOSANA	800
8	P532534	MI	SS	CM MSIZA	800
9	P532313	MR	GS	MASILELA	800
10	P533167	MI	SS	DP JIYANE	800
11	P533199	MR	SJ	APHANE	800
					<b>8,800</b>

Personnel are not aware of the allocation of duties, responsibilities and lines of reporting.

Control weaknesses are not analysed, and appropriate follow-up actions taken that address root causes.

The validity of the allowances could not be verified.

Allowances may be made to officials that do not qualify.

**Internal control deficiency**

*Leadership*

Policies and procedures are not established and communicated to enable and support understanding and execution of internal control objectives, processes, and responsibilities.

**Recommendation**

Management must implement controls over record maintenance to support all the activities in the municipality to ensure compliance with the requirements of the circular.

**Management response**

**Name:**

**Position:**

**Date:**

**Follow-up s**

**Auditor's conclusion**

- 7. Employee related costs - Overtime hours not captured**

**Audit finding**

Section 62 of the MFMA states the following:

(1) 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-

- (a) That the resources of the municipality are used effectively, efficiently and economically;
- (b) That full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards;
- (c) That the municipality has and maintains effective, efficient and transparent systems-
  - (i) of financial and risk management and internal control; and
  - (ii) of internal audit operating in accordance with any prescribed norms and standards;

Overtime hours worked by the following employees were not captured on the VIP payroll system and as a result differences were identified where recalculating overtime paid using the hours as per overtime control sheet as a basis:

Employee Number	Date Paid	Employee number	Overtime paid	Recalculated overtime paid				Recalculated	Difference
				Normal Hrs Worked	Sunday & Holiday Hrs Worked	Normal overtime (R)	Sunday & Holiday Overtime (R)		
P532295	AUG	Mr HD Maringa	5,811	42.25	22.5	3 707	2,632.50	6,339.94	(528.94)
P531968	AUG	Mr Mv Mathebula	2,132	30	13	1 774	1,025	2,799.25	(667.25)
P532743	AUG	SS Gz Skosana	4,023	33	26	1 989	2 090	4,080.30	(57.30)
P532534	AUG	CM Msiza	5,371	53	28	3 195	2 251	5,447.10	(76.10)
P532968	AUG	MT Lebeya	5,022	49.5	41.75	2 568	2 888	5,457.68	(435.68)
P532224	AUG	Mr MI Ntuli	3,765	44	16	2 615	1 268.	3,884.33	(119.33)
			<b>26,124</b>					<b>28,009</b>	<b>(1,885)</b>

Furthermore, we noted that each department does not prepare a schedule of overtime worked for every month and have it signed by the head of department and which is should be used as a basis for processing overtime on a monthly basis

Execution of transactions and events. Transactions and other significant events are not authorised and performed by the appropriate personnel.

Errors between actual overtime hours worked and overtime paid may not be easily identified and resolved.

**Internal control deficiency**

*Leadership*

Policies and procedures are not established and communicated to enable and support understanding and execution of internal control objectives, processes, and responsibilities.

**Recommendation**

Management should consider implementing policies and procedures in order to ensure that the following is performed:

- the overtime control sheet is completed by the employee prior to working the overtime and signed by the head of department in advance;
- that each department prepared a schedule of overtime worked for every month using the information on the authorized overtime control sheets and that this schedule is signed by the head of department and used as a basis for processing overtime on a monthly basis.

**Management response**

Name:

Position:

Date:

Follow-up s

**Auditor's conclusion**

**8. Employee related costs – Annual tax reconciliations not performed**

**Audit finding**

Section 65 of the MFMA states the following:

- (1) The accounting officer of a municipality is responsible for the management of the expenditure of the municipality.
- (2) The accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure-
  - (j) that all financial accounts of the municipality are closed at the end of each month and reconciled with its records.

The annual tax reconciliations are not performed by the municipality and compared to the salary system to ensure accuracy and completeness thereof.

Execution of transactions and events. Transactions and other significant events are not authorised and performed by the appropriate personnel.

The municipality might incur penalties and interest as a result of misstatement of PAYE.

**Internal control deficiency**

*Leadership*

Policies and procedures are not established and communicated to enable and support understanding and execution of internal control objectives, processes, and responsibilities.

**Recommendation**

Management should ensure that annual tax reconciliations are prepared and compared to the VIP payroll system in order to ensure accuracy and completeness of PAYE paid.

**Management response**

Management will implement controls to perform monthly reconciliation of the tax paid to assist with the reconciliation of the grant at the end of the financial year

**Name:**

**Position:**

**Date:**

**Follow-up s**

**Auditor’s conclusion:**

Management comment is satisfactory as they have addressed to the root cause

**9. Employee related costs – Excessive overtime**

**Audit finding**

Section 10 of the Basic Conditions of Employment Act states the following:

(1) Subject to this Chapter, an employer may not require or permit an employee to work-

- (a) Overtime except in accordance with an agreement
- (b) More than ten hours’ overtime a week

(6)

- (a) A collective agreement may increase the maximum permitted overtime to 15 hours a week.
- (b) A collective agreement contemplated in paragraph (a) may not apply for more than two months in any period of 12 months

The following employees identified from our sample worked more than ten overtime hours a week:

Employee code	Employee name	Date	Hours worked
		<b>Week 06/09/10 to 12/09/10</b>	
<b>P532534</b>	<b>SS CM MSIZA</b>	10/09/2010	1
		11/09/2010	5
		12/09/2010	9
		18/09/2010	5

**20**

Employee code	Employee name	Date	Overtime worked
P532534	SS CM Msiza	10/09/2010	1
		11/09/2010	5
		12/09/2010	9
		18/09/2010	5

**20**

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Employee code	Employee name	Date	Overtime worked
<b>Week 24 April 2011 to 01 May 2011</b>			
P450475	Mr BJ MAHLANGU	24/04/2011	8
		25/04/2011	8
		27/04/2011	8
		30/04/2011	8
		01/05/2011	8

**40**

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Appropriate policies, procedures, techniques, and mechanisms do not exist with respect to each of the municipality's activities.

Non-compliance with the Basic Conditions of Employment Act

**Internal control deficiency**

### *Leadership*

Policies and procedures are not established and communicated to enable and support understanding and execution of internal control objectives, processes, and responsibilities.

#### **Recommendation**

Management should develop and implement policies and procedures to ensure compliance with section 10 of the Basic Conditions of Employment Act no. 75 of 1997

#### **Management response;**

Management partially agrees with the finding:

There is a clause that allows employees to exceed the threshold if it can be properly motivated.

Name:

Position:

Date:

Follow-up s

#### **Auditor's conclusion**

##### **10. Employee costs: No accruals raised**

#### **Audit finding**

Section 65 2(j) of the Municipal Finance Management Act requires that all financial accounts must be closed at the end of each month and reconciled with its records

The following accruals relating to statutory and third party deductions, which were identified from payments subsequent to year end, were not raised at year end:

<b>Description</b>	<b>June per VIP payroll</b>	<b>Date paid</b>
UIF	R33 492	06/07/2011
SDL	R31 858	06/07/2011
PAYE	R400 458	06/07/2011
<b>Total</b>	<b>R465,808</b>	

The entity does not employ a variety of control activities suited to information processing systems to ensure accuracy and completeness.

Accruals are understated

#### **Internal control deficiency**

##### *Financial and performance management*

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

#### **Recommendation**

Management should implement procedures to ensure the completeness accruals raised at year end.

**Management response**

**Name:**

**Position:**

**Date:**

**Auditor's conclusion**

**11. Employee related costs: Suspense account not reconciled**

**Audit finding**

Section 65 2(j) of the Municipal Finance Management Act requires that all financial accounts must be closed at the end of each month and reconciled with its records.

The salaries suspense account not reconciled during the year and at year-end.

The entity does not employ a variety of control activities suited to information processing systems to ensure accuracy and completeness.

Employee cost may be misstated.

**Internal control deficiency**

*Financial and performance management*

The municipality has not implemented controls over daily and monthly processing and reconciling of transactions

**Recommendation**

Management should implement controls to ensure that transactions are appropriately recorded to ensure fair presentation of the financial statements.

**Management response**

Management agrees with the finding:

The salaries suspense account was cleared.

**Name:**

**Position:**

**Date:**

**Auditor's conclusion;**

**12. Employee costs - Leave forms not submitted**

**Audit finding**

Section 62(1)(b) of the MFMA state that the Accounting Officer of a Municipality is responsible for managing financial administration of the Municipality and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the Municipality are kept in accordance with prescribed norms and standard.

We were not provided with the leave forms for the following employees:

Sick leave

NO.	Employee code	Employee name	Description	From Date	To Date	First	Taken
1	P531654	Ms MN Mahlangu	Sick leave	31/05/2011	02/06/2011	Tue	3
2	P531711	Sibiya NP	Sick leave	06/05/2011	31/05/2011	Fri	17
3	P531862	Gama NA	Sick leave	22/03/2011	25/03/2011	Tue	4
4	P532598	Mthombeni MD	Sick leave	04/04/2011	08/04/2011	Mon	5
5	P533263	Mahlangu LB	Sick leave	01/06/2011	03/06/2011	Wed	3
6	P533265	Mokhwebane Nca	Sick leave	14/09/2010	15/09/2010	Tue	2
7	P500397	Riba TSE	Sick leave	26/07/2010	26/07/2010	Mon	1
8	P531527	Ndala NL	Sick leave	17/11/2010	19/11/2010	Wed	3
9	P531559	Mahlanya CT	Sick leave	22/07/2010	23/07/2010	Thu	2
10	P532070	Mnguni SB	Sick leave	16/08/2010	17/08/2010	Thu	2
11	P532862	Ntuli ZS	Sick leave	10/01/2011	21/01/2011	Mon	10
12	P533182	Baloyi EM	Sick leave	04/11/2010	05/11/2010	Thu	2
13	P533209	Chabalala HP	Sick leave	31/05/2011	02/06/2011	Tue	3
14	P533263	Mahlangu LB	Sick leave	15/08/2011	16/08/2011	Mon	2
15	P533264	Mahlomuza TS	Sick leave	18/10/2010	30/10/2010	Mon	10
16	P533265	Mokhwebane NCA	Sick leave	14/09/2010	15/09/2010	Tue	2
17	P533287	Matladi SN	Sick leave	04/11/2010	05/11/2010	Thu	2
18	P533292	Sikhosana N	Sick leave	15/09/2010	17/09/2010	Wed	3
19	P533293	Skosana A	Sick leave	23/08/2010	26/08/2010	Mon	4

Other leave

NO.	Employee code	Employee name	Description	From Date	To Date	First	Taken
1	P531372	Masombuka PM	Special leave	04/05/2011	10/05/2011	Wed	5
2	P531372	Masombuka PM	Maternity leave	01/09/2010	07/01/2011	Wed	90
3	P531477	Mahlangu BZ	Special leave	13/08/2010	13/08/2010	Fri	1
4	P532031	Mashile NE	Study leave	07/01/2011	12/01/2011	Fri	4
5	P532112	Skosana MS	Study leave	08/02/2011	09/02/2011	Tue	2
6	P501671	Mahlangu SL	Special leave	21/10/2010	21/10/2010	Thu	1
7	P502266	Mthembu BC	Special leave	13/08/2010	13/08/2010	Fri	1
8	P502411	Sibiya BB	Special leave	13/08/2010	13/08/2010	Fri	1
9	P502980	Sibiya PV	Study leave	28/04/2011	29/04/2011	Thu	2
10	P530980	Hlatshwayo	Special leave	02/11/2010	08/11/2010	Tue	5

		TQ					
11	P531862	Gama NA	Special leave	14/12/2010	18/12/2010	Tue	3
12	P532288	Mtsweni SM	Special leave	01/11/2010	05/11/2010	Mon	5
13	P502997	Masango PC	Special leave	08/03/2011	11/03/2011	Tue	4
14	P503020	Mtshweni JG	Family responsibility	16/11/2010	19/11/2010	Tue	4
15	P531017	Mofolo TA	Special leave	31/08/2010	03/09/2010	Tue	4
16	P531438	Mtshweni NJ	Study leave	21/06/2011	22/06/2011	Tue	2

Annual leave

NO.	Employee code	Employee name	Description	From Date	To Date	First	Taken
1	P531559	Mahlanya CT	Annual leave	17/12/2010	12/01/2011	Fri	18
2	P531598	Masuku BF	Annual leave	30/05/2011	01/06/2011	Mon	3
3	P531678	Mahlangu RN	Annual leave	03/03/2011	11/03/2011	Thu	7
4	P532070	Mnguni SB	Annual leave	2010/12/11	2010/12/29	Sat	11
5	P532862	Ntuli ZS	Annual leave	10/01/2011	21/01/2011	Mon	10
6	P532905	Mahlangu MJ	Annual leave	29/05/2011	17/05/2011	Mon	7
7	P532968	Lebeya MT	Annual leave	26/07/2010	06/08/2010	Mon	10
8	P533182	Baloyi EM	Annual leave	07/03/2011	25/03/2011	Mon	14
9	P533263	Mahlangu LB	Annual leave	17/06/2011	17/06/2011	Fri	1
10	P533264	Mahlomuza TS	Annual leave	30/05/2011	03/06/2011	Mon	5
11	P533265	Mokhwebane NCA	Annual leave	08/06/2011	10/06/2011	Wed	3
12	P533293	Skosana A	Annual leave	19/05/2011	23/05/2011	Thu	3
13	P533294	Masombuka WS	Annual leave	15/11/2010	16/11/2010	Mon	2
14	P501344	Kgophane MW	Annual leave	04/05/2011	06/05/2011	Wed	3
15	P501417	Mahlangu EI	Annual leave	20/06/2011	28/06/2011	Mon	7
16	P501947	Mahlangu NC	Annual leave	26/04/2011	29/04/2011	Tue	3
17	P501978	Msiza ZD	Annual leave	16/05/2011	20/05/2011	Mon	4
18	P502203	Dhlamini MP	Annual leave	13/07/2010	20/07/2010	Tue	6
19	P532295	Maringa	Annual leave	10/06/2011	10/06/2011	Fri	1

Records are not properly stored / filled.

Accuracy, completeness and occurrence of leave cannot be verified.

### Internal control deficiency

#### *Financial and performance management*

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

### Recommendation

Management must ensure that leave records are kept properly to support leave payouts and leave provision to be made.

### Management response

**Name:**

**Position:**

**Date:**

### Auditor's conclusion

#### **13. Employee related costs : Employees not physically verified**

### Audit finding

Section 62(1)(b) of the MFMA state that the Accounting Officer of a Municipality is responsible for managing financial administration of the Municipality and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the Municipality are kept in accordance with prescribed norms and standard.

The following employees did not present themselves for verification by the audit team:

No.	Employee no	Designation	Initials	Surname	ID number
1	P532231	MI	SS	PS RIBA	5502040236085
2	P531711	MR	S N	P SIBIYA	7706270820082
3	P501632	MS	NR	SIBIYA	5203180774080
4	P531006	MS	SS	MTHIMUNYE	8302030329082
5	P532144	MR	S N	L MAHLANGU	6907070525084

Appropriate policies, procedures, techniques, and mechanisms do not exist with respect to each of the municipality's activities.

Payments could be made to fictitious employees

### Internal control deficiency

#### *Financial and performance management*

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

### Management response

The Employees have subsequently been sending to the audit team.

**Name:**

**Position:**

**Date:**

**Follow-up s**

**Auditor's conclusion**

Management response is not satisfactory, not all the staff members were confirmed

**14. Expenditure – Prior year cut – off error**

**Audit finding**

Section 65 (2) (b)(i) of the Municipal Finance Management Act, 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 that the municipality has and maintains a management ,accounting and information system which -

(i) recognises expenditure when it is incurred .

The transactions as noted below paid during the year under audit, were included in the general ledger / trial balance as current year expenses. However these transactions relates to prior year expenditure as they should have been accrued for in the prior year.

Item	Item Name	Doc No	Remarks	GL Amount	invoice no.
MC540245001	WATER PURCHASES	22129	DR JS MOROKA MUNICIPALITY	30 066	May 2010
MC540245001	WATER PURCHASES	22234	DR JS MOROKA MUNICIPALITY	67 755	June 2010

The municipality did not implement adequate controls to ensure that all transactions are recorded in the correct period.

Expenditure is overstated R 97 821.

**Internal control deficiency**

*Financial and performance management*

The municipality has not implemented controls over daily and monthly processing and reconciling of transactions.

**Recommendation**

Management should develop and implement processes to ensure that accruals are adequately identified at the end of each period.

**Management response**

**Name:**

**Position:**

**Date:**

**Follow-up s**

**Auditor's conclusion**

This is considered not to be a material error and does not require restatement of comparative figures, the amount has been evaluated with other unadjusted audit difference

**15. Expenditure - Recorded supplier different to invoice**

**Audit finding**

Section 62 (1) (b) of the Municipal Finance Management Act, 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 that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

From our sample selected for testing we noted that as recorded on the general ledger cheque number 23290 was paid to GOODSANELE TRADING ENTERP. The attached payment supporting documents indicated that this cheque was made to Insimbemyama Construction Projects, and not Goodsanele Trading Enterprise. .

Item Name	Doc No	Remarks	invoice no.	invoice excl. Vat
WATER PURCHASES	23290	GOODSANELE TRADING ENTERP	004	46 528

Payment may have been made to the incorrect supplier.

**Internal control deficiency**

*Financial and performance management*

The municipality has not implemented controls over daily and monthly processing and reconciling of transactions.

**Recommendation**

An independent senior staff member should agree the GL details to the cheque details before payment being made.

**Management response**

**Name:**

**Position:**

**Date:**

## **Follow-up s**

### **Auditor's conclusion**

#### **16. Procurement: No segregation of duties for procurement**

### **Audit finding**

In terms section 115 of the MFMA:

(1) The accounting officer of a municipality or municipal entity must—

- (a) implement the supply chain management policy of the municipality or municipal entity; and
- (b) take all reasonable steps to ensure that proper mechanisms and separation of duties in the supply chain management system are in place to minimise the likelihood of fraud, corruption, favouritism and unfair and irregular practices.

(2) No person may impede the accounting officer in fulfilling this responsibility.

There is no segregation of duties that exists between those individuals involved in selecting suppliers (through quotations/ bidding) and those making and approving payments to the suppliers.

This could result in the municipality making payment to fictitious suppliers. This could also result in the misappropriation of municipality's funds and assets.

### **Internal control deficiency**

#### *Leadership*

Policies and procedures are not established and communicated to enable and support understanding and execution of internal control objectives, processes, and responsibilities.

### **Recommendation**

The accounting officer should implement systems of controls, specifically segregation of duties between those individuals involved in selecting suppliers (through quotations/ bidding) and those making and approving payments to the suppliers, in order to avoid misappropriation of funds including fraudulent activities.

### **Management response**

Name:

Position:

Date:

Follow-up s

### **Auditor's conclusion**

#### **17. VAT\_VAT 201's not submitted timeously**

## Audit finding

The following VAT 201 returns were submitted to South African Revenue Service (SARS) late as the submissions were after the final date of submission in terms of the VAT Act.

S28 of the VAT Act states:

Every vendor shall, within the period ending on the twenty-fifth day of the first month commencing after the end of a tax period relating to such vendor or, where such tax period ends on or after the first day and before the twenty-fifth day of a month, within the period ending on such twenty-fifth day-

a) furnish the Commissioner with a return reflecting such information as may be required for the purpose of the calculation of tax in terms of section 14 or 16; and

b) calculate the amounts of such tax in accordance with the said section and pay the tax payable to the Commissioner or calculate the amount of any refund due to the vendor.

As the municipality is a category C vendor these submissions should have been made on a monthly basis.

Period	Input Tax (VAT 201)	Output Tax (VAT 201)	Refund	Date Submitted
Oct-10	2,097,152	48,371	2,048,781	11/02/2011
Nov-10	1,037,436	78,868	958,568	11/02/2011
Dec-10	2,743,886	58,787	2,685,099	11/02/2011
Mar-11	1,522,468	37,876	1,484,593	11/05/2011
Apr-11	1,576,236	23,935	1,552,301	06/06/2011

The municipality has not established and it does not monitor performance measures and indicators

Non-compliance with the Section 28 of the VAT Act.

The municipality could incur fruitless and wasteful expenditure in the form of penalties and interest from SARS.

## Internal control deficiency

### Leadership

Policies and procedures are not established and communicated to enable and support understanding and execution of internal control objectives, processes, and responsibilities.

## Recommendation

Management must ensure that there are policies and procedures in place to ensure the that VAT 201's are submitted to SARS timeously

## Management response

Name:

Position:

Date:

Follow-up s

## Auditor's conclusion

18. Employee costs :No Job descriptions

**Audit finding**

Section 66 of the Municipal System Act states the following:

(1) A municipal Manager, within a policy framework determined by the municipal council and subject to any applicable legislation, must provide a job description for each post of the staff establishment

Formal job descriptions have not been established for pots or group of posts as required in terms of the Act.

Management has not identified and defined the tasks required to accomplish particular jobs and fill the various positions

Non-compliance with Section 66 (1)(b) of the Municipal Systems Act

**Internal control deficiency;**

*Financial and performance management*

The municipality did not review and monitor compliance with applicable laws and regulations.

**Recommendation**

Employee might not know how their actions interrelate to others considering the way in which authority and responsibility are assigned and might not be aware of the related duties concerning to internal control.

**Management response**

**Name:**

**Position:**

**Date:**

**Follow-up s**

**Auditor's conclusion****19. Expenditure – cut off error on expenditure****Audit finding**

Section 65 (2) (b)(i) of the Municipal Finance Management Act, 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 that the municipality has and maintains a management ,accounting and information system which -

(i) recognises expenditure when it is incurred .

The following transactions paid after year-end were not included in the General ledger / trial balance. However these transactions relates to current year expenditure as they should have been accrued for.

Account	Date	Doc No	Remarks	Debit	Invoice no.	Invoice date
MC-100260370	22/07/2011	23500	M.S Molebaloa Inc	142 881	001/06/2011	13-Jun-11
MC-	22/07/2011	23498	Lexis Nexis	51 463	01615877	21-Jun-11

100260526						
MC-105260455	29/07/2011	23467	Kit Group	187 288	2211216	23-Jun-11
MC-105600008	22/07/2011	23490	Matlhatse Engineers	73 806	TLLM/2010/004	15-Jun-11
MC-105600078	27/07/2011	23533	Kgato Consulting En	61 473	NO. 4	14-Jun-11
MC-108260261	15/07/2011	23466	Prodiba	73 536	RD323	20-Jun-11
				<b>590 446</b>		

The municipality did not implement adequate controls to ensure that all transactions are recorded in the correct period.

The current year expenditure could be understated by R 590 446.

#### **Internal control deficiency**

##### *Financial and performance management*

The municipality has not implemented controls over daily and monthly processing and reconciling of transactions.

#### **Recommendation**

Management should develop and implement processes to ensure that accruals are adequately identified at the end of each period.

Proposed Journal

<b>Account number</b>	<b>Details</b>	<b>Debit</b>	<b>Credit</b>
MC-100260370	Legal Costs	R142 881	
MC-100260526	Ward Committees Prog	R51 463	
MC-105260455	General Workers Unif	R187 288	
MC-105600008	San Luthuli(2010-08)	R73 806	
MC-105600078	Storm Water Various	R6 1473	
MC-108260261	Learners And Drivers	R73 536	
	Accounts payable		R590 446

Raising of 2011 expenses not included in the list of year end accruals

#### **Management response**

**Name:**

**Position:**

**Date:**

**Follow-up s**

**Auditor's conclusion**

#### **20. Expenditure - Payment made on proforma invoice**

### **Audit finding**

Section 20 of the VAT Act States no VAT input can be claimed if there is no valid invoice with a tax number.

A proforma invoice was used to make the payment, even after the payment was made there was no follow up to obtain the invoice.

Supplier: TrenTyre

Amount: 23 719.98

In the process of carrying out their regular activities, entity personnel do not obtain information about whether internal control is functioning properly.

Non-compliance with section 20 of the VAT Act

### **Internal control deficiency**

#### *Leadership*

Policies and procedures are not established and communicated to enable and support understanding and execution of internal control objectives, processes, and responsibilities.

### **Recommendation**

Management should develop and implement processes ensure that a tax invoice is received before payment is made.

### **Management response**

Name:

Position:

Date:

Follow-up s

### **Auditor's conclusion**

#### **21. Expenditure - No procurement documents**

### **Audit finding**

According to section 12 of the Municipal supply chain management regulation, written or verbal quotations should be obtained for transactions below R200 000.

There were no quotations or contracts attached to the payment voucher for the following invoices that were selected for testing:

<b>Supplier</b>	<b>Amount (R)</b>	<b>Invoice number</b>
PR Communications Pty LTD	3 055	3014
PR Communications Pty LTD	6 073	3119
PR Communications Pty LTD	5 193	3079
Savuka Flooring	7 930	0189
Thengilinde Industrial Supplies	13 908	0032
Sakhaafrica Development	18 722	299
Ngwenya Attorneys	28 850	405570

Ms.Molebaloa Attorneys	20 000	011563
T.S. Joka Attorneys	23 300	6219365197

Non-compliance with Section 12 of the Municipal supply chain management regulation.

**Internal control deficiency**

*Financial and performance management*

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

**Recommendation**

Management should ensure that at least 3 quotations are obtained from different suppliers for each transaction.

**Management response**

Name:

Position:

Date:

Follow-up s

**Auditor’s conclusion**

**22. Facilities and environmental controls - Lack of physical security**

**Audit finding**

The COBIT 4.1 framework (DS12) recommends a well-designed and well-managed physical facility. The process of managing the physical environment includes defining the physical site requirements, selecting appropriate facilities, and designing effective processes for monitoring environmental factors and managing physical access. Effective management of the physical environment reduces business interruptions from damage to computer equipment and personnel.

The following weaknesses were noted with respect to physical security:

- There is no physical and environmental security policy which specifies recommended physical access and environmental controls which should be implemented within and around the computer room;
- A register of visitors to the server room is not maintained;
- There is no hardware maintenance schedule for critical equipment in the server room such as the UPS, servers, and air conditioners;
- There was no smoke detector and fire extinguisher in the server room;
- There is no camera;
- There are no water detectors

Computer equipment may be damaged, stolen, or accessed by unauthorised individuals in the absence of appropriate physical and environmental controls thereby compromising the availability and integrity of affected systems. In addition, equipment may not perform at its optimal levels or get damaged if it is not regularly and correctly serviced thus affecting service delivery.

**Internal control deficiency**

### *Leadership*

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

### **Recommendation**

Management should build internal IT capacity by employing a sufficiently skilled IT manager to provide IT leadership and develop a physical access and environmental security policy among other things; Physical security should also be enhanced by:

- Development and approval of a formal physical and environmental security policy and procedure documents
- Recording all visits to the server room by third parties in a visitors register which is subject to periodic management review;
- Developing and operationalising a preventive maintenance schedule for all IT related equipment in the server room to ensure their proper workmanship. In addition, records should be kept of all suspected or actual faults, and all preventive and corrective maintenance.
- Management should consider installation of a CCTV camera, smoke detectors, fire extinguishers and water detectors in the server room

### **Management response:**

Thembisile Hani Local Municipality does not have sufficient capacity to address the IT challenges, an Assistant Manager will be appointed in due course to address the challenges relating to all IT issues. This will start and strategic IT issues to operational areas.

Name:

Position:

Action date:

### **Auditor's conclusion**

#### **23. Inadequate Disaster Recovery planning**

### **Audit finding**

The COBIT 4.1 framework (DS4.2) recommends;

Development of IT continuity plans based on the framework to reduce the impact of a major disruption on key business functions and processes. The plans should be based on risk understanding of potential business impacts and address requirements for resilience, alternative processing and recovery capability of all critical IT services. They should also cover usage guidelines, roles and responsibilities, procedures, communication processes, and the testing approach.

There is no formally documented Disaster Recovery Plan.

Critical business systems may not be timely recovered in the event of a major disaster resulting in poor service levels being rendered to the customers and potentially damaging the municipality's reputation.

### **Internal control deficiency**

### *Leadership*

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

## **Recommendation**

Management should facilitate the development, approval and implementation of a formal DRP.

## **Management response**

Thembisile Hani Local Municipality does not have sufficient capacity to address the IT challenges, an Assistant Manager will be appointed in due course to address the challenges relating to all IT issues. This will start and strategic IT issues to operational areas.

Name:

Position:

Action Date:

## **Auditor's conclusion**

### **24. Inadequate backup process**

## **Audit finding**

The COBIT 4.1 framework (DS11.5) recommends;

Defining and implementation of procedures for backup and restoration of systems, applications, data and documentation in line with business requirements and the continuity plan.

- There is no backup policy and procedure documents
- There were no back up register/logs to verify that backups of the Munsoft and VIP servers were performed

In the event of a loss of production data, there is no assurance that complete and accurate data will be available for recovery purposes where management does not adequately exercise its oversight responsibility over the backup process.

## **Internal control deficiency**

### *Leadership*

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

## **Recommendation**

Management should;

- Facilitate the development, approval and implementation of a formal backup policy and procedure documents.
- Facilitate the implementation and maintenance of a backup register

## **Management response**

Thembisile Hani Local Municipality does not have sufficient capacity to address the IT challenges, an Assistant Manager will be appointed in due course to address the challenges relating to all IT issues. This will start and strategic IT issues to operational areas.

Name:

Position:

Action date:

**Auditor's conclusion**

**ANNEXURE C: ADMINISTRATIVE MATTERS**

**25. Revenue – Customer information not validated**

**Audit finding**

In terms of section 63(2), "The accounting officer is should take reasonable steps to ensure that the municipality:

- (a) Has and maintains a management, accounting and information system that accounts for the assets of the municipality.

We noted that there are no controls put in place to verify the accuracy, and completeness of information captured onto the system when consumers are applying for services.

Policies and procedures are not established and communicated to enable and support understanding and execution of internal control objectives, processes and responsibilities.

Information may be captured incorrectly resulting incorrect charges on the client.

**Internal control deficiency**

*Leadership*

Policies and procedures are not established and communicated to enable and support understanding and execution of internal control objectives, processes, and responsibilities.

**Recommendation**

Management should develop and implement processes to ensure that a senior person reviews the capturing of customer information on the system prior to the system being updated.

**Management response**

Management agrees with the finding:

The appropriate measures have been put in place by employing a firm of consultants to do a data cleansing which includes verification and correction of consumer data. Appropriate measures has been developed to address the vacancy rate in finance

**Follow-up s**

**Auditor's conclusion**

The management has addressed the root cause of the problem

**26. Revenue - Receipt booklet not used sequentially**

**Audit finding**

62. (1) 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—

- (a) that the resources of the municipality are used effectively, efficiently and economically;
- (b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards; in accordance with any prescribed norms and standards;

Booklet 18001 - 18100 was used before 17901 - 18000

This may lead to omission of transactions or may create room for fraudulent practices in the use of municipal receipts by the cashiers.

**Internal control deficiency**

*Financial and performance management*

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

**Recommendation**

The senior cashier must always ensure that receipt booklets are issued out to cashiers sequentially.

**Management response**

The receipt books will be issued sequentially in future.

Name:

Position:

Date:

**Follow-up s****Auditor's conclusion**

Management response is satisfactory. The issue will remain in the management report

**27. Expenditure - Oder books not controlled****Audit finding**

Section 62 (1) (b) of the Municipal Finance Management Act, 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 that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

We noted that the following order books were missing and according to the order book register kept by Mr. Simon Nkadimeng, these orders were issued to the following procurement clerks:

Order book	Order - start	Order – end	Issued to
1	12401	12450	Not recorded
2	12451	12500	Simon Nkadimeng

3	12601	12650	Tshego Mofolo
---	-------	-------	---------------

Non-compliance with the Thembisile Hani Municipality's internal controls and procedures in place which requires that order register be signed by person who received the order book.

If there is no proper control over the issue of purchase orders, order books may be stolen and used to order goods for personal use and this could result in fruitless and wasteful expenditure being incurred by the municipality.

**Internal control deficiency**

*Financial and performance management*

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

**Recommendation**

- The order register which is kept by Simon Nkadimeng must be signed by each procurement clerk as proof of acknowledging receipt of order book.
- Simon Nkadimeng should reconcile orders received to orders issued to identify missing orders.

**Management response**

This finding was resolved as the order books were located and the register rectified as confirmed with the audit team.

**Name:**

**Position:**

**Date:**

**Follow-up s:**

**Auditor's conclusion**

**28. Property, plant and equipment: - No asset movement controls**

**Audit finding**

As per MFMA Act No. 56, 2003, Paragraph 1 (a): The Accounting officer of a municipality is responsible for the management of Assets of the municipality, including the safeguarding and the maintenance of those assets.

Upon the enquiries with the Asset Manager we noted that the internal movement of assets is not managed effectively.

This could result in misappropriation of assets.

**Internal control deficiency**

*Leadership*

Policies and procedures are not established and communicated to enable and support understanding and execution of internal control objectives, processes, and responsibilities.

**Recommendation**

Management should implement a process whereby a form will be completed and approved by Heads of the relevant departments, and forwarded to Asset Management and CFO for approval and recording on the fixed asset register as per the policy of the Municipality.

**Management response**

Management agree to the findings

The form for control of movement of assets was developed subsequently to year end.

Name:

Position:

Date:

**Follow-up s**

**Auditor's conclusion**

Management response is satisfactory as controls have been put in place

**29. Employee costs - HR policies not adopted**

**Audit finding**

Section 67 of the Municipal Systems Act requires that a municipality, in accordance with any applicable law, and subject to any applicable collective agreement, must develop and adopt appropriate systems and procedures to ensure fair, efficient, effective, and transparent personnel administration, including-

- The recruitment, selection and appointment of persons as staff members
- Service conditions of staff
- The supervision and management of staff
- The monitoring, measuring and evaluating of performance of staff
- The promotion and demotion of staff
- Transfer of staff
- Grievance procedures
- Disciplinary procedures
- The investigations of allegations of misconduct and complaints against staff
- The dismissal and retrenchment of staff
- 

However, the municipality has developed the following HR policies but has not implemented them in the period under review as they are still in a draft format:

- Recruitment, training & employment equity Policy
- Private work and declaration of interest
- Internal Bursaries Policy
- Learnership and internship policy
- Volunteers Policy
- Volunteers Policy
- Smoking Policy
- Relocation Policy
- Sexual Harassment Policy
- Overtime Policy

We noted that these policies were only approved in August 2011.

Furthermore, a performance management policy and dismissal and retrenchment of staff policy have not been developed.

Policies and procedures are not in place for hiring, orienting, training, evaluating, counselling, promoting, compensating, disciplining and terminating employees.

Non-compliance with the set laws and regulations.

**Internal control deficiency**

*Leadership*

Policies and procedures are not established and communicated to enable and support understanding and execution of internal control objectives, processes, and responsibilities.

**Recommendation**

The accounting officer must ensure that policies are developed, implemented to ensure compliance with the set laws and regulations. Furthermore, policies must be reviewed annually to ensure that controls are developed to mitigate new risks identified and that they are updated with the new laws and regulations.

A performance management policy must be developed for effective monitoring, measuring and evaluating of performance of staff.

**Management response**

Management agrees with the finding:

The HR policies were approved after 30 June 2011.

Name:

Position:

Date:

**Follow-up s**

**Auditor’s conclusion**

Management comment is accepted

**30. Employee costs - Inadequate controls over overtime process**

**Audit finding**

Section 62(1)(b) of the MFMA state that the Accounting Officer of a Municipality is responsible for managing financial administration of the Municipality and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the Municipality are kept in accordance with prescribed norms and standard.

The municipality did not implement an overtime policy as required by the MFMA. It was also noted that the draft overtime policy is silent with regard to the approval of overtime worked by employees.

As a result, the municipality does not give written authorization in advance for the overtime work and it was confirmed by inspection the following overtime worked by officials:

Date on which overtime was worked	Hours worked	Date on which overtime was approved by HOD/	Date on which overtime was approved by MM

		<b>Senior</b>	
02 December 2010	7	06 December 2010	09 December 2010

Execution of transactions and events. Transactions and other significant events are not authorised and performed by the appropriate personnel.

There is a risk that employees will work for unapproved hours resulting to unauthorised overtime paid to employees. Disputes arising from the approval of hours worked may not be easily resolved.

**Internal control deficiency**

*Leadership*

Policies and procedures are not established and communicated to enable and support understanding and execution of internal control objectives, processes, and responsibilities.

**Recommendation**

Management must implement an overtime policy to ensure effective management of overtime worked by employees.

**Management response**

Management agrees.

The overtime policy is still draft and the above matter will be addressed in the final policy to be presented to council for approval.

Management will develop an application form for approval of overtime.

Name:

Position:

Date:

**Follow-up s**

**Auditor’s conclusion**

Response from management is satisfactory as it address the root cause of the problem

**31. Employee costs – Reconciliation between VIP and the Munsoft**

**Audit finding**

Section 62 of the MFMA states the following:

"(1) 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-

- (a) that the resources of the municipality are used effectively, efficiently and economically;
- (b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards;

Reconciliations between the VIP system and Munsoft are not prepared on a monthly basis in order to timeously identify and resolve errors timeously.

The following differences between the different classes of employee related costs when compared to the VIP reports were

identified:

Account Number	Name	Final TB/AFS-2011	VIP Report	Difference
200001	Salaries	39,726,601	35,445,029	4,281,572
200070	Medical Aid Contributions	2,686,426	2,683,331	3,096
200110	U I F Contributions	219,580	212,995	6,585
260110	Skills Development Levy	400,332	399,937	395
215004	Cellphone Allowances	925,014	722,721	202,293
215005	Clr Allowances	1,875,867	6,231,207	(4,355,341)
200060	Pension Contributions	7,586,790	6,444,298	1,142,492
200170	Travel Allowances	3,322,670	4,522,670	(1,200,000)
200090	Housing Subsidies	934,631	946,054	(11,423)
215010	Housing Allowance	19,428	19,827	(399)
		<b>57,697,338.99</b>	<b>57,628,067.71</b>	<b>69,271.28</b>

Information processing. The entity does not employ a variety of control activities suited to information processing systems to ensure accuracy and completeness.

Employee related costs may be incomplete.

Employee related costs may be misstated as a result of incorrect classifications.

**Internal control deficiency**

*Financial and performance management*

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

**Recommendation**

Ongoing monitoring and supervision should be undertaken to enable an assessment of the effectiveness of internal control over financial reporting. Management must ensure that all the reconciliations between the VIP payroll system and Munsoft are performed on a monthly basis to ensure timeous identification of errors and misallocations.

**Management response**

This issue was discussed and rectified with the auditors.

Name:

Position:

Date:

### **Auditor's conclusion**

The impact of the unreconciled difference has been included in schedule of unadjusted audit differences (limitation of scope) to be considered with other misstatements identified.

#### **32. Employee costs - No segregation of duties**

### **Audit finding**

Section 62 1(c) of the Municipal Finance Management Act states that the accounting officer is responsible for managing the financial administration of the municipality and must take reasonable steps to ensure that full records of the financial affairs of the municipality are kept in accordance with the prescribed norms and standards.

Amendments made to VIP Sofline must be supported by an authorised payroll amendment form.

We noted that the Payroll Clerk (Ms Phindile Masango) performs the following incompatible duties,

- Capturing of new employee informing on the VIP payroll system
- Preparing the salary run for each month
- Releasing salary payments via the Capitec salary facility (no second approval)
- Making amendments (i.e. salary increments, banking details etc.) to the VIP payroll system
- Calculating and capturing of salary increments on the VIP payroll system
- Removing/ terminating employees on the VIP payroll system

Furthermore it was also noted that there is no review by a senior personnel of all the above functions.

Key duties and responsibilities are not divided or segregated among different people to reduce the risk of error, waste or fraud.

The municipality might incur losses as a result of:

- fictitious employees included in the payroll
- Overpayments made to employees and third parties

### **Internal control deficiency**

#### *Leadership*

Policies and procedures are not established and communicated to enable and support understanding and execution of internal control objectives, processes, and responsibilities.

### **Recommendation**

Management must develop and adopt policies and procedures to guide financial accounting and must address the following:

Financial reporting roles and reporting responsibilities

- The policies must be in line with the relevant laws and regulations ( MFMA, Municipal Systems Act)

### **Management response**

Management partially disagrees with the finding:

The Monthly payroll is authorized by the CFO before the funds are released.

The high vacancy rate is also a significant contributor to the segregation of duties challenges.

Name:

Position:

Date:

**Auditor's conclusion**

Management response is satisfactory, as the CFO authorizes the payroll before the funds are released

**33. Employee costs - Organisational structure not approved**

**Audit finding**

Section 62 1(c) of the Municipal Finance Management Act states that the accounting officer is responsible for managing the financial administration of the municipality and must take reasonable steps to ensure it maintains effective efficient and transparent systems of financial risk management and internal control.

There was no approved and updated operational organisational structure for the year under review was made available. The structure was only approved on the 29 June 2011.

The organizational structure for 2009/10 was approved in August 2010.

Key areas of authority and responsibility are not defined and communicated throughout the organisation.

Organisational structure may not be aligned to the integrated development plan and therefore impacting on the achievement of strategic objectives of the municipality.

**Internal control deficiency**

*Leadership*

The accounting officer does not exercise oversight responsibility over financial reporting and internal control.

**Recommendation**

Management must ensure that the organizational structure is updated and approved. This should be aligned to the service delivery and strategic objectives to ensure compliance with the set laws and regulations.

**Management response**

Management disagrees with the finding:

The Organizational structure that exists was approved with the first IDP of the Municipality there was a review done that was approved after year end.

Name:

Position:

Date:

**Auditor's conclusion**

Proof of review of the structure was not provided. The finding will remain in the management report.

**34. Employee related costs - Acting allowance not accrued**

**Audit finding**

Section 62 (1) (b) of the Municipal Finance Management Act, 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 that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

The following employee was identified to have been appointed as an Executive Secretary in the office of the Acting Municipal Manager with effect from 02 March 2010 until December 2010 and was not paid an acting allowance:

Number	Employee no	Designation	Initials	Surname	ID number
1	P501978	MS	ZD	MSIZA	7810220194083

Furthermore it was noted that the arrear allowance of R64 979 due to the above employee was only paid subsequent to the financial period under review and no provision for the acting allowance was made for the period under review.

Appropriate policies, procedures, techniques, and mechanisms do not exist with respect to each of the municipality's activities.

Understatement of employee related costs by R64 979.

**Internal control deficiency**

*Financial and performance management*

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

**Recommendation**

Management should pass a corrective journal to accrue for the acting allowance due to the above employee.

Recommended journal

Cr Basic salary	R64 979
Dr Payables	R64 979
Accrual of acting allowance incurred	

**Management response**

Name:

Position:

Date:

Follow-up s

**Auditor's conclusion**

The amount not accrued has been included in the schedule of unadjusted errors.

### 35. Employee related costs - Employees not on medical aid

#### Audit finding

The terms of appointment as per the employee's appointment letter state the following:

"Your appointment is further subject to the following conditions:

3. You must be a member of a Medical Aid Scheme approved by Council and you must contribute to Council Life Assurance Scheme"

Appointment letter states that employee must become member of a medical aid scheme approved by Council and you must contribute to Council Life Assurance Scheme.

The following employees are not members of the medical aid as stated on their appointment letters:

Number	Employee no	Designation	Initials	Surname	ID number
20	P531711	Mr	P	Sibiya	7706270820082
21	P532337	Mi	E	Masombuka	6311100783088
27	P531968	Mr	MV	Mathebula	5811085679087
29	P533700	Ms	SE	Wright	7211210352080
33	P532936	Mi	BM	Mahlangu	6612060247083
36	P501632	Ms	NR	Sibiya	5203180774080
37	P531750	Mr	VJ	Twala	6805015426089
40	P531125	Mr	VT	Shabangu	8101315564086
41	P533705	Mr	NJ	Mahlangu	4805265420081
46	P531213	Mr	T	Mtsweni	8011085742087
52	P533199	Mr	SJ	Aphane	5508155597088
56	P533267	Ms	P	MODIBA	6804230619081
57	P533294	MS	WS	Masombuka	7612040365087
51	P531037	Mr	MC	Mahlangu	8311066030084

Appropriate policies, procedures, techniques, and mechanisms do not exist with respect to each of the municipality's activities.

Non-compliance with the terms of the appointment.

#### Internal control deficiency

##### *Financial and performance management*

The accounting officer did not implement controls over daily and monthly processing and reconciling of transactions.

## **Recommendation**

Management should develop and implement policies and procedures to ensure that all employees adhere to the terms of their appointment.

## **Management response**

Name:

Position:

Date:

Follow-up s

## **Auditor's conclusion**

### **36. Property, plant and equipment - Assets verification reports not submitted**

## **Audit finding**

Section 63(1)(a) of the MFMA state that the accounting officer of the Municipality is responsible for the management of the assets of the Municipality, including the safeguarding and maintenance of these assets.

By enquiry with the Asset Manager (Busi Mahlangu), she confirmed that a Consultant performed the asset verification for the municipality; however, a report providing evidence on the results was not forwarded for audit purposes.

This is a result of inadequate controls in custody of important documentation.

Assets of the Municipality may be misappropriated and that will result in the Municipality recording assets in the asset register which no longer exists.

## **Internal control deficiency**

### *Financial and performance management*

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

## **Recommendation**

Management should prepare a fixed asset verification report indicating all the weaknesses identified such as lost assets, assets not in the correct location, assets with incorrect descriptions, damaged assets and assets not bar-coded in order for the assets to be dealt with appropriately.

## **Management response**

The assets verification report was submitted for audit purposes.

Name:

Position:

Date:

Follow-up s

## **Auditor's conclusion**

We accept, however the report submitted was not signed by CFO and the consultants.

### **37. Predetermined objectives - Process Management System**

#### **Audit finding**

Section 38 of the Municipal system Acts stipulated that the municipality must put in place a Performance management system to provide a decision making reference for agreed processes.

We observed that the municipality have a draft framework for performance management system but it was not yet being complied with in the financial year ended 30 June 2011.

#### **Internal control deficiency**

##### *Leadership*

The accounting officer does not exercise oversight responsibility over financial reporting and internal control.

#### **Recommendation**

The drafted Performance management system approved by the council should be complied with all material respect.

#### **Management response**

Management agrees with the finding:

The annual performance management system will be implemented after year end.

Name:

Position:

Date:

#### **Follow-up s**

#### **Auditor's conclusion**

Management should ensure that performance management system is implemented

### **38. Expenditure - Lease contract not signed**

#### **Audit finding**

Section 62 (1) (b) of the Municipal Finance Management Act, 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 that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

The lease contract between Thembisile Hani Local Municipality (lessor) and Mr. Neil Oosthuizen for the leasing of the Eraka Institution (premises) was not signed by both parties.

This could lead to the financial loss and the contract is not legally enforceable as it is not signed by both parties.

#### **Internal control deficiency**

##### *Financial and performance management*

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

**Recommendation**

Management should ensure that the lease contract is signed and the lessee understand the terms and conditions thereof and the property should not be vacant before the lease contract is effective.

**Management response**

Management agrees with the finding:

The Municipality will ensure that all lease contracts are signed when the assets register is completed.

Name:

Position:

Date:

**Follow-up s**

**Auditor's conclusion:**

**39. Expenditure - Payment made on expired lease agreement**

**Audit finding**

According to section 62 (d) of the Municipal Finance Management Act the accounting officer of a municipality should take all reasonable steps to ensure that unauthorised expenditure and other losses are prevented.

Transactions are still being made to the supplier based on a 3 year lease agreement that commenced on the 1st of December 2003 and expired on the 1st of December 2006.

The details of the supplier are below:

Supplier	Amount	Document number
MEGA	R14 881	R1233- 09- 10

Management has not implemented controls to ensure that expenditure based on contractual agreements is supported by valid contracts.

Contravention of section 62 (d) of the Municipal Finance Management Act.

**Internal control deficiency**

*Financial and performance management*

The municipality has not implemented controls over daily and monthly processing and reconciling of transactions.

**Recommendation**

Management should ensure that payments are made based valid lease agreements.

**Management response**

Name:

Position:

Date:

Follow-

### **Trade receivables - Poor collection measures**

#### **Audit finding**

According to MFMA S 64

(1) The accounting officer of a municipality is responsible for the management of the revenue of the municipality.

(2) The accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure—

that the municipality has effective revenue collection systems consistent with section 95 of the Municipal Systems Act and the municipality's credit control and debt collection policy;

(a) that revenue due to the municipality is calculated on a monthly basis

Statements/invoices are not printed from the billing report nor sent out to customers. Customers in arrears (those having long outstanding balances) are not called or followed up to demand payments from them.

Policies and procedures related to financial reporting are not established and communicated.

This could lead to increase in bad debt.

#### **Internal control deficiency**

##### *Leadership*

Policies and procedures related to financial reporting are not established and communicated.

#### **Recommendation**

- Debtors should be raised promptly for outstanding balance owed.
- Statements should be sent out to customers to allow them know the amount owed, when and how to make payment.
- A systematic write off of bad debt should be done.

#### **Management response**

The monthly debtors billing was delayed by system problem which in turn affects timely sending of updated consumer accounts. However this has been reported to the service providers and follow-up are made with service providers to ensure effective functioning of the billing system.

It must also be noted that the Municipality is a rural Municipality.

Name:

Position:

Date:

#### **Auditor's conclusion**

Management comment is satisfactory

#### 40. Trade receivables - Statements are not sent out

##### Audit finding

According to MFMA Section 97, the accounting officer of a municipal entity must take all reasonable steps to ensure—

- (a) that the entity has and implements effective revenue collection systems to give effect to its budget;
- (b) that all revenue due to the entity is collected.

In addition to this, section 27 (1) of Municipal Property rates Act no.6 of 2004 states that: A municipality must furnish each person liable for the payment of a rate with a written account specifying (a) the amount due for rates payable; (b) the date on or before which the amount is payable ; (c) how the amount was calculated (d) the market value of the property.

During the audit, it was noted that statements of amount owing are not sent to the customers. Customers are billed at a flat rate per village. No meter reading is done, this leads to inequality as charges were not based on usage.

Controls over billing of customers are not implemented.

Inaccurate billing leading to incorrect debtors valuation as at year end.

##### Internal control deficiency

*Financial and performance management*

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

##### Recommendation

Meter readings should be done to record usage and bill accurately.

Bills/statements clearly indicating amount outstanding, due date for payment etc. should be sent to customers on a regular basis.

##### Management response

The process of sending monthly bills had to be stopped to avoid fruitless expenditure as most bills were returned back as undeliverable.

The bills will be send out once the data cleansing project is complete.

Name:

Position:

Date:

##### Follow-up s

##### Auditor's conclusion

Management response is satisfactory as system will be implemented

#### 41. Trade receivables – Difference between age analysis and trial balance

##### Audit finding

As per section 62 (1) c, the accounting officer of a municipality is responsible for managing the financial administration of the municipality and for this purpose take all reasonable steps to ensure that the municipality has and maintains effective,

efficient and transparent systems - (i) of financial and risk management and internal control.

The debtors balance as per the age analysis does not agree with the debtors balance as per the general ledger

	<b>Amount (R)</b>
Balance per age analysis	132 558 025
Balance per General ledger	132 668 317
Difference	110 291

The debtors list was not drawn on 30 June 2011; the year end. .

The exact debtors balance as at year end could not be ascertained because there is no proper cut off measures in place.

#### **Internal control deficiency**

##### *Financial and performance management*

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

#### **Recommendation**

The debtors list run/download should be done as at year end 30 June 2011 in order to obtain accurate balance at year end.

#### **Management response**

the above were revised and agreed with the auditors.

Name:

Position:

Date:

#### **Follow-up s**

#### **Auditor's conclusion**

Management response is not satisfactory as it does not deal with the root cause of the problem. Management should ensure that the report is run timeously to ensure accurate information

#### **42. Trade receivable - Properties with same ERF number on munsoft**

##### **AUDIT FINDING**

Section 48 (1) of the Municipal Property rates Act no 6 of 2004, stipulates that a valuation roll must list all properties in the municipality determined in terms of section 30 (3).

Section 48 (2) of the Act states that the valuation roll must reflect the following particulars in respect of each property as at the date of valuation to the extent that such information is reasonably determinable:

- (a) the registered name or other description of the property;
- (b) the category determined in terms of section 8 in which the property falls;
- (c) the physical address of the property;

(d) the extent of the property;

(f) the name of the owner; and

(e) any other prescribed particulars.

We noted that some properties have the same ERF number on munsoft.

Example of such properties are:

Account number	Name of owner	Erf number
1015829	KwaMhlanga -show ground	00BA-00005
1015829	Mahlangu January	00BA-00005

The conflict resulted as a result of inadequate maintainance of the property register. If the property register is being maintained and reviewed periodically as stipulated by Act, the error could have been identified and corrected.

Some properties on the valuation roll may not be traceable.

#### INTERNAL CONTROL DEFICIENCY

##### *Financial and performance management*

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

#### RECOMMENDATION

A register of properties within the municipality should be kept and updated regularly.

#### **Management response**

Name:

Position:

Date:

#### **Follow-up notes**

#### **Auditor's conclusion**

#### **43. Trade and other receivables - Properties registered in the name of a different owner on Munsoft**

#### AUDIT FINDING

Section 48 (1) of the Municipal Property rates Act no 6 of 2004, stipulates that a valuation roll must list all properties in the municipality determined in terms of section 30 (3).

Section 48 (2) of the Act states that the valuation roll must reflect the following particulars in respect of each property as at the date of valuation to the extent that such information is reasonably determinable:

- (a) the registered name or other description of the property;
- (b) the category determined in terms of section 8 in which the property falls;
- (c) the physical address of the property;
- (d) the extent of the property;
- (f) the name of the owner; and
- (e) any other prescribed particulars.

It was noted during the audit that some properties on munsoft were registered in the name of a different owner to the name of the owner stated on debtors' list.

Below are some examples:

Stand #	Township	Account #	Owner on munsoft	Owner on debtors' list
79	Kwamhlanga-A	1006453	Mthombeni JK	Nzuza Thukane John
392	Kwamhlanga-A	1009141	Masanabo BP	Monama Malesela Frantz
120	Kwamhlanga-BA	1010155	Manase SM	Maisa Henry Nehemia
185	Kwamhlanga-BA	2010294	Skosana FM	Mahlangu Absalom Saya
179	Kwamhlanga-BA	2010329	Mnyakeni WZ	Sekhu Phillip Tshumu
480	Kwamhlanga-BA	6000318	Mahlangu HP	Ngobeni Lawrence Mduduzi

Inappropriate maintenance and review of the property register.

This may result in increased bad debt as the properties may not be traceable to the rightful or current owners of the properties.

#### INTERNAL CONTROL DEFICIENCY

##### *Financial and performance management*

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

#### RECOMMENDATION

In compliance to the Act, management should draw up and maintain a register of properties which is reviewed and updated regularly.

##### **Management response**

Name:

Position:

Date:

**Follow-up notes**

**Auditor's conclusion**

**44. Trade receivable – Inconsistency between debtors' list and valuation roll**

**AUDIT FINDING**

Section 48 (1) of the Municipal Property rates Act no 6 of 2004, stipulates that a valuation roll must list all properties in the municipality determined in terms of section 30 (3).

Section 48 (2) of the Act states that the valuation roll must reflect the following particulars in respect of each property as at the date of valuation to the extent that such information is reasonably determinable:

- (a) the registered name or other description of the property;
- (b) the category determined in terms of section 8 in which the property falls;
- (c) the physical address of the property;
- (d) the extent of the property;
- (f) the name of the owner; and
- (e) any other prescribed particulars.

The valuation roll is not complete as some properties on the debtors' list could not be traced to the valuation roll.

The current valuation roll was prepared in 2009 and is not updated with some properties within the municipality area. Moreover, as customers' details are loaded from the new application forms onto Munsoft for billing, both the Munsoft and the debtors' list are likely to include properties not in the valuation roll.

If all the ratable properties within the municipal area are not included in the valuation roll and uploaded to Munsoft, the municipality will not be able to generate revenue (rates and taxes) on the omitted properties as they will not be billed.

**INTERNAL CONTROL DEFICIENCY**

*Financial and performance management*

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

**RECOMMENDATION**

The valuation roll should be updated to include all the properties in the Thembisile Hani Municipality as determined in terms of section 30 (3) of the Act.

**Management response**

Name:

Position:

Date:

## Follow-up notes

### Auditor's conclusion

#### 45. Trade receivable - Policy on provision for doubtful debt not approved

#### AUDIT FINDING

In terms of S64 of the MFMA;

.(1) The accounting officer of a municipality is responsible for the management of the revenue of the municipality.

(2) The accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure:

(e) that the municipality has and maintains a management, accounting and information system which—

(i) recognises revenue when it is earned;

(ii) accounts for debtors; and

(iii) accounts for receipts of revenue;

(f) that the municipality has and maintains a system of debtors and revenue, as may be prescribed;

It was noted that a blanket rate was used to raise provision for doubtful debt. The methodology used is not appropriate because the provision raised in the prior year was not accurate. IAS 39 (para. 58) states that an entity must assess at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on the financial assets has been incurred, the loss must be recognised in profit or loss. Since trade debtors are financial assets, annual impairment assessments must be performed

Policies and procedures related to financial reporting are not established and communicated

Inaccurate provision on doubtful debt is raised using the methodology, thus trade receivable was stated at an amount not realisable in the financial statement.

#### INTERNAL CONTROL DEFICIENCY

##### *Leadership*

Policies and procedures are not established and communicated to enable and support understanding and execution of internal control objectives, processes, and responsibilities.

#### RECOMMENDATION

Debtors should be assessed for recoverability based on the history of collectivity. Long outstanding debtors should be identified and written off.

#### Management response

Name:

Position:

Date:

**Follow-up notes**

**Auditor's conclusion**

**46. Revenue - Income from services (segregation of duties)**

**Audit finding**

As per section 62 (1) c, the accounting officer of a municipality is responsible for managing the financial administration of the municipality and for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems - (i) of financial and risk management and internal control.

The billing clerk loads the customers' details on the system and also does the billing

Lack of segregation of duties

\*Inaccurate billing of customers

\*Incomplete debtors list (when not all customers enjoying the service is loaded onto the system)

**Internal control deficiency**

*Leadership*

Policies and procedures related to financial reporting are not established and communicated.

**Recommendation**

Billing of customers should be segregated from recording (loading onto the system) of customers' details. A different staff member should be responsible for loading customers' details on the system for billing. A report of the loading should be generated from the system and reviewed by a senior staff. Upon approval of the loaded report, billing could then be done by another staff.

**Management response**

Due to high vacancy rate in finance.

This process was stopped during the financial year under review.

Name:

Position:

Date:

**Auditor's conclusion;**

Management response is not satisfactory as they have not said what they are going to do regarding the vacancies in the finance department

**47. Revenue - Interest on consumer debtors**

**Audit finding**

According to MFMA Section 97, the accounting officer of a municipal entity must take all reasonable steps to ensure—

- (a) that the entity has and implements effective revenue collection systems to give effect to its budget;

(b) that all revenue due to the entity is collected.

We noted that the interest charged in June 2011 was the same with the interest charged on debtors' balances in May 2011. This was identified on the following sample of customers:

Account No	Customer Name	Erf number	Amount outstanding at 30 June 2011 per debtors' list	Interest as per Munsoft for the month of June 2011	Interest as per Munsoft for the month of May 2011
1	Mtshweni M L	BUND 000015150	1913.69	R 15.38	R 15.38
2	Mphuthi J F	MAND 000001207	1715.36	R 13.85	R 13.85
4	Jonas K M	SUNB 000001255	2257.4	R 17.94	R 17.94
5	Maloleka P E	SUNB 000001403	2135.93	R 17.05	R 17.05
6	Mothoa M R	MAND 000000409	2243.66	R 16.10	R 16.10
7	Ndhlovu B G	TWEG 000001124	1617.82	R 13.01	R 13.01
8	Mahlangu V J	KWGA 000002309	2137.11	R 15.65	R 15.65
9	Shabangu V H	ZAKH 000000525	2422.94	R 17.47	R 17.47
10	Mahlangu A	MOLO 000006532	2198.79	R 17.50	R 17.50
12	Mtshwene W M	TWEE 000001412	322.69	R 1.33	R 1.33

The monthly interest run was not done for June 2011 at month end.

Debtors may be misstated

#### **Internal control deficiency**

##### *Financial and performance management*

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

#### **Recommendation**

Measures should be put in place by management to ensure that interest is calculated on the debtors' outstanding balance on a monthly basis.

#### **Management response**

**Name:**

**Position:**

**Date:**

**Follow-up s**

**Auditor's conclusion**

#### **48. Property, plant and equipment: Contracts not given for audit**

### **Audit finding**

Section 62 1(c) of the Municipal Finance Management Act states that the accounting officer is responsible for managing the financial administration of the municipality and must take reasonable steps to ensure that full records of the financial affairs of the municipality are kept in accordance with the prescribed norms and standards.

The contracts as listed below for the expenditure on construction of infrastructure assets were not provided for audit.

1. Quebec Logistic Solutions
2. Ndabantle Construction
3. Star Miris Construction
4. Mahlalerwa Construction
5. NJ Nkosana Business Enterprise

No controls exist for custody of information.

1. This will result into the municipality losing important records and documents
2. Non Compliance to section 62 1 (c) of the MFMA.

### **Internal control deficiency**

#### *Financial and performance management*

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

### **Recommendation**

Management should keep all important documents safely to ensure adequate financial administration.

### **Management response:**

The contracts for MIG construction projects are contained in the tender documents, please identify the cases where they are not found in the tender documents.

**Name:**

**Position:**

**Date:**

**Follow-up s**

### **Auditor's conclusion**

Management comment is satisfactory

## **49. IT Governance - Inadequate IT Strategic Management**

### **Audit finding**

Standard;

COBIT 4.1 framework (PO1) recommends that:

IT strategic planning is required to manage and direct all IT resources in line with the business strategy and priorities. The IT function and business stakeholders are responsible for ensuring that optimal value is realised from project and service

portfolios. The strategic plan should improve key stakeholders' understanding of IT opportunities, limitations, assess the current performance and clarify the level of investment required. The business strategy and priorities are to be reflected in portfolios and executed by the IT tactical plan(s), which establishes concise objectives, plans and tasks understood and accepted by both business and IT.

There is no formally documented IT strategic plan.

This could result in IT initiatives and solutions that do not adequately support the municipality's corporate objectives.

### **Internal control deficiency**

#### *Leadership*

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

### **Recommendation**

Management should develop and implement an IT strategic plan which at a minimum should address the following issues;

- IT investment/operational budget
- Funding sources
- Acquisition strategy
- Legal and regulatory requirements
- Current information technology capabilities and desired future needs.

### **Management response**

Name:

Position:

Action date:

### **Auditor's conclusion**

#### **50. Lack of a formal IT Project Management Framework**

### **Audit finding**

COBIT 4.1 framework (P010) recommends that:

A programme and project management framework for the management of all IT projects is established. The framework ensures the correct prioritisation and co-ordination of all projects. The framework includes a master plan, assignment of resources, definition of deliverables, approval by users, a phased approach to delivery, QA, a formal test plan, and testing and post-implementation review after installation to ensure project risk management and value delivery to the business. This approach reduces the risk of unexpected costs and project cancellations, improves communications to and involvement of business and end users, ensures the value and quality of project deliverables, and maximises their contribution to IT-enabled investment programmes.

There is no formal IT Project Management Policy which defines the scope and boundaries for managing projects, as well as the methods to be adopted and applied to each project undertaken.

Lack of a formal project management framework increases the risk that projects will not be delivered on time, on budget, and meeting the required quality standards.

### **Internal control deficiency**

### *Leadership*

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

### **Recommendation**

Management should develop and implement a formal Project Management Framework / methodology that address the initiation, approval, planning, execution, communication, and monitoring/ control of Information Technology projects. The framework should include a change control process for recording, evaluating, communicating and authorising changes to the project scope, project requirements or system design.

### **Management response**

Name:

Position:

Action date:

### **Auditor's conclusion**

#### **51. No formal IT risk management framework**

### **Audit finding**

Standard;

COBIT 4.1 framework (P09) recommends that:

A risk management framework is created and maintained. The framework documents a common and agreed-upon level of IT risks, mitigation strategies and residual risks. Any potential impact on the goals of the organisation caused by an unplanned event is identified, analysed and assessed. Risk mitigation strategies are adopted to minimise residual risk to an accepted level. The result of the assessment is understandable to the stakeholders and expressed in financial terms, to enable stakeholders to align risk to an acceptable level of tolerance.

There is currently no formal risk management framework that defines the core set of activities and outputs required to effectively manage the municipality's information security risks.

In the absence of a formalised risk management process, the organisation may be unable to anticipate risks and institute appropriate responses / interventions for risks falling outside council's risk tolerance levels. This may consequently result in the IT division failing to achieve its objectives and by extension the municipality's objectives.

### **Internal control deficiency**

### *Leadership*

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

### **Recommendation**

We recommend that management should define an entity wide risk management framework which provides guidance for effective risk assessment and management process within the municipality. The framework should address the following areas among other things;

- Risk assessment criteria matrix, which basically sets the risk appetite

- Monitoring and reporting of risk (Risk champion)
- Risk assessment cycle / frequency
- Comprehensive risk assessment template
- Risk treatment

### **Management response**

Name:

Position:

Action Date:

### **Auditor's conclusion**

#### **52. Inadequate Vendor Management Practices**

### **Audit finding**

COBIT 4.1 framework (DS2) recommends that:

An effective third-party management process be defined and maintained. This process is accomplished by clearly defining the roles, responsibilities and expectations in third-party agreements as well as reviewing and monitoring such agreements for effectiveness and compliance. Effective management of third-party services minimises the business risk associated with non-performing suppliers.

Vendor performance management practices were found to be inadequate as evidenced by the following observations;

- There was no formally signed Service Level Agreement between the municipality and Xuma Technologies, responsible for upgrade ICT infrastructure and equipment.
- Procedures for monitoring IT vendor performance to facilitate timely detection and rectification of performance issues are not specified in the SLAs between the municipality and its service providers. In the period under review, no performance reports were provided to management by the vendors.

There may be decline in the quality of services rendered by vendors and consequently service delivery to the municipality's stakeholders where there is inadequate management oversight on IT service providers. Furthermore, service delivery problems may not be timely detected resulting in costly remediation efforts.

### **Internal control deficiency**

#### *Leadership*

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

### **Recommendation**

We recommend that Management should;

- Consider recruiting a sufficiently skilled IT manager to provide strategic leadership to the IT function. Furthermore, existing SLAs with IT service providers should be refined so that they contain clauses which specify expected service levels and procedures for monitoring performance and ensuring compliance with the SLAs.
- Formalise the Service Level Agreement between the Municipality and Xuma technologies.

•

**Management response**

Name:

Position:

Action date:

**Auditor's conclusion**

**53. No formal IT risk management framework**

**54. Audit finding**

COBIT 4.1 framework (A16) recommends that:

All changes, including emergency maintenance and patches, relating to infrastructure and applications within the production environment should be formally managed in a controlled manner. Changes (including those to procedures, processes, systems and service parameters) should be logged, assessed and authorised prior to implementation and reviewed against planned outcomes following implementation. This assures mitigation of the risks of negatively impacting the stability or integrity of the production environment.

Thembisile Hani Municipality presently does not have formal change management policy and procedures in place which provides comprehensive guidelines for administering changes to departmental information technology systems, systems software, and IT infrastructure.

Unauthorised changes may be implemented which could impact integrity of data and availability of systems where there is no formally defined process for administering changes.

**Internal control deficiency**

*Leadership*

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

**Recommendation**

Management should facilitate the development and implementation of a formal change management policy and procedures to facilitate the standardised deployment of changes to the organisation's systems and IT infrastructure.

**Management response**

Name:

Position:

Action date:

**Auditor's conclusion**

**79. Security management -Inadequate Information Technology Policy**

**Audit finding**

COBIT 4.1 framework (PO6.3) recommends that:

Develop and maintain a set of policies to support IT strategy. These policies should include policy intent; roles and responsibilities; exception process; compliance approach; and references to procedures, standards and guidelines. Their relevance should be confirmed and approved regularly.

- There is no IT policy that adequately address the following essential elements of security;
- Database security
- Network security with reference to remote access to systems and use of instant messaging
- User account administration (e.g. user naming conventions, reviewing of access rights for both normal and system administrator accounts, and resetting of user and administrator passwords)

Deficiencies in IT policies may result in inconsistent or ineffective implementation of controls which in turn exposes information assets to the possibility of compromise from unintentional and / deliberate actions performed by authorised and / unauthorised users.

### **Internal control deficiency**

#### *Leadership*

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

### **Recommendation**

Management should review and update the existing IT policy so that it adequately addresses essential elements of security such as database security, network security, and user administration at network and application level.

### **Management response**

Name:

Position:

Action date:

### **Auditor's conclusion**

## **80. User account management - User account management**

### **Audit finding**

The COBIT 4.1 framework (DS5.4) recommends that requesting, issuing, suspending, modifying and closing user accounts and related user privileges should be addressed with a set of user account management procedures. These procedures should include an approval process outlining the data or system owner granting the access privileges, and should apply to all users, including administrators (privileged users) and internal and external users, for normal and emergency cases. Management should perform a regular review of all user accounts and related privileges.

User account management procedures were found to be inadequate with respect to the following:

- There are no user account management standards that address the granting, review and termination of users with respect to the network, Munsoft and VIP applications;
- There is no evidence that user activity logs for the Munsoft and VIP system administrator and access rights for normal users are periodically reviewed by an independent person;
- There is no segregation of duties matrix which forms the basis for allocating access according to their job roles;
- There is no formal user request form for granting access to the network, Munsoft and VIP systems
- 

Weak user administration controls may be exploited by authorised and unauthorised individuals to perform irregular activities/ transactions thereby compromising the integrity and reliability of information assets.

## Internal control deficiency

### Leadership

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

### Recommendation

Management should consider employing an IT manager to provide IT leadership and assist in the development and implementation of user account management standards and procedures among other things. Management should also enhance oversight over the user administration process by:

- Management should facilitate the development and implementation of a formal user account management procedures for the network, VIP and Munsoft.
- Ensuring that user accounts and user access logs on the Munsoft and VIP application are regularly reviewed and evidence of such reviews is kept on file;
- Developing a segregation of duties matrix/ user access control list to be used as a basis for the allocation of access to users in line with their job functions;
- Facilitate the development and implementation of a formal request form which include but not limited to the requestor details, a list of access to be granted and details of the authoriser.

### Management response

Name:

Position:

Action date:

### Auditor's conclusion

#### Password parameters not appropriately set

#### Audit finding

IT security best practices recommend that the following controls should be enabled to ensure adequate protection of user accounts;

- User passwords must be changed periodically after a defined period of time (e.g. 30 days)
- System should lock a user's account after a defined number of unsuccessful logon attempts (3)
- Passwords must not be entered in clear text form
- The system must keep a history of previous passwords so that most recent passwords cannot be reused (e.g. at least last 6 passwords)
- Minimum password length must be six (6) characters

The following deficiencies were d in respect to password settings on end user workstations, Munsoft and VIP systems;

Workstations	Munsoft	VIP
Password length is set at 0	Password length is set at 4	Passwords are not set to expire
Passwords are not set to expire	Password complexity is disabled	

User accounts are not locked after repeated login failures	User accounts are not locked after repeated login failures	
Password complexity has not been enabled	The workstations are not set to lock out user accounts after 3 invalid logon attempts	
The workstations are not set to lock out user accounts after 3 invalid logon attempts		

The above security flaws may be exploited by unauthorised users to gain access to the IT systems resulting in the possible compromise of the integrity and confidentiality of data stored and processed by the entity's information technology systems.

**Internal control deficiency**

End user workstations currently operate as standalone computers instead of being managed under the domain controller.

**Recommendation**

Management should ensure that password policy is enabled on the municipality's key systems in line with leading industry standards in order to ensure that user accounts are adequately protected from possible compromise by unauthorised users. The following are the recommended settings;

- Password should be set at a minimum of six (6) characters
- Password complexity should be enabled
- Password should be changed every 30 days
- Password should be locked after every 3 invalid attempts
- 12 Password should be remembered to deny password reuse
- 

**Management response**

Name:

Position:

Action date:

**Auditor's conclusion**

**Employee related costs: Appointment letter and contract not filed**

**Audit finding**

Section 29 of the Basic Conditions of Employment Act states the following:

"29. Written particulars of employment.- (1) An employer must supply an employee, when the employee commences employment, with the following particulars in writing-

- a) the full name and address of the employer;
- b) the name and occupation of the employee, or brief description of the work for which the employee is employed;
- c) the place of work, and, where the employee is required or permitted to work at various places, an indication of this;

- d) the date on which the employment began;
- e) the employee's ordinary hours of work and days of work;
- f) the employee's wage or the rate and method of calculating wages;
- g) the rate of pay for overtime work;
- h) any other cash payments that the employee is entitled to;
- i) any payment in kind that the employee is entitled to and the value if the payment in kind;
- j) how frequently remuneration will be paid;
- k) any deductions to be made from the employee's remuneration;
- l) the leave to which the employee is entitled;
- m) the period of notice required to terminate employment, or if employment is for a specified period, the date when the employment is to terminate;
- n) a description of any council or sectoral determination which covers the employer's business;
- o) any period of employment with a previous employer that counts towards the employee's period of employment;
- p) a list of any other documents that form part of the contract of employment, indicating a place that is reasonably accessible to the employee where a copy of each may be obtained."

We noted that the employees as listed below did not have their employment contracts and appointment letters in their personal files. There is thus no legal/constructive obligation between the municipality and the employees in question with regard to the terms stipulated in the employment contracts.

Number	Employee no	Designation	Initials	Surname	ID number
3	P532782	MR	AB	SHABANGU	7809195674087
16	P532231	MI	SS	PS RIBA	5502040236085
15	P501657	MS	LO	MAHLANGU	6501270515084

No proper procedures are in place to ensure that all necessary documents are appropriately filed on the personal files of the respective employees.

Non-compliance with the Basic Conditions of Employment Act

**Internal control deficiency**

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

**Recommendation**

All necessary supporting documentation (signed employment contracts, acceptance letters) for newly appointed employees should be kept on personnel files and be readily available for audit purposes.

**Management response**

Name:

Position:

Date:

Follow-up s

**Auditor's conclusion**

**Revenue - Receipts not banked promptly**

### Audit finding

MFMA section 64 (1) states that: the accounting officer of a municipality is responsible for the management of the revenue of the municipality. (2) (d)The accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure stated that all money received is promptly deposited in accordance with this Act into the municipality's primary and other bank accounts.

As per discussion with the senior cashier; Rosina Ngobeni, money received by the cashiers is not banked daily due to unavailability of vehicle for transportation. See the table below for example:

Date per cashier's manual receipt	Amount per deposit slip	Amount per bank statement	Date lodged at bank
03/05/011	3 170	3 170	2011/05/05
04/05/2011	3 324	3 324	2011/05/05
21/04/2011	1 000	1 000	2011/05/05
19/04/2011	2 124	2 124	2011/05/05
18/04/2011	3 275	3 275	2011/05/05
20/04/2011	120	120	2011/05/05
20/04/2011	284 000	2 840	2011/05/05

Policies and procedures related to financial reporting are not established and communicated

Keeping large sum of money within the premises could facilitate theft and loss of municipal revenue.

### Internal control deficiency

#### Leadership

The accounting officer does not exercise oversight responsibility over financial reporting and internal control.

### Recommendation

Measures should be put in place to ensure money received is taken to the bank promptly in compliance with the Act.

### Management response

The Municipality has an agreement with Protea Coin. The cash is collected two times a week at the head office, as it will be costly to collect R120 and pay 3000 fees to Protea Coin. Once the Municipality improves the cash collection rates the contract will be amended to ensure that cash is collected daily.

Name:

Position:

Date:

### Auditor's conclusion:

Management response is satisfactory

### System performance and capacity planning - Capacity planning

**Audit finding**

The COBIT 4.1 framework (DS3) recommends;

The development and implementation of a process to periodically review current performance and capacity of IT resources. This process includes forecasting future needs based on workload, storage and contingency requirements. This process provides assurance that information resources supporting business requirements are continually available.

There is no capacity planning for the applications and infrastructure.

Business operations may be disrupted or constrained due to insufficient capacity or performance degradation of IT Infrastructure components, e.g. shortage of disk space and poor network response times.

**Internal control deficiency***Leadership*

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

**Recommendation**

Management should consider employing an in house IT manager to provide IT leadership and assist in the development and implementation of a capacity plan for the applications and infrastructure among other things. This plan should be formally approved and communicated to relevant stakeholders. The plan should annually be compiled, outlining IT systems' current and future performance and capacity requirements.

**Management response:**

Thembisile Hani Local Municipality does not have sufficient capacity to address the IT challenges, an Assistant Manager will be appointed in due course to address the challenges relating to all IT issues. This will start and strategic IT issues to operational areas.

Name:

Position:

Action date:

**Auditor's conclusion****Composition bid adjudication committee.****Audit finding**

According to section 29 (b)(2) of the Municipal SCM Model Policy, a bid adjudication committee must consist of at least four senior managers of the municipality.

The composition of the board for the bid adjudication committee for project Paparich Property development: THLM/RS1/2010/11 was as follows:

Ratau: Acting CFO

Taabe: Deputy Administrator

Msiska: Acting Manager Technical Services

Mofolo: Finance Management Intern.

Management inappropriately addresses intervention or overriding of internal control.

Non compliance with the Municipal SCM Model Policy.

**Internal control deficiency**

Control activities are not regularly evaluated to ensure that they are still appropriate and working as intended.

**Recommendation**

Management should ensure that SCM policies are adhered to during the procurement process.

**Management response**

Name:

Position:

Date:

Follow-up notes

**Auditor's conclusion**

**STATUTORY ANNUAL REPORT PROCESS**

No.	Activity	Timeframe
1	Consideration of next financial year's Budget and IDP process plan. Except for the legislative content, the process plan should confirm in-year reporting formats to ensure that reporting and monitoring feeds seamlessly into the Annual Report process at the end of the Budget/IDP implementation period.	July
2	Implementation and monitoring of approved Budget and IDP commences (In-year financial reporting).	
3	Finalise 4 <sup>th</sup> quarter Report for previous financial year	
4	Submit draft 09/10 Annual Report to Internal Audit and Auditor-General	
5	Municipal entities submit draft annual reports to MM	
6	Audit/Performance committee considers draft Annual Report of municipality and entities (where relevant)	August
8	Mayor tables the unaudited Annual Report	
9	Municipality submits draft Annual Report including consolidated annual financial statements and performance report to Auditor General.	
10	Annual Performance Report as submitted to Auditor General to be provided as input to the IDP Analysis Phase	
11	Auditor General assesses draft Annual Report including consolidated Annual Financial Statements and Performance data	September - October
12	Municipalities receive and start to address the Auditor General's comments	November

13	Mayor tables Annual Report and audited Financial Statements to Council complete with the Auditor- General's Report	
14	Audited Annual Report is made public and representation is invited	
15	Oversight Committee assesses Annual Report	
16	Council adopts Oversight report	December
17	Oversight report is made public	
18	Oversight report is submitted to relevant provincial councils	
19	Commencement of draft Budget/ IDP finalisation for next financial year. Annual Report and Oversight Reports to be used as input.	January
		T1.7.1

## CHAPTER 2- GOVERNANCE

### POLITICAL AND ADMINISTRATION

#### Political Governance

Hon Cllr VV Nkosi - Executive Mayor (ANC)

Hon Cllr SP Mahlangu - Speaker (ANC)

Hon Cllr JJ Jiyane - Chief Whip (ANC)

Hon Cllr WS Msiza - Member of Mayoral Committee responsible for Finance (ANC)

Hon Cllr LM Mboweni - Member of Mayoral Committee responsible for Administration and Governance (ANC)

Hon Cllr N Mahlangu - Member of Mayoral Committee responsible for Local Economic Development (ANC)

Hon Cllr BN Mahlangu - Member of Mayoral Committee responsible for Technical Services (ANC)

Hon Cllr BN Sibanyoni - Member of Mayoral Committee responsible for Social Development Services (ANC)

#### Ward Councillors

Ward No	Name and Surname of Ward Councillors	Organization
01	Mr. M Danisa	African National Congress
02	Ms GM Monama	African National Congress
03	Mr. KM Matsheni	African National Congress
04	Mr. KM Mtsweni	African National Congress
05	Ms TN Mahlangu	African National Congress
06	Ms LN Mahlangu	African National Congress
07	Ms TN Khumalo	African National Congress
08	Mr. PK Madihlaba	African National Congress
09	Mr. SZ Mnamatheli	African National Congress
10	Mr. JP Mahlangu	African National Congress
11	Ms MS Ramphisa	African National Congress
12	Mr. BA Nkwanyana	African National Congress
13	Mr. NTG Kubheka	African National Congress
14	Ms MM Mahlangu	African National Congress
15	Ms LM Shabangu	African National Congress
16	Mr. MJ Mahlangu	African National Congress
17	Mr. AM Mohoaduba	African National Congress
18	Ms LL Mahlaela	African National Congress
19	Ms LM Mboweni	African National Congress
20	Mr. RM Moekwa	African National Congress
21	Mr. SM Masombuka	African National Congress
22	Mr. SA Ramalekana	African National Congress
23	Mr. MM Sepogwana	African National Congress

24	Mr. TM Monareng	African National Congress
25	Ms DJ Ntuli	African National Congress
26	Mr. JL Mtsweni	African National Congress
27	Ms M Msiza	African National Congress
28	Mr. MJ Mlambo	African National Congress
29	Ms PS Mahlangu	African National Congress
30	Mr. MP Mokone	African National Congress

#### **Proportional Representation Councillors (PR)**

<b>PR</b>	<b>Name and Surname</b>	<b>Organization</b>
1	Mr. VV Nkosi	African National Congress
2	Ms MSV Masango	African National Congress
3	Ms JJ Tau	African National Congress
4	Ms TE Motanyane	African National Congress
5	Ms SEM Ndlovu	African National Congress
6	Ms N Mahlangu	African National Congress
7	Mr. JJ Jiyane	African National Congress
8	Mr. D Ntuli	African National Congress
9	Mr. BJ Ntuli	African National Congress
10	Ms M Tshilwane	African National Congress
11	Ms NE Makwakwa	African National Congress
12	Mr. WS Msiza	African National Congress
13	Mr. BN Sibanyoni	African National Congress
14	Mr. J Ndala	African National Congress
15	Ms DD Masombuka	African National Congress
16	Ms NE Hlophe	African National Congress
17	Ms NE Phakathi	African National Congress
18	Ms BN Mahlangu	African National Congress
19	Mr. TL Mabena	African National Congress
20	Mr. ATL Mohapi	African National Congress
21	Mr. JF Mashiya	African National Congress
22	Mr. S Nkosi	African National Congress
23	Mr. MG Maluleka	African National Congress
24	Ms OE Mokwena	Democratic Alliance
25	Mr. BS Monyakeni	Democratic Alliance
26	Mr. PP Kgopane	Democratic Alliance
27	Mr. MG Komane	APC
28	Mr. MW Mtshwene	ACDP
29	Mr. RJ Skosana	UDM
30	Mr. RQ Mtsweni	Sindawonye Progressive Party

#### **ADMINISTRATIVE GOVERNANCE**

**Mr. V Kubheka – Chief Administrator**

**Mr. T Ratau – Acting CFO**

**Mr. T Taabe – Deputy Administration**

**Mr. S Magwaza – Deputy Administration**

**Mr. MC Msiska – Acting Technical Manager**

## **INTERGOVERNMENTAL RELATIONS**

### **Inter-Governmental Relations**

In 2005, the Inter-governmental Relations framework Act was passed to ensure that the principles in Chapter 3 of the Constitution on co-operative government are implemented. Thembisile Hani Local Municipality adheres to all the principles of the Inter-governmental Relations Framework Act in coordinating all inter-governmental service delivery programmes that seeks to provide services, alleviate poverty and promote development.

## **PUBLIC PARTICIPATION**

The introduction of Public Liaison Office has become a catalyst in ensuring that Izimbizo and Outreach meetings are meaningful to communities. This office has been strategically introduced to ensure that Izimbizo and Outreaches constitute a communication approach that will underpin participatory democracy. It is also central to governance as it brings government closer to the people. Further to ensure that Izimbizo and Outreaches remains a unique platform for communities to raise issues, share views and build strategic partnerships between Municipality and its constituencies.

### **Public Meetings**

#### **Municipal Budget Consultative Meetings**

The arrival of the administration team that was appointed in terms of section 139 (1) (b) of the Constitution of the Republic of South Africa Act 108 of 1996 has necessitated the starting of the process of consulting communities on the matters of budget as required by Section 23 of the Local Government Municipal Finance Management Act 56 of 2003. Series of successful zonal meetings were held as follows;

Zone 1	17 May 2010	Phola Park Community Hall
Zone 2	18 May 2010	Vezubuhle Community Hall
Zone 3	19 May 2010	Sikhulisiwe JP School
Zone 4	20 May 2010	Kwaggafontein Community Hall
Zone 5	21 May 2010	Verena Cluster

### **Communication, Participation and Forums**

Community participation is a fundamental principle that underpins the action of a democratic government. The objective of community participation is based on the understanding that communities must participate in all decision-making processes of Municipality on matters that affect them. It is unfortunately that public participation program for 2010/2011 period was not developed as the result of the intervention by the Department of Co-operative Governance and Traditional Affairs in terms of section 139 (1)(b) of the Constitution of the Republic of South Africa Act 108 of 1996.

The Executive Mayor Cllr VV Nkosi could not deliver his maiden State of the Municipal Address (SOMA) because his executive authority was taken away as the result of the intervention by the Department of Co-operative Governance and Traditional Affairs in terms of section 139 (1)(b) of the Constitution of the Republic of South Africa Act 108 of 1996

It should be borne in mind that the main objective of the SOMA is to set the tone for service delivery and outline the Municipal key priorities for the financial year ahead. It also provides broad policy directives for the Municipality to align its strategic orientation to be in line with National, Provincial and District imperatives.

The Municipality used to have bi-monthly zonal outreach meetings in order to encourage the involvement of communities and community organizations in all matters that affect them within the Municipality, and to provide a democratic and accountable government for local communities. Unfortunately because of maladministration and serious malpractice that occurred in the Municipality resulting the MEC for Co-operative Governance and Traditional Affairs to place the Municipality under section 106 (1)(b) of the Local Government Municipal Systems Act 32 of 2000 the program could not be implemented.



## **INTRODUCTION TO YOUTH DEVELOPMENT**

### **POLICY REQUIREMENTS**

In terms of the national youth policy of 2007 'Municipalities as Indicated by the municipal systems act 32 of 2000 must establish appropriate mechanisms ,processes and procedures enable the local to participate in the affairs of the municipality'.

Following the above background one of Thembisile Hani local Municipality youth unit mandate is to assist in the planning ,setting targets ,resourcing, mainstreaming, lobbying and evaluating performances of youth development intervention in the municipality in terms of local government guidelines.

In line with the policy objectives as set out by the National youth development agency policy, Municipal Planning processes such as the IDP(intergraded Development Planning),Local Economic Development Strategy ,Growth and Development Summit, etc., we have in a process of convening annual youth summits where-in youth of THLM came together to deliberate on challenges and problems that affect them.

Thembisile Hani local Municipality is committed to meet the needs of young people that have diverse approaches to the challenges of youth development. Thembisile Hani Local Municipality Youth development plays a number of roles and finds different solutions to the problems of young people the municipality ha various programs aimed at transforming skills and job creation that will motivate young people to improve the quality of their own lives and contribute to better society for all.

The youth today is catered for by the current dispensation most programmes aimed at not only empowerment but also sustaining the development of young people in our country.

The key imperative is to make a determination on whether issues affecting young people are addressed in a long-term horizon.

These contributions and others need to be enhanced through the initiatives that will bring about personal development for young people and other structures. When government rolled out programmers such as the Expanded public works program, National Youth Services ,National Youth Development agency ,urban renewal program, intergraded sustainable rural Development Programme and Accelerated Shared Growth Initiative for South Africa, the intention was still to address the socio-economic ills that were "Legally" inflicted upon the majority of the people in this country.

In view of the above, Thembisile Hani Local Municipality has engaged in a number of youth development outreaches and summits for the past four years.

### **ROLES AND RESPONSIBILITY OF THEMBISILE HANI LOCAL MUNICIPALITY YOUTH UNIT**

- Developing principles, guidelines and make recommendations to the organization regarding such principles and guidelines, for the implementation of an integrated youth development policy.
- Coordinating, directing and monitoring the implementation of the principles of the youth policy and its principles as a matter of priority.
- Promoting a uniformity of approach by all organization departments, including the mayoral committee, the portfolio or standing committees of the upper structure to matter relating to or involving the youth.
- Maintain close liaison with institutions of youth development, government, bodies or authorities which have been established to foster common policies and practices and to promote cooperation.
- To develop appropriate strategy that will enable the organization to meet its policy commitments and legal obligation to the youth.
- To conduct or commission meaningful, periodic research into youth development and its impact in the municipality.
- To coordinate annual youth summit as may be dictated by the policy and laws of the organization
- To manage project for, and report on, various interventions aimed at youth development.

- To develop mechanisms such as scorecards or indicators for monitoring and evaluation of the organization's performance on youth development.
- Initiate programs and projects for the organization and ensure their inclusion in the organizational plans including updates and amendments
- Provide a platform for advocacy, public information and planning for the youth structures in the organization.
- To provide a stakeholder liaison and representation function on youth matters on behalf of the management in all spheres of government and other Structures.

## **CHALLENGES THAT FACE YOUNG PEOPLE IN THEMBISILE HANI LOCAL MUNICIPALITY**

- There are learners who cannot afford to pay for their tertiary education, especially registration fee.
- Bursaries offered by institution are mainly focusing on scarce skills
- High rate of teen pregnancy and school dropouts
- Crime
- High rate of HIV/Aids among young people especially youth between the ages of 16-25.
- To develop a common approach on Youth Development as per policy requirement
- The need to recognize the inequalities of the past
- Class ,gender and racial inequalities
- Poor participation of youth in certain sectors of economies; Agriculture, Information technology Scientific, etc.

## **FUTURE PLANS**

Establish a committee on youth development.

Implementation of the Integrated Youth Development strategy

Proper consultation on youth development matters with stakeholders and youth structures.

Putting correct monitoring & Evaluation systems in place to deliver service on youth development.

**See the attached Annexure on Youth Development Outreach Activities**

## **RISK MANAGEMENT**

### **Definition**

The Institute of Internal Auditors (IIA) defines the Internal Audit function as follows:

Internal auditing is an independent objective assurance and consulting activity, designed to add value and improve the organizations operations. It helps an organization accomplish its objectives by bringing in a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

### **Documents, plans and policies**

The following is a summary of the documents, plans and procedures that needs to be adopted, implemented and monitored to ensure the effective and efficient management of the Internal Audit function by the municipality.

### **Risk identification and measurement report**

The Risk Management implementation plan has been discussed in detail under the management of risk, paragraph 3.2.1 of this report.

MFMA Chapter 14, article 165 (2) of the MFMA reads as follows:

(2) The internal audit unit of a municipality must-

- (a) prepare a risk-based audit plan and an internal audit program for each financial year;
- (b) advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to-
  - (i) internal audit
  - (ii) internal controls
  - (iii) accounting procedures and practices
  - (iv) risk and risk management
  - (v) performance management
  - (vi) loss control, and
  - (vii) compliance with this Act, the annual Division of revenue Act and other applicable legislation; and
- (c) perform such other duties as may be assigned to it by the accounting officer.

The Risk identification and measurement report forms the basis for the three year strategic rolling and operational audit plans that are used by the Internal Audit unit to carry out risk based audits within the municipality.

### **Internal Audit policy**

The purpose of the Internal Audit Policy can be summarised as follows:

- To set out the broad audit objectives with regard to the Audit Committee, as well as the mandate and the Functioning of the Internal Audit function
- To set out the respective responsibilities of the Audit Committee and the Internal Audit function with regard to the management of the audit risk and as to how their respective activities should be coordinated; and
- To minimise the risk that deficiencies could bring about in the risk management process on its entity.

### **Internal Audit plan**

The Internal Audit plan comprises of a three year strategic rolling plan and an operational audit plan. All the risks, as identified and captured in the Risk identification and measurement report, are incorporated into the three year strategic rolling audit plan. The audits are then distributed between three financial years, based mainly on the rating the risks received. Risks are rated, based on the likelihood of occurrence and impact on the organisation, as high, medium or low risks by the management of the municipality. The risk rated as high risk areas are prioritised to be audited in the first financial year. The operational audit plan comprises of the risk identified to be audited in the first financial year of the three year rolling audit plan.

### **Internal Audit structure**

The operational audit plan is used to determine the structure and resources needed by the Internal Audit Unit to carry out the audits as identified. Each audit identified has a timeframe with hours needed to complete the audit and all audits must comply with the IIA standards

## **Conclusion**

The approval and implementation of the Risk and Audit Management Strategy will enable the municipality to improve its management of risks and contributes towards an efficient and effective internal audit unit.

To ensure the successful implementation of the Risk and Audit management strategy, it is reliant upon gaining the commitment and support from Senior Management, all staff of the municipality and Council.

## **WEBSITES**

The Local Government Municipal Systems Act No. 32 of 2000 section 21(b) (1) “state that each Municipality must establish its own official website if is affordable; and place on that official website information required to made public in terms of this act and the municipal management act. In pursuance of this act as mentioned the Municipality has recruited the ICT at the level of the Assistant Manager to assist with the Website development and other ICT related activities.

## **CHAPTER 3: SERVICE DELIVERY PERFORMANCE**

### **INTRODUCTION ON WATER PROVISION**

The number of households receiving water at RDP level is 96%. Of major concern in the Thembisile Hani Local Municipality is that we don't have the raw water source. The consumption of water is 57 Mega Litres (Mgl) (57 000 000l) per day. A volume of 25 Mgl is supplied by Kungwini Municipality and 32 Mgl by Rand Water and 10mgl by Magalies water. The supply however is not constant. According to the above mentioned bulk supply figures we should be having enough water however the element of water conservation and Water Demand Management is a challenge that the Municipality is currently attending to. Some of the water losses that we are encountering are due to the old infrastructure that needs to be replaced for an example the asbestos pipes.

This component includes: water; waste water (sanitation); electricity; waste management; and housing services; and a summary of free basic services.

### **INTRODUCTION TO BASIC SERVICES**

The eradication of sanitation backlog still high, high water losses are due to ageing infrastructure and need for water demand management. Only few areas services for waste collection and no licesenced landfill site. High number of land invasion for human settlement, difficulty in providing the correct free basic services without an updated indigent register.

### **INTRODUCTION WATER PROVISION**

As a Water Authority we would like all the communities to have water at all times. On a daily basis we are supplied with 50 Middy of water, which does meet our current demand. About 80% of our communities have water reticulation and 60% have metered connections. The biggest challenge we are faced with is water losses and aged infrastructure. We have engaged with Rand Water over 2009/10 and 2010/11 on Water Demand Management whereby 60% of water losses was identified. By addressing the 60% water losses will improve on supplying water constantly and save money on bulk water purchase.

2010/11 has been a recovery period from being under administartion. Appointments of Services Providers for a three year period and projects being implemented in phases over the same period until 2012/13 which did acelerate the implementation of capital projects i.e. water, sanitation, electricity and roads. All the wards have benefitted from this project. The electricity projects especially the house connections (reticulation) in partnership with Eskom has greatly impacted on eradicating the electricity backlog.

#### **COMMENT ON WATER SERVICES PERFORMANCE OVERALL:**

We managed to eradicate the 10% out of the 60% water losses through the Water Demand Management and there were sufficient funds for capital projects. About 2000 households had access of water supply through communal standpipes and some yard connections. Land invasion is problematic, new water backlog is created and planning for new upgrade is hampered. More awareness campaign should be done to reduce high water losses and to encourage communities to take ownership of services being given/rendered to them

#### **INTRODUCTION ON WASTE WATER (SANITATION PROVISION)**

As Municipality we have 50% backlog on providing basic sanitation and only KwaMhlanga and Tweefontein K have waterborne system. There is sufficient budget to address the backlog by 2014 as long as it is prioritised. Provision of VIP Toilets was much quicker compared to the previous years due to: Precast Structures being utilised instead of Brick Structure and within 5 months most projects were completed.

#### **COMMENT ON SANITATION SERVICES PERFORMANCE OVERALL:**

Capital Projects on Sanitation Backlog Eradication its funding has been sufficient to complete all the remaining areas, prioritization or allocation of funding have been delaying the completion of it. Mainly more funding was allocated to Roads Project instead of Sanitation as per business plan. The precast toilet structures proved to be a better solution in reaching our 50% backlog before 2014 due to its simplicity in erection/construction..

#### **INTRODUCTION TO WASTE MANAGEMENT**

Only 4 areas out of 50 areas have been serviced with refuse collection and the plan is to increase to 50% coverage. Main delay on not servicing the entire community is due to unavailability of licensed landfill site and lack of management on this service within the Municipality. During the 2010/11 the majority of communities benefitted on the cleaning campaign whereby local labourers were employed to clean all the wards and further the Council availed additional funding for the project to continue in 2011/12. The Nkangala District Municipality have appointed a service provider to establish a licensed landfill site to an enable the municipality to collect refuse in all the areas as expected to render such services. More awareness campaign are required to encourage the community to recycle waste as there is an established Buy-Back Center in KwaMhlanga for recyclible materials or products.

#### **HOUSING**

The Constitution of the Republic of South Africa, 1996 Section 26 (1) everyone has the right to have access to adequate housing, it is read with sub section (2) that the state must take reasonable legislative and other measures, within its available resources ,to achieve the progressive realisation of this right. The housing Act 107 of 1997 section 9 provide roles and responsibilities of different spheres of Government on housing development.. The objectives of housing Act ,Act No 107 of 1997 is to provide sustainable housing development process, and to lay down general principles applicable to housing development in all spheres of government.

#### **REPORT FOR HOUSING PROJECTS IMPLEMENTED AND SOME COMPLETED IN DIFFERENT MUNICIPAL WARDS WITHIN THEMBISILE HANI LOCAL MUNICIPALITY FINANCIAL 2010-2011**

<b>Financial year</b>	<b>Type of Housing Programme</b>	<b>Number of Units</b>	<b>Budget</b>
2009/2010	PHP programme	100 units	R 5 465 000.00
2010/2011	PHP	50 units	R 2 732 500.00
2010/2011	PHP	100 units	R 5 465 000. 00

2010/2011	CBRS	100 units	R 5 465 000. 00
2011/2012	PHP	960 units	R 57 600 000

**ALLOCATION OF ONE HUNDRED (100) PHP UNITS FOR THE FINANCIAL YEAR 2010/2011. PROJECT COST R5, 465 000. 00**

No:	Village	Number of units allocated	Number of Units Completed	Number of units outstanding
1.	Kwaggafontein "D"	20 - units	20 - units	None
2.	Moloto North	20 - units	20 - units	None
3.	Phola park	20 - units	20 - units	None
4.	Klipfontein	20 - units	17 - units	03
5.	Zakheni	20 - units	20 - units	None

**ALLOCATION OF FIFTY (50) PHP UNITS FOR THE FINANCIAL YEAR 2010/2011. PROJECT COST R 2, 732 500.00**

No:	Village	Number of units allocated	Number of Units Completed	Number of units outstanding
1.	Wolvenkop	20 - units	20- units	None
2.	Verena "C"	20 - units	20 - units	None
3.	Zenzele	10- units	10 - units	None

**ALLOCATION OF ONE HUNDRED (100) CBRS UNITS FOR THE FINANCIAL YEAR 2010/2011. PROJECT COST R5, 465 000. 00**

No:	Village	Number of units allocated	Number of Units Completed	Number of units outstanding
1.	Twefontein "F"	21 - units	21-units	none
2.	Twefontein "N"	19 - units	19 - units	none
3.	Twefontein "D"	10- units	10 - units	none
4.	Mandela Village	10- units	10 -units	none
5.	Twefontein "B2"	10- units	10 - units	none
6.	Buhlebesizwe	10- units	10- units	none
7.	Twefontein "J"	10- units	10- units	none
8.	Kwaggafontein "A" section "10"	10 - units	10-units	none

**ALLOCATION OF NINE HUNDRED AND SIXTY (960) CBRS UNITS FOR THE FINANCIAL YEAR 2010/2011. PROJECT COST R5, 465 000. 00**

No:	Village	Number of units allocated	Number of Units Completed	Number of units outstanding
1.	Verena A	160	338 as at January 2012	Outstanding 622
2.	Verena B	160		
3.	Verena C	120		
4.	Verena D	120		

5.	Wolvenkop	80		
6.	Twefontein G	110		
7.	TWEEFONTEIN H	100		
8.	TWEEFONTEIN J	110		

### Public buildings (Support Centres)

Year	Schools	Government building(Support centres)	Churches	Residential complex	Shopping complex
2011-2012	None	3	None	None	none

### INTRODUCTION TO FLEET MANAGEMENT

#### STATUS OF COUNCIL'S FLEET AS OF JULY 2010 TO JUNE 2011

Below is a list of Thembisile Hani Local Municipal Fleet

#### TRUCKS

<u>REGISTRATION NO</u>	<u>MAKE</u>	<u>KILOMETRES</u>	<u>STATUS</u>
1. DSH 909 MP	Isuzu		Running
2. CXP 052 MP			Standing ( No driver, trailer not registered)
3. DVC 923 MP	Nissan flatbed		Running
4. BHM 044 MP	Toyota		Standing ( no driver, no registration papers)
5. DRH 748 MP	Isuzu		Running
6. DRH 754 MP	Isuzu		Running
7. DVC913MP	Isuzu		Running
8. DXT 176 MP	Nissan		Running
9. DXT 171 MP	Nissan		Running
10. DSH 914 MP	Nissan Honey sucker		Running
11. DSH 922 MP	Isuzu w/truck		Standing Clutch system
12. DSH 919MP	Isuzu		Running
13. DVC 915 MP	Nissan		Breakdown with rear wheel
14. DHY 222 MP	Nissan		Running
15. DJN 789 MP	Nissan		Standing- no driver
16. BGS 682 MP	Toyota		Standing- no reg papers
17. DXS 697 MP	Faw water tank		Running
18. DXS 693 MP	Faw water tank		Running
19. DXS 688 MP	Faw water tank		Running
20. FDV 718 MP	Nissan		Running
21. FRN 204 MP	Nissan compactor		Not registered
22. SMS 292 MP	Water tanker Isuzu		Draining machine- not working
23. FLZ 921 MP	Water tank Isuzu		Running

24. FLZ 932 MP	Water tank Isuzu		Running

## 2.2 BAKKIES- LDV

1. DPY 808 MP	Nissan		Running
2. DPY 780 MP	Nissan		Running
3. DPY 502 MP	Nissan		Running
4. DPY 753 MP	Nissan		Running
5. DPY 734 MP	Nissan		Running
6. DPY 769 MP	Nissan		Running
7. DPY 715 MP	Nissan		Running
8. DPY 747 MP	Nissan		Running
9. DPY 725 MP	Nissan		Running
10. DPY 701 MP	Nissan		Running
11. DPY 707 MP	Nissan		Running
12. DPY 772 MP	Nissan		Running
13. DRD 044 MP	Nissan		Running
14. DRD 054 MP	Isuzu		Running
15. DRD 058 MP	Isuzu		Running
16. DRD 066 MP	Isuzu		Running
17. DRD 063 MP	Isuzu		Running
18. DRD 048 MP	Isuzu		Running
19. DWN 134 MP	Nissan		Running
20. DWN 136 MP	Nissan		Running
21. DRD 137 MP	Nissan		Running
22. DWN 141 MP	Nissan		Running
23. DWN 142 MP	Nissan		Running
24. DFS 353 MP	Ford		Running
25. DFZ 634 MP	Nissan		Running
26. DGJ 982 MP	Toyota		Running
27. DFY 131 MP	Nissan		Running
28. DFY 135 MP	Nissan		Running

## SEDANS

1. DFY 165 MO	Nissan HB		
2. CSM 331 MP	Toyota Corolla		Not running – engine problem
3. CXP 399 MP	Almera		Running
4. DFS 367 MP	Corolla		Not running –engine problem
5. DFS 336 MP	Corolla		Not running- engine problem
6. DFR 930 MP	Golf		Running
7. DFS 347 MP	Almera		Running
8. DFS 339 MP	Corolla		Not running- engine problem
9. DFS 362 MP	Corolla		Not running-engine problem
10. DFS 376 MP	Bmw		Not running-engine problem
11. DFS 345 MP	Corolla		Running
12. DGG 503 MP	Quantum		Running
13. DFT 019 MP	Mazda 3		Running

## PLANT MACHINES

1. DPX 610 MP	Bell grade		Running
2. DPX 617 MP	Komatsu		Running

3.	FDR 830 MP	Smooth Drum roll		Running
4.	FDV 722 MP	Cat grader		Running – needs service
5.	FDV 720 MP	Bell TLB		Running
6.	JCB 5200	New executor		Running
7.	CZN 065 MP	TLB cat		Running but stuck with transmission
8.	CUD 815 MP	Bell grader		Running but needs transmission oil
9.	CVY 181 MP	TLB old		Running but not utilized
10.	KWS 110	TLB		Running
11.	KWS 519	Executor		Not running- repair driver's seat
12.	N/A	Bull dozer		Running but no reg papers

#### VEHICLES TO BE DISPOSED

1.	DFS 339 MP	Toyota corolla		Engine problem and high mileage
2.	DFS 336 MP	Toyota corolla		Engine problem and high mileage
3.	DFS 362 MP	Toyota corolla		Engine problem with high mileage
4.	DFS 376 MP	Bmw		Engine problem and high mileage
5.	DFS 345 MP	Corolla		High mileage
6.	CXJ 052 MP	Leopard m/Benz		High mileage and no registration papers
7.	KWS 10	Excavator		High mileage and electrical problem
8.	KWS 9	JCB TLB		High mileage and no registration papers
9.	DFR 930 MP			High mileage
10.	CVY 181 MP	JCB TLB		High mileage
11.	BHY 044 MP	Toyota water tanks		High mileage
12.	BGS 082 MP	Toyota tipper Trucks		High mileage
13.	DXD 881 MP	Tractor		High mileage
14.	DXD 889 MP	Tractor		High mileage
15.	DDR 434 MP	Trailer(refuse)		Conditions not complying with requirements
16.	DDR 442 MP	Trailer(refuse)		Conditions not complying
17.	CXP 399 MP	Almera		High mileage
18.	N/A	Tractor rollers		High mileage and there is no operator

#### VEHICLES RECEIVED FROM NKANGALA DISTRICT

Please also note that the following vehicles were received from Nkangala District Municipality.

Reg No.	Make & Model	Allocation
FPJ 642 MP	Tractor	Technical Services
FPJ 638 MP	Tractor	Technical Services
FJP 632 MP	Tractor	Technical Services

#### CHALLENGES

During 2010/2011 about seventy percent (70%) of Council's vehicles were not registered and licensed.

All municipal vehicles blocked from eNaTIS system because of traffic fines. Special arrangements with Mpumalanga Traffic Management and Gauteng Traffic Management to set aside the traffic fines and redirect them to the relevant drivers were made.

The Municipality is still on the process of introducing the following vehicles on eNaTIS as they were obtained from former Central Government:

BGS 082MP Toyota Tipper Truck no papers, the VIN Number indicates Jan Kemp of which is Northern Cape Province.

BHY 044MP Toyota Water Tanker no papers, the VIN Number indicates also Jan Kemp.

CXP 052MP Mercedes Ben Lowbed Truck no papers.

CXP 388MP Case Smooth Tractor Roller no papers.

JCR 617GP Tractor registration shows private ownership

In terms of the National Road Traffic Act, certain vehicles are exempted from licensing which means that you cannot license a vehicle (machinery) which is not operated on a public road except for the purpose of road-construction or other construction-related issues.

## **INTRODUCTION TO STORMWATER DRAINAGE**

Thembeziile Hani Municipality is consisting of Class 2 to Class 6 roads that is from relatively high mobility roads to non motorized access way. Class 3 (District Distributor roads), Class 4 (District Collector roads), Class5 (Access Roads) this report shall mostly cover *class 4* and *class 5* commonly known as **Bus /Taxi routes** and **Internal Roads** respectfully. The estimated total length of roads in the Municipality is 1425 km of which about 75% is gravel roads (1 069 km) and 25% of paved or surfaced roads (356 km).

The Municipality: THLM and NDM had good intention of introducing pavement management system to assist in monitoring the road conditions, planning on upgrading of roads and road maintenance. The system is in place but out dated as it requires to be updated time to time.

The current road conditions insist that the Municipality to have a firm routine roads and stormwater maintenance plan and plan on upgrading of roads from gravel to surfaced roads.

## **BACKGROUND**

Roads and stormwater is issue number seven in the IDP and is mainly attended in two ways: routine maintenance and upgrading of roads from gravel to pavement or surfaced /asphalt roads.

The routine road maintenance is performed by the internal teams of THLM and NDM through service providers. These operations take place on yearly basis.

The upgrading of gravel roads to surfaced roads is performed both by THLM and NDM

The **attached tables** indicate both maintenance and upgrading of gravel roads to asphalt road.

## **INTRODUCTION TO ELECTRICITY**

**See the attached annexure on electricity**

## **INTRODUCTION TO COMMUNITY AND SOCIAL SERVICES**

### **LIBRARIES**

Thembeziile Hani Local Municipality Library and Information Services play a very important role in the work, education recreation, and culture of the entire community of Thembeziile Hani Local Municipality. The services that the libraries provide help people carry out their work, studies and leisure time activities. The services provided goes as far beyond obtaining and arranging library materials. Librarians assist anyone who needs assistance in finding information from Books, Encyclopaedias, Encarta, Pamphlets, Periodicals and Internet to meet their needs.

People of all ages and cultures including pre-school kids, learners, students, teachers, government officials, business people, etc use our libraries for their work. Large number of people turns to Thembisile Hani Libraries to satisfy a desire for their knowledge, to pursue a hobby or to read in their free time.

Community members take part in special programs and events in the library section, e.g. discussions, school projects, storytelling, reading clubs, fun walks, and fundza for fun, etc.

ACTIONS	TASKS	STATUS
<p><b>1. Management, monitoring and administration of public library</b></p> <p><b>2. Shelving and Monitoring of Library Materials</b></p> <p><b>3. Circulation</b></p>	<p><b>-Collection Development</b></p>	<p>-Received <b>1898</b> new books from Kwa-Mhlanga Regional Library.            - Received <b>495</b> donation books from schools and community members.</p>
	<p><b>-Identification of Collection Gaps</b></p>	<p>-Noted books that are on demand but not available in the library.</p>
	<p><b>-Preparation of new Books</b></p>	<p>-Inserted book security strips in the new received books and shelved them for the users to have access.</p>
	<p><b>-Repairs</b></p>	<p>-Repaired damaged books.</p>
	<p><b>-Weeding</b></p>	<p>-Weeded old damaged books and Afrikaans books that are not useful to the library users.</p>
	<p><b>-Circulation of library materials</b></p>	<p>-No circulation, <b>36839</b> books used in the library.</p>
	<p><b>-Interlibrary Loan</b></p>	<p>-Called other libraries and requested material that our libraries don't have.  <b>-Twenty one (21)</b> books for interlibrary loan.</p>
	<p><b>-Information Search</b></p>	<p>-Searched for information on books, Encarta, internet and encyclopaedias for the patrons.</p>
	<p><b>-library orientation</b></p>	<p>-Library orientation done for all new users visiting the library.</p>
	<p><b>-Serve public at the counter</b></p>	<p>-Answered and attended all users' queries.</p>
<p><b>-Reference Interviews</b></p>	<p>-Conducted reference interviews.</p>	
<p><b>Daily Statistics</b></p>	<p><b>-26164</b> users visited the library.</p>	
<p><b>-Library Displays and</b></p>	<p>-Displayed relevant information, according</p>	

<p><b>4. Marketing Strategies</b></p>	<p><b>Exhibitions</b></p> <p><b>-Story Telling</b></p> <p><b>-Outreach Programs</b></p> <p><b>-Library Visits</b></p> <p><b>-Marketing Events</b></p>	<p>to LIASA calendar and other important days of national and international calendar.</p> <p>-Displayed all new books that we received from the region.</p> <p>-Had story telling every Wednesday, <b>96</b> stories with <b>395</b> kids.</p> <p>-Visited <b>nine (9)</b> schools and <b>five (5)</b> crèches to inform them about services available in the library.</p> <p>- Five crèches and <b>two (2)</b> schools visited the library and were oriented.</p> <p>-Had a walk to Thembisile Hani Public Library and Phumula Public Library.</p>
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## COMMUNITY FACILITIES

STADIUM	PAYMENT FOR USAGE	NON PAYMENT FOR USAGE	PURPOSE
Kwaggafontein stadium	3	12	Used for meetings, municipal event and departmental event
Solomon Mahlangu Stadium	13	31	

COMMUNITY HALLS	PAYMENT FOR USAGE	NON PAYMENT FOR USAGE	PURPOSE
KwaMhlanga Hall	42	54	used by Council for meetings, Department of Social Services and Police
Vezubuhle Hall	25	62	Used for community meeting, council sitting, Departments, staff and the SAPS.
Verena Hall	04	22	used by councilors for the community Meeting, departmental event and Police services event.
Phola Park Hall	50	61	Councilor for community meeting and SASSA for pensioners.
Mandela Hall	10	38	used by councilor for community meeting and SASSA Pensioners
Kwaggafontein Hall	31	36	Used by councilor for community meeting, union for the Staff meeting, departmental event and SASSA for pensioners
Langkloof Hall	0	0	No statistics

### VERENA CLUSTER

- VA stalls = 03 stalls are occupied.
- VB offices = 06 offices occupied.
- VC stalls = 05 stalls are occupied.
- Workshop/Garage = 05 workshop are occupied.

### ALL STALLS

- The facilities are secured by Venusafrica Security Company.

#### Mathyszensloop stalls

- The stalls are now occupied for utilization..
- The facility is maintained i.e. cleaning and cutting of grass.
- The electricity was repaired.

### **Poultry**

- The facilities are occupied for utilization by community members.

### **SWIMMING POOL & TENNIS COURT**

- Tennis Court and Swimming Pool are still in bad conditions.
- The finance department was requested that through a public invitation, enter into a public private partnership (PPP) regarding the renovation, upgrading, maintenance and management of KwaMhlanga swimming pool and tennis court for utilization by the members of the community.

### **INTRODUCTION TO CEMETERIES**

Thembisile Hani regional grave yard is used both by the municipality and tribal authorities.

### **SERVICES STATISTICS FOR CEMENTORIES FORM JUNE 2010-DECEMBER 2011**

- The Total number of people buried in the regional cemetery by the municipality is 39.
- There are eleven (11) paupers buried in the regional cemetery.
- There are 28 ordinary people buried in the regional cemetery.

### **WARD CEMENTRIES**

Majority of the ward cemeteries as observed lack essential ablution facilities and are not fenced.

The above mentioned challenges in both regional and ward cemeteries are all equally crucial to the community.

#### THEMBISILE HANI LOCAL MUNICIPALITY CEMENTRIES

WARD	PLACE	NO OF GRAVE YARD
1	MOLOTO SOUTH	1
2	MOLOTO NORTH	2
3	MOLOTO SOUTH EAST	1
4	ZAKHENI	1
5	THEMBALETHU	1
6	PHOLA PARK	3
7	MATHAZYNLOOP	2
8	VERINA A,B,D	1
9	BUHLEBUZILE	1
10	GEMBOK SPRUIT	1
11	WOLVEN KOP	1
12	TWEEFONTEIN C	1
13	LARRY MAMMABOLO	1
14	MOUNTAIN VIEW ZONE 2	3
15	TWEEFONTEIN E	2
16	BUHLE BESIZWE 2	1
17	TWEEFONTEIN F	Using Tweefontein E
18	THOKOZA	1
19	SUNCITY A,B,C,NGWENYAMENI	2
20	SUNCITY AA	1
21	VLAAGLAGTE NO 1	2
22	MANDELA	1

23	TWEEFONTEIN B	1
24	BHUNDU	3
25	KWAGGA B	1
26	KWAGGA C	1
27	KWAGGA A	1
28	KWAGGA A SHABANGU SECTION	0
29	KWAGGA A KHALANYONI	1
30	TWEEFONTEIN H	1
31	VREISGEVAGTE	2
32	KWAMHLANGA A	1

## INTRODUCTION TO CHILD;AGED CARE AND SOCIAL PROGRAMMES

The special programmes directorate in the office of the Municipal manager, (which comprises three sub-programmes: Issues on the status of women, Issues on the status of persons with Disability and Issues on the rights of a child) is amongst others mandated to monitor and evaluate mainstreaming of gender equality and women empowerment, rights of persons with Disability and rights of children into programmes of the Municipality. The core functions of special programmes directorate are: Advocacy, capacity building, policy analysis, research, monitoring and evaluation.

### WORKSHOPS

Thembisile Hani coordinates number of workshops which among others include the following People living with Albinism, disability and mainstreaming of gender.

#### Target group

- Managers of Thembisile Hani Local Municipality.
- Councilors, CDW's.
- Government Departments.
- Home Base Cares. DPO's
- Clinics, Police Stations
- Centers of persons with Disability, Advice centers
- 

#### COOPERATIVES SUPPORT PROGRESS.

- The unit engages on assisting women and persons with disability to register coops.
- Silwanetjhirho Thembisile Hani women cooperative was one of the cooperatives that was coordinated and assisted by the Municipality.
- The Department of Agriculture has bought the farm Klipfontein 256JS for the municipality. The municipality invited interested people to present their business plans.
- Two women cooperatives were deemed to qualify to utilize the farm. The cooperatives signed the lease agreement with the municipality. Silwanetjhirho cooperatives were one of them.
- Rethuseng Trading and Project women cooperative were also assisted by the Municipality. They were also assisted with an irrigation system to water their plants.

#### NATIONAL WOMEN'S DAY CELEBRATION

The national women's day celebration was held at DR JS Moroka Local Municipality on the 09 August 2010.

Our municipal Responsibility

- Coordination of women
- Travelling cost (two minibuses)
- Food parcels

## **INTERNAL WOMEN’S DAY CELEBRATION**

Thembe Hani Local Municipality coordinates the women’s day celebration for all women Employees.

### **PURPOSE OF THE EVENT**

- Stop the violence, break the silence.
- To encourage behavioral change.
- To encourage women on VCT.

## **AUGUST WOMEN’S MONTH**

- Basadi Business women’s Team, Department of sports art and culture together with Thembe Hani Local Municipality coordinates a walking marathon.

## **WOMEN ECONOMIC EMPOWERMENT**

Thembe engages on coordinating Women Empowerment event so that women get knowledge on how to empower themselves and how to alleviate poverty.

## **WOMEN INDABA**

Nkagala District Municipality organized women indaba and requested all Local Municipalities to coordinate 25 women and ferry them to the venue. Broadly the Indaba seeks to create a platform wherein the stride, achievement and challenges that still awaits women in the regional would be discussed.

## **NATIONAL CHILDREN’S DAY 2010**

National children’s day celebration was held at North West in Rustenburg, Children were expected to dramatize the following theme combat HIV/AIDS in line with the millennium development goal

## **NATIONAL CHILDRENS DAY 2011**

National children’s day celebration 2011 was held at Pretoria union building were all municipalities in Mpumalanga province ferry kids to celebrate national children day.

## **SAFETY AND SECURITY**

### **INTRODUCTION TO SAFETY AND SECURITY**

‘Traffic management and policing is the *life blood* of economy of any country’, people have to go and come back from work, food is transported through our road, medication, all life essentials have to be transported and lastly when one is died he/she must be transported on the road to the graveyard. One of the criteria to measure development of the country is the transport infrastructure.

According to schedule 4 Part B and schedule 5 Part B of the Constitution municipal public transport and traffic policing is the competency of the municipality.

### **A brief background of the Municipal traffic**

Upon the proclamation of the Municipality to establish Traffic Section, the municipality was able to recruit 11 Traffic Officers with ten vehicles. During 2010 /2011 five traffic officers resigned for greener pastures. The traffic section has now five Traffic Officers and two Superintendents.

The Traffic Section for it to be functionally it needs the minimum of 20 Traffic Officers.

## AARTO implementation

The item for the national roll out of the Administrative Adjudication of the Road Traffic Offences Act has been approved by the council, council item number: TH/NDC 37/08/2011. What is remaining is the training of the dater capturers and the cashiers, ensuring that our equipment are in the standard so as to be ready to accept payment in our municipal or purchase necessary ones and the buying of the required new stationary for traffic officers.

### SUCCESES:

#### i) Monthly Joint Security Cluster plenary meetings:

The Traffic section is regularly attending the monthly joint security cluster meetings and making a meaningful contribution to minimize road accidents and to curb crime.

#### ii) Case flow meetings :

The traffic section does continue to attend this monthly meeting to ensure smooth running of our cases at the courts.

#### iii) Daily traffic program under the superintendents:

The traffic section operates on the daily written law enforcement program trying the cover the whole municipal area.

#### iv) Joint police and traffic operations:

The traffic section does have ongoing operations with other law enforcement agencies in the municipality.

#### v) Firearms issued:

The traffic officers have being issued with the municipal firearms those who comply with the legal requirements.

## SPORTS AND RECREATION

### INTRODUCTION TO SPORTS AND RECREATION

Our municipality is required to coordinate and manage various Sporting and cultural services. Structure that falls within our jurisdictions' are: The sport council, which is the body of all the sporting federations and associations within the municipality.

Art & Culture forum which represent all art and cultural event within the municipality.

List of Thembisile Hani Local Sports and Recreation Council Executive members 2010/11.

Name & surname	Portfolio	Contact
1.Zakhele Ndaba	Chairperson	0843213360
2.Slow Aphane	Deputy Chairperson	072 5223 570
3.Sphiwe Nyathi	Secretary	0793807974
4. Mahlangu Samuel	Deputy Secretary	082 7658 557

5. Busisiwe Zulu	Treasure	0836706826
6. Marry Nkosi	Additional Member (Thembisile Local Football Association)	073 3035 732
7. D.Z Mahlangu	Additional Member	0727065571
8. Simon Shabangu	Additional Member	072 0145364
9. David Sibanyoni	Additional Member	078 2242 174
10. Emmah Ndala	Additional Member	0826780374
11. Nomakhuwa Y Mahlangu	Additional Member	0727225059

Art and Culture executive committee:

Name & Surname	Portfolio	contact
1. O.W Matlala	Chairperson	0715465489
2. Kholofelo Mahlobogoane	Deputy Chairperson	071 0805038
3. Wonder Mashiane	Secretary	078 1126 013
4. Johannes Mthimunye	Deputy Secretary	0728198 194
5. B Tlou	Treasure	
6. Nomhle Mahlangu	PRO	076 6144674

7. Johannes Mahlangu	Project Co-Cordinator	
8. Andries Matlhadisa	Member	0724082 454
9. Miriam Mahlangu	Member	083 6855 435

## **SPORTING ACTIVITIES MAYORS CUP 2010/11**

Thembisile Hani Local Municipal Project and own Funded.

This event benefited the community teams within Thembisile Hani area of jurisdiction.

The following sporting codes took place i.e. Soccer ladies & gents, Volleyball (mix), Netball and handball.

The event started with the preliminary round knock-out whereby all villages were divided into eight zones.

The final result of the tournament were:

### **SOCCER MALES**

Moloto Young Masters beat Mzimuhle Classic F C

### **SOCCER LADIES**

KwaMhlanga ST Marry FC beat Two Touch F C (Vlak 1)

### **NETBALL**

Womanchester beat Stone Breakers

### **HANDBALL**

Themba lethu beat Tweefontein (Phumula)

## **PUTCO TOURNAMENT 2011**

The tournament was funded by the Putco and the eliminations took place at the ward levels for all sporting.

Players were transported to Solomon Mahlangu and Gamoreng stadium at Dr JS Moroka for all the games.

The final were played at Solomon Mahlangu Stadium, in which all the prizes were given to the winners. the prize giving were as follows:

- First prize for soccer was R10 000
- Second prize was R 5 000
  
- First prize for Netball R10 000
- Second prize R5 000

## **SALGA MUNICIPAL EMPLOYEES GAMES**

### **SAMSRA GAMES**

#### **District games**

The District games were played at Victor Khanyi Municipality, Provincial games at Steve Tshwete Municipality and the national games at Free State

Thembisile Hani soccer, volleyball and netball teams participated to the Salga Municipal employees' games.

The municipality incurs the cost for sleeping, transport and Catering

## **SOUTH AFRICAN INTER – MUNICIPAL GAMES**

This year, there were no international games for the inter – municipal games

## **ART AND CULTURE**

Local art and culture festival for all the local artist, Transport and catering Incur by municipality.

## **INTRODUCTION TO BUSINESS LICENSING AND ADMINISTRATION**

Our Municipality is expected or required to administer and managed the operations of local businesses trading within its jurisdiction.

There are various types of businesses operating in different categories with and without relevant trading business licenses such as General Dealer, Supermarkets, Cafes, Butcheries, and Restaurants who are operating or suppose to operate with the business trading licences in terms of Mpumalanga Business Act, 1996, schedule 1.

Tuck-shop, or spaza shops and Fruitshops are treated as informal businesses and are licensed or issued an informal trading business license since they are also selling consumable foodstuff.

The municipality is also required to administer other categories of businesses that are selling or trading on non-consumable foodstuff. This is supposed to be done through bi-laws.

There are other businesses operating within our Municipality and their licenses are issued by other Departments or bodies such as Mpumalanga Liquor Board, Department of Mineral Energy etc.

There was a successful police operation which was conducted especially on Fridays; checking valid trading business licenses. Unfortunately it was focussing only on foreign international owned businesses overlooking the local own one's. This operation assisted the Municipality a lot in collecting revenue on licenses and approving of business building plan.

## **WORKING RELATIONSHIPS**

Our municipality is expected to inter-act with other Government Departments before it can issue other licenses or permits such as Department of Health for businesses that are selling consumable foodstuff to inspect and issue out a recommendation and the certificate of compliance, for liquor and scrap metal a police report is needed.

## **CHALLENGES / PROBLEMS**

- Our Municipality does not have by-laws to regulate hawkers, car washes, sand mining, Guest houses; B&B (Bed &Breakfast),Lodges, Resorts and Game lodges, Cinemas and taxi rank etc.
- The municipality does not have proper business sites, which in most cases people are invading each and every corner and space available to slot or develop businesses without engaging or applying to the municipality It has been seen that in most cases this is done through or via the tribal offices.
- The other serious challenge is the approval of liquor licenses especially taverns by the Mpumalanga liquor board without the letter or concern of the municipality, where they considering the tribal authorities recommendation letters.
- The other factor which is problematic is the illegal occupation of unplanned or un-demarcated area or land by the foreign internationals where they turn to develop sand construct businesses without proper procedures being followed
- Some of our local business owners are selling their businesses to foreign internationals and this create a problem for the municipality to administer the transfers or change of ownership, since we don't know the status quo of these foreign owning in immovable property, especially businesses, we are not sure about their business right in our Municipality or the country.

- Other challenges is that businesses that are trading inside the plazas as well as those operating at the industrial areas i.e. Kwaggafontein and Tweefontein. There are also hawkers or shacks built next to or around these plazas on road reserved or servitude line especially along R573 Road
- Most of our taverns are built in residential areas and road reserved without following the right procedure in acquiring land. There are also a much roaming of car washes operating without proper approval to do so.
- There are mortuaries/funeral undertakers operating without having or submitted relevant documentations to the Municipality .e.g. tittles deeds letter of allocation for business site, license to operate, certificate of compliance issued by environmental health practitioners.
- There is also regular routine visit or inspections done to most of our business since the Department of health are doing or conducting it wherever requested.
- There also number of businesses operating some with and others without proper licenses or permits some on correct and some on incorrect business sites, some paying for licenses, permit, and services some not.
- The municipality is still struggling to have the correct data or information since these businesses are operating and access land un-procedural mostly from Tribal authorities.
- There are steps or procedures which need to be followed before any business can be issued with a license such as:-
  - ***An approval of business site or stand by land and housing section to avoid business squatting or development on roads reserved or servitude lines.***
  - ***An approved building plan by both the department of health and municipality.***
  - ***A constant visit or inspection of the structure until it is completed by the building inspector all these are not done and it makes it difficult for our section to issue licenses, instead we find our section dealing or investigation the issue of land site.***

***Attached here to Annexure "A" "B" and "C" status quo of businesses/business profile.***

***Annexure "A" records / updates of business payment or amount paid for licenses, date of payment and expiry period.***

***Annexure "B" is the record indicating whether the license or permit issued was for a new or existing / old business.***

***Annexure "C" is the statistics or information of business in every village.***

## **ENVIRONMENTAL CHALLENGES / PROBLEMS**

There are several issues which are hampering our environment and not controllable such as:-

- The burning of motor vehicle tyres.
- The disposal of ashes next to roads by people selling meal.
- The illegal dumping of waste next to the road, streets, inside the bridges, and storm water drainage systems.
- The uncontrollable of livestock roaming around especially along R573 and causes accidents especially during the nights.
- The burning of veldt fires especially during winter.
- The unfenced and uncontrollable of Witnek land fill site which result in papers and plastics flying around the area and next to R573 road.

- The non-rehabilitation of dongas caused by people who are doing sand mining

**CHAPTER: 6 HUMAN RESOURCE SERVICES**  
**INTRODUCTION TO HUMAN RESOURCE SERVICES**

The **Human Resource Section** provides the municipality with supporting functions which included the following:

- **Recruitment of Employees**

This is one of the most fundamental **roles of the HR department**. This is because this function ensures that the municipality under consideration selects the most skilful and competent person from a sea of applicants at that time. This function involves evaluation of ability and competency of potential employees in relation to with the municipal objectives.

**In 2010/2011 Financial year the HR Section did not fill vacancies as outlined on the IDP document as it was busy with the process of reviewing the organisational Structure and HR Policies. Filling of vacancies only started in December 2011, whereby we managed to fill 4 out of 5 Section 57 Managers Positions.**

**It must be noted that during this period there the municipality was under Section 139.**

- **Improvement of Compensation Packages**

One of the major functions of the HR department is to motivate employees. This can be done through rewards especially for those who have done well. The HR department needs to evaluate performance of employees and those who have exceeded expectations should be compensated for their actions. However the was no performance management system in place. Nonetheless the institution is faced with the shortage of office space.

- **Planning in the Organisation and Improving Organisational Culture**

The **Human Resource Section** is placed with the responsibility of ensuring that it plans adequately for all the organisation’s future engagements that will involve people. One important aspect of this is planning for employees in the organisation.

- **Training and Development**

Another function of the Human Resource Section it to equip employees with necessary skills to ensure improvement on the performance standards. New employees need orientation into the Company’s functions and can also improve some inefficiency that these new employees may have in relation to their skills.

Service Objectives	Outlines Service Targets	2010/2011		2011/2012	
<b>Filling of all critical vacant positions</b>	Finalisation of the appointment of the Municipal Manager and four(4) Section 57 Managers	35	<b>1</b> Assistant Manager: Risk Management	45	
<b>Capacitating employees, councillors and members of the community</b>	To implement Workplace Skills Plan. To award bursaries to top achievers to study towards scarce skills qualifications.	328	<b>89</b> (51 staff and 38 councillors)	358	
<b>Comply with Employment Equity Targets.</b>	To employ women and people living with disability on management	3	<b>0</b>	6	

	positions				
<b>Develop Performance Management System</b>	To evaluate the performance of all employees	264	<b>86</b> (only transferred staff from DWA)	3	

Financial Performance 2010/2011: Human Resource Services

**CORPORATE SERVICES ACTIVITIES BASE PLAN FOR 2010/2011**

VOTE NO	BUDGET	ACTIVITIES	COST ESTIMATE	BUDGET USED
106	-	Placement of Water Affairs Employees	In-house	-
106	-	Re-establishment of Local Labour Forum	In-house	-
106	-	Ensure that all Section 57 Managers sign their employment contracts and Performance Contracts	In-house	-
106	-	Finalisation of Job Descriptions	In-house	-
106	R500 000	Training	R500 000	R358 249
106	-	Implementation of Council Resolutions	In-house	
106	-	Filling critical positions	R5 565 800	R380 000
106	R150 000	Team building	R400 000	-
106	R55 000	Excellence awards	R55 000	-
106	R55 000	Orientation programmes	R55 000	R55 000
106	R55 000	Employee wellness programmes: stress management workshop	R55 000	-
106	-	Development of Performance Management System	-	-
-	-	Finalisation of HR Policies	In-house	-

**ORGANISATIONAL PERFORMANCE SCORECARD**

**ORGANIZATIONAL DEVELOPMENT**

**INTRODUCTION TO THE MUNICIPAL PERSONNEL**

EMPLOYEES				
Department	2010/2011			
	Employees No.	Post Approved	Vacancy No.	Vacancies (as a % of total posts) %
Municipal Manager's	16	07	09	44%
Corporate Services	64	30	34	46%
Finance Department	209	168	31	82%
Social Development Services	45	16	29	82%
Technical Services	309	198	111	64%
TOTAL	643	419	214	65%

<b>VACANCY RATE 2010/2011</b>			
<b>Designations</b>	<b>Total Approved</b>	<b>Vacancies Existing</b>	<b>Filled Post in terms of percentages</b>
Municipal Manager	1	1	0%
CFO	1	1	0%
Section 57 Managers	3	3	0%

<b>TURN OVER RATE 2010/2011</b>			
<b>Details</b>	<b>Total Appointment as of the beginning of the financial year 2010/2011</b>	<b>Termination during the financial year 2010/2011</b>	<b>Turnover Rate %</b>
2010/2011	02	Retirement	04
		Resignation	04
		Contract Expired	06
		Death	02

<b>Disciplinary Action Taken on Cases of Financial Misconduct</b>			
<b>Position</b>	<b>Nature of alleged misconduct and Rand value of loss to the Municipality</b>	<b>Disciplinary action taken</b>	<b>Date Finalised</b>

<b>Number and Period of Suspensions</b>				
<b>Position</b>	<b>Nature of Alleged Misconduct</b>	<b>Date of Suspension</b>	<b>Details of Disciplinary Action taken or Status of Case and reason why not finalised</b>	<b>Date finalised</b>

**CHAPTER 7**  
**STATEMENT OF FINANCIAL PERFORMANCE**

**General Information**

**Mayoral committee**

Executive Mayor	Clr NJ Mahlangu
Councillors	Clr PP Mojela
	Clr B Sibanyoni
	Clr S Mnguni
	Clr JJ Tau
	Clr LM Tshabangu
	Clr LM Mboweni
	Clr JJ Jiyane

**Grading of local authority**

Grade 3

**Chief Finance Officer (CFO)**

T Ratau

**Accounting Officer**

S Magwaza

**Registered office**

24 Kwaggafontein C  
Opposite Police Station  
Kwaggafontein  
0458

**Postal address**

Private Bag X4041  
Empumalanga  
0458

**Bankers**

First National Bank

**Auditors**

Auditor-General

**Index**

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The reports and statements set out below comprise the annual financial statements presented to the council:

<b>Index</b>	<b>Page</b>
Accounting Officer's Responsibilities and Approval	3
Accounting Officer's Report	4
Statement of Financial Position	5
Statement of Financial Performance	6
Statement of Changes in Net Assets	7
Cash flow statement	8

Accounting Policies	9 - 18
Notes to the Annual Financial Statements	19 - 37

The following supplementary information does not form part of the annual financial statements and is unaudited:

Detailed Income statement	38
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### **Abbreviations**

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

### **ACCOUNTING OFFICER'S RESPONSIBILITIES AND APPROVAL**

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The Auditor General of South Africa are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the council sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2012 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the Equitable Share for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Provincial Treasury has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The Auditor General of South Africa are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been audited by the Auditor General of South Africa and their report is presented on page 4.

The annual financial statements set out on pages 4 to 38, which have been prepared on the going concern basis, were approved by the on 31 May 2011 and were signed on its behalf by:

**V Kubheka**

**Chief Administrator**

## ACCOUNTING OFFICER'S REPORT

The accounting officer submits his report for the year ended 30 June 2011.

### 1. Review of activities

#### Main business and operations

The municipality is engaged in municipal services and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

### 2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

#### Statement of Financial Position

Figures in Rand

	Notes	2011	2010
<b>Assets</b>			
<b>Current Assets</b>			
Trade and other receivables	4	19,189,914	17,010,496
VAT receivable	5	6,294,052	28,323,967
Cash and cash equivalents	6	84,584,233	52,330,850
<b>Total Current Assets</b>		<b>110,068,199</b>	<b>97,665,313</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	3	110,736,224	65,769,953
<b>Total Non-Current Assets</b>		<b>110,736,224</b>	<b>65,769,953</b>
<b>Total Assets</b>		<b>220,804,423</b>	<b>163,435,266</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables	9	16,527,779	24,243,843
Unspent conditional grants	7	49,419,642	38,412,478

<b>Total Current Liabilities</b>		<b>65,947,421</b>	<b>62,656,321</b>
<b>Non-Current Liabilities</b>			
Provisions	8	<u>8,626,160</u>	<u>8,511,798</u>
<b>Total Non-Current Liabilities</b>		<b><u>8,626,160</u></b>	<b><u>8,511,798</u></b>
<b>Total Liabilities</b>		<b><u>74,573,581</u></b>	<b><u>71,168,119</u></b>
<b>Net Assets</b>			
Reserves			
Accumulated surplus		146,230,842	92,267,147
<b>Total Net Assets</b>		<b><u>146,230,842</u></b>	<b><u>92,267,147</u></b>

#### Statement of Financial Performance

Figures in Rand	Notes	2011	2010
Revenue	10	287,581,981	224,585,519
Other income		4,133,710	5,322,422
Operating expenses		(251,200,324)	(214,780,433)
<b>Operating surplus</b>	14	<b>40,515,367</b>	<b>15,127,508</b>
Investment revenue	17	13,448,328	9,630,871
<b>Surplus for the year</b>		<b>53,963,695</b>	<b>24,758,379</b>

#### Statement of Changes in Net Assets

Figures in Rand	<b>Housing development fund</b>	<b>Accumulated surplus</b>	<b>Total net assets</b>
<b>Balance at 01 July 2009</b>	<b>4,671,486</b>	<b>1,783,476</b>	<b>6,454,962</b>
Restated profit for the year	-	24,758,379	24,758,379
Correction of prior year error	(4,671,486)	65,725,287	61,053,801
<b>Balance at 01 July 2010</b>	<b>-</b>	<b>92,267,147</b>	<b>92,267,147</b>

Surplus for the year	-	53,963,695	53,963,695
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<b>Balance at 30 June 2011</b>	-	<b>146,230,842</b>	<b>146,230,842</b>
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**Cash flow statement**

Figures in Rand

Notes

2011

2010

**Cash flows from operating activities**

**Receipts**

Sale of goods and services		751,417	18,815,106
Grants		251,979,353	208,346,940
Interest income		4,168,740	4,082,696
Other receipts		1,979,303	5,322,433

<b>Total receipts</b>		<b>258,878,813</b>	<b>236,567,175</b>
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**Payments**

Employee costs		(58,417,211)	(53,212,740)
Suppliers		(123,733,604)	(144,446,615)

<b>Total payments</b>		<b>(182,150,815)</b>	<b>(197,659,355)</b>
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<b>Net cash flows from operating activities</b>	21	<b>76,727,998</b>	<b>38,907,820</b>
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**Cash flows from investing activities**

Purchase of property, plant and equipment	3	(44,474,615)	(25,354,456)
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<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>32,253,383</b>	<b>13,553,364</b>
Cash and cash equivalents at the beginning of the year		52,330,850	38,777,486

<b>Cash and cash equivalents at the end of the year</b>	6	<b>84,584,233</b>	<b>52,330,850</b>
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## Accounting Policies

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### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period.

#### 1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

##### Trade receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or loss, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

##### Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the fair value assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including supply and demand, together with economic factors such as exchange rates, inflation and interest.

##### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 8 - Provisions.

##### Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

## 1.2 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment are not yet depreciated as the municipality has applied the transitional provisions as set out in Directive 4. The municipality is in the process of determining the residual values and useful lives of all assets. Expertise of a service provider was sourced to assist with the process.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	N/A
Buildings	30
Infrastructure	
Roads and paving	10 - 15
Pedestrian malls	30
Electricity	20
Water	20

Sewerage	20
Community Buildings	30
Recreational facilities	30
Security - fencing	3
Halls	30
Libraries	30
Parks and gardens	30

#### **Other assets**

Buildings	30
Specialised vehicles	5 - 7
Other vehicles	5
Office equipment	5
Furniture and fittings	5 - 7
Bins and containers	10
Specialised plant and equipment	7
Other items of plant and equipment	5
Landfill sites	N/A
Quarries	N/A
Emergency equipment	7
Computer equipment	3 - 5

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

#### **Transitional provision**

The municipality changed its accounting policy for property, plant and equipment in 2011. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the is not required to adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 3. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where property, plant and equipment was acquired through a transfer of functions, the municipality is not required to measure that property, plant and equipment for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2011 and property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 3.

Until such time as the measurement period expires and property, plant and equipment is recognised and measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),

The exemption from applying the measurement requirements of the Standard of GRAP on Property, plant and equipment implies that any associated presentation and disclosure requirements need not be complied with for property, plant and equipment not measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment.

### 1.3 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or loss; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or loss.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or loss previously recognised on that asset, so that:
  - a decrease in the liability (subject to (b)) is credited to revaluation surplus in equity, except that it is recognised in surplus or loss to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or loss
  - an increase in the liability is recognised in surplus or loss, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or loss; and
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or loss under (a). If a revaluation is necessary, all assets of that class are revalued.

### 1.4 Financial instruments

#### Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through surplus or loss - held for trading
- Financial assets at fair value through surplus or loss - designated
- Held-to-maturity investment
- Loans and receivables
- Available-for-sale financial assets

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or loss, which shall not be classified out of the fair value through surplus or loss category.

#### Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or loss, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or loss are recognised in surplus or loss.

Regular way purchases of financial assets are accounted for at trade date.

### **Subsequent measurement**

Financial instruments at fair value through surplus or loss are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or loss for the period.

Net gains or losses on the financial instruments at fair value through surplus or loss includes dividends and interest.

Dividend income is recognised in surplus or loss as part of other income when the municipality's right to receive payment is established.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in surplus or loss as part of other income. Dividends received on available-for-sale equity instruments are recognised in surplus or loss as part of other income when the municipality's right to receive payment is established.

Changes in fair value of available-for-sale financial assets denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost and other changes in the carrying amount. Translation differences on monetary items are recognised in surplus or loss, while translation differences on non-monetary items are recognised in equity.

### **Fair value determination**

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

### **Impairment of financial assets**

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or loss, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or loss - is removed from equity as a reclassification adjustment and recognised in surplus or loss.

Impairment losses are recognised in surplus or loss.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or loss except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or loss within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

### **Trade and other receivables**

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in surplus or loss within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or loss.

Trade and other receivables are classified as loans and receivables.

### **Trade and other payables**

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

### **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

### **Derecognition**

#### **Financial assets**

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

### **Financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

### **1.5 Leases**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

#### **Finance leases - lessor**

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

#### **Finance leases - lessee**

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

#### **Operating leases - lessor**

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

## **Operating leases - lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### **1.6 Consumable stores**

Consumables stores are charged to the income statement upon acquisition.

### **1.7 Employee benefits**

#### **Short-term employee benefits**

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

#### **Defined contribution plans**

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

### **1.8 Revenue**

Revenue comprises of sales to customers and service rendered to customers. Revenue is stated at the invoice amount and is exclusive of value added taxation.

### **1.9 Interest income**

Interest income is recognised on a time-proportion basis using the effective interest method.

### **1.10 Comparative figures**

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### **1.11 Unauthorised expenditure**

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and

- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### **1.12 Fruitless and wasteful expenditure**

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

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### **1.13 Irregular expenditure**

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

### **1.14 Use of estimates**

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

### 1.15 Conditional grants receipts

Revenue received from conditional grants and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

### 1.16 Budget information

The municipality is typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by the municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the annual financial statements.

### 1.17 Donations and subsidy receipts

Income from donations and subsidies is recognised as income on receipt.

## Notes to the Annual Financial Statements

## 2. New standards and interpretations

### 2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

#### GRAP 25: Employee benefits

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when an municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP25 defines, amongst others, the following:

- Employee benefits as all forms of consideration given by a municipality in exchange for service rendered by employees;
- Defined contribution plans as post-employment benefit plans under which a municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;
- Multi-employer plans as defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:
  - pool the assets contributed by various entities that are not under common control; and
  - use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned;
- Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that is not due to be settled within twelve months after the end of the period in which the employees render the related service;

- Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- Post-employment benefit plans as formal or informal arrangements under which a municipality provides post-employment benefits for one or more employees;
- Short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;
- State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
- Termination benefits as employee benefits payable as a result of either:
  - an entity's decision to terminate an employee's employment before the normal retirement date; or
  - an employee's decision to accept voluntary redundancy in exchange for those benefits;
- Vested employee benefits as employee benefits that are not conditional on future employment.

The standard states the recognition, measurement and disclosure requirements of:

- Short-term employee benefits;
  - All short-term employee benefits;
  - Short-term compensated absences;
  - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits.

The standard states Post-employment benefits: Distinction between defined contribution plans and defined benefit plans:

- Multi-employer plans;
- Defined benefit plans where the participating entities are under common control;
- State plans;
- Composite social security programmes;
- Insured benefits.

The standard states, for Post-employment benefits: Defined benefit plans, the following requirements:

- Recognition and measurement;
- Presentation;
- Disclosure;
- Accounting for the constructive obligation;
- Statement of financial position;
- Asset recognition ceiling;
- Asset recognition ceiling: When a minimum funding requirement may give rise to a liability;
- Statement of financial performance.

The standard prescribes recognition and measurement for:

- Present value of defined benefit obligations and current service cost:
  - Actuarial valuation method;
  - Attributing benefits to periods of service;
  - Actuarial assumptions;
  - Actuarial assumptions: Discount rate;
  - Actuarial assumptions: Salaries, benefits and medical costs;
  - Actuarial gains and losses;
  - Past service cost.
- Plan assets:
  - Fair value of plan assets;
  - Reimbursements;
  - Return on plan assets.

The standard also deals with Entity combinations and Curtailments and settlements.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2011.

The expects to adopt the standard for the first time in the 2012 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### **GRAP 104: Financial Instruments**

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one municipality and a financial liability or residual interest in another municipality. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

One of the key considerations in initially recognising financial instruments is the distinction, by the issuers of those instruments, between financial assets, financial liabilities and residual interests. Financial assets and financial liabilities are distinguished from residual interests because they involve a contractual right or obligation to receive or pay cash or another financial instrument. Residual interests entitle a municipality to a portion of another municipality's net assets in the event of liquidation and, to dividends or similar distributions paid at management's discretion.

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, a municipality considers the substance of the contract and not just the legal form.

Where a single instrument contains both a liability and a residual interest component, the issuer allocates the instrument into its component parts. The issuer recognises the liability component at its fair value and recognises the residual interest as the difference between the carrying amount of the instrument and the fair value of the liability component. No gain or loss is recognised by separating the instrument into its component parts.

Financial assets and financial liabilities are initially recognised at fair value. Where a municipality subsequently measures financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example, where interest free credit is granted or where credit is granted at a below market rate of interest.

Concessionary loans are loans either received by or granted to another municipality on concessionary terms, e.g. at low interest rates and flexible repayment terms. On initial recognition, the fair value of a concessionary loan is the present value of the agreed contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds either received or paid and the present value of the contractual cash flows is accounted for as non-exchange revenue by the recipient of a concessionary loan in accordance with Standard of GRAP on Revenue from Non-exchange Revenue Transactions (Taxes and Transfers), and using the Framework for the Preparation and Presentation of Financial Statements (usually as an expense) by the grantor of the loan.

Financial assets and financial liabilities are subsequently measured either at fair value or, amortised cost or cost. A municipality measures a financial instrument at fair value if it is:

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
- an investment in a residual interest for which fair value can be measured reliably; and
- other instruments that do not meet the definition of financial instruments at amortised cost or cost.

Derivatives are measured at fair value. Combined instruments that include a derivative and non-derivative host contract are accounted for as follows:

- Where an embedded derivative is included in a host contract which is a financial instrument within the scope of this Standard, an entity can designate the entire contract to be measured at fair value or, it can account for the host contract and embedded derivative separately using GRAP 104. A municipality is however required to measure the entire instrument at fair value if the fair value of the derivative cannot be measured reliably.
- Where the host contract is not a financial instrument within the scope of this Standard, the host contract and embedded derivative are accounted for separately using GRAP 104 and the relevant Standard of GRAP.

Financial assets and financial liabilities that are non-derivative instruments with fixed or determinable payments, for example deposits with banks, receivables and payables, are measured at amortised cost. At initial recognition, a municipality can however designate such an instrument to be measured at fair value.

A municipality can only measure investments in residual interests at cost where the fair value of the interest cannot be determined reliably.

Once a municipality has classified a financial asset or a financial liability either at fair value or amortised cost or cost, it is only allowed to reclassify such instruments in limited instances.

An entity derecognises a financial asset, or the specifically identified cash flows of an asset, when:

- the cash flows from the asset expire, are settled or waived;
- significant risks and rewards are transferred to another party; or
- despite having retained significant risks and rewards, a municipality has transferred control of the asset to another municipality.

A municipality derecognises a financial liability when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where a municipality modifies the term of an existing financial liability, it is also treated as the extinguishment of an existing liability and the recognition of a new liability.

A municipality cannot offset financial assets and financial liabilities in the statement of financial position unless a legal right of set-off exists, and the parties intend to settle on a net basis.

GRAP 104 requires extensive disclosures on the significance of financial instruments for a municipality's statement of financial position and statement of financial performance, as well as the nature and extent of the risks that a municipality is exposed to as a result of its annual financial statements. Some disclosures, for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of a sensitivity analysis, are encouraged rather than required.

GRAP 104 does not prescribe principles for hedge accounting. A municipality is permitted to apply hedge accounting, as long as the principles in IAS 39 are applied.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2011.

The municipality expects to adopt the standard for the first time in the 2012 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

### 3. Property, plant and equipment

	2011			2010		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	3	-	3	3	-	3
Buildings	6,681,221	-	6,681,221	6,681,221	-	6,681,221

Plant and machinery	17,449,268	-	17,449,268	17,449,268	-	17,449,268
Furniture and fixtures	3,708,499	-	3,708,499	3,508,681	-	3,508,681
Motor vehicles	19,045,452	-	19,045,452	17,021,352	-	17,021,352
Office equipment	527,922	-	527,922	527,922	-	527,922
IT equipment	3,578,391	-	3,578,391	1,853,965	-	1,853,965
Infrastructure	31,311,482	-	31,311,482	8,148,237	-	8,148,237
Community	1,869,702	-	1,869,702	1,677,722	-	1,677,722
Assets under construction	26,564,284	-	26,564,284	8,901,582	-	8,901,582
<b>Total</b>	<b>110,736,224</b>	<b>-</b>	<b>110,736,224</b>	<b>65,769,953</b>	<b>-</b>	<b>65,769,953</b>

#### Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Transfers	Total
Land	3	-	-	3
Buildings	6,681,221	-	-	6,681,221
Plant and machinery	17,449,268	-	-	17,449,268
Furniture and fixtures	3,508,681	199,818	-	3,708,499
Motor vehicles	17,021,352	2,024,100	-	19,045,452
Office equipment	527,922	-	-	527,922
IT equipment	1,853,965	1,724,426	-	3,578,391
Infrastructure	8,148,237	16,276,368	6,886,877	31,311,482
Community	1,677,722	191,980	-	1,869,702
Assets under construction	8,901,582	24,549,579	(6,886,877)	26,564,284
	<b>65,769,953</b>	<b>44,966,271</b>	<b>-</b>	<b>110,736,224</b>

#### Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Total
Land	3	-	3
Buildings	14	6,681,207	6,681,221
Plant and machinery	17,415,096	34,172	17,449,268
Furniture and fixtures	2,799,212	709,469	3,508,681
Motor vehicles	17,021,352	-	17,021,352
Office equipment	412,051	115,871	527,922
IT equipment	1,757,972	95,993	1,853,965
Infrastructure	246	8,147,991	8,148,237
Community	1,677,722	-	1,677,722
Assets under construction	-	8,901,582	8,901,582
	<b>41,083,668</b>	<b>24,686,285</b>	<b>65,769,953</b>

## Transitional provisions

### Property, plant and equipment recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note , certain property, plant and equipment with a carrying value of R 110,736,224 (2010: R 65,769,953) was recognised at provisional amounts. Thembisile Hani Local Municipality has taken advantage of the transitional provisions permitted by the Accounting Standards Board, in terms of Directive 4 issued in March 2009, with respect to the measurement of property, plant and equipment as set out in paragraph 73 to 83. Carrying amounts of property, plant and equipment carried at provisional amounts are as follows:

#### Due to initial adoption of GRAP 17

Land	3	3
Buildings	6,681,221	6,681,221
Plant and machinery	17,449,268	17,449,268
Furniture and fixtures	3,708,499	3,508,681
Motor vehicles	19,045,452	17,021,352
Office equipment	527,922	527,922
IT equipment	3,578,391	1,853,965
Infrastructure	31,311,482	8,148,237
Community	1,869,702	1,677,722
Assets under construction	26,564,284	8,901,582

Steps taken to establish the values of property, plant and equipment recognised at provisional amounts due to the initial adoption of GRAP 17, is as follows:

The municipality has sourced the service of a credible service provider which will assist in determining the valuation of Property, plant and equipment.

The date at which full compliance with GRAP 17 is expected, is 30 June 2012.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

#### 4. Trade and other receivables

Trade debtors	126,117,770	88,373,596
Less provision for bad debts	<u>(125,874,125)</u>	<u>(88,212,225)</u>
Total net trade debtors	243,645	161,371
Other debtors	18,946,265	16,849,120
	<b>19,189,914</b>	<b>17,010,496</b>

#### Trade and other receivables past due but not impaired

Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2011, R 243,645 (2010: R 161,371) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	101,412	106,196
2 months past due	13,767	10,509
3 months past due	128,466	44,667

### Trade and other receivables impaired

As of 30 June 2011, trade and other receivables of R 126,117,770 (2010: R 88,373,596) were impaired and provided for.

The amount of the provision was R 125,874,125 as of 30 June 2011 (2010: R 88,212,225).

3 to 6 months	1,125,652	1,098,598
Over 6 months	124,748,473	87,113,627

### Reconciliation of provision for impairment of trade and other receivables

Opening balance	88,212,225	63,364,452
Provision for impairment	37,661,900	24,847,773
	<b>125,874,125</b>	<b>88,212,225</b>

### 5. VAT receivable

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VAT	6,294,052	28,323,967
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### 6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	5,000	5,000
Bank balances	36,665,161	50,114,640
Short-term deposits	47,914,072	2,211,210
	<b>84,584,233</b>	<b>52,330,850</b>

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The municipality have issued cheques and received cash to the net value of R 10,549,375 (2010: R 7,776,425) which have not yet gone through the primary bank account as detailed below.

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**The municipality had the following bank accounts**

Account number / description	Bank statement balances			Cash book balances		
	30 June 2011	30 June 2010	30 June 2009	30 June 2011	30 June 2010	30 June 2009
First National Bank - Current Account - 620-262-96427	49,065,921	52,322,863	851,668	34,516,546	44,546,438	19,218,741
First National Bank - Call Deposit - 621-470-52427	1,609,149	1,527,722	1,924,296	1,609,149	1,527,722	1,924,296
ABSA BANK - Current Account - 407-299-1043	-	4,089,990	43,958	-	4,089,990	43,958
ABSA Bank - Call Account - 908-006-3497	-	33,061	31,995	-	33,061	31,995
Capitec Bank - Current Account - 117-301-4177	2,148,615	1,478,212	5,259,481	2,148,615	1,478,212	5,259,481
Nedbank - Call Deposit - 037-881-5279-27000001	-	650,427	650,427	-	650,427	650,427
Investec Bank - Account Type - 110-0463-500450	46,304,924	-	-	46,304,924	-	-
Absa Bank - Call Deposit - 206-847-1552	-	-	5,000,000	-	-	5,000,000
<b>Total</b>	<b>99,128,609</b>	<b>60,102,275</b>	<b>13,761,825</b>	<b>84,579,234</b>	<b>52,325,850</b>	<b>32,128,898</b>

**7. Unspent conditional grants**

**Unspent conditional grants and receipts comprises of:**

**Unspent conditional grants and receipts**

MIG grant	47,990,019	37,213,274
FMG grant	-	301,814
International Electric Grant	-	216,718
MSIG grant	326,043	-
EPWP	1,103,580	-
Nkangala District Municipality	-	680,672
	<b>49,419,642</b>	<b>38,412,478</b>

**Movement during the year**

Balance at the beginning of the year	73,148,128	9,625,680
Additions during the year	79,047,000	67,638,000
Income recognition during the year	(102,775,486)	(38,851,202)
	<b>49,419,642</b>	<b>38,412,478</b>

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

## 8. Provisions

### Reconciliation of provisions - 2011

	Opening Balance	Additions	Total
Environmental rehabilitation	8,511,798	114,362	8,626,160

### Reconciliation of provisions - 2010

	Opening Balance	Additions	Total
Environmental rehabilitation	-	8,511,798	8,511,798

The municipality has 2 dumping sites, one in Kgwaggafontein which is 3,5 hectares and the other one in Kwamhlanga which is 5.4 hectares.

The rehabilitation cost estimate was based on the rehabilitation cost per square meter as applicable to other similar municipalities and adjusted for inflation.

The dumping site provision represents management's best estimate of the municipality's liability to restore the dumping site.

## 9. Trade and other payables

Other creditors	2,775,630	3,148,317
Retentions	5,122,610	3,143,424
Accrued leave pay	2,632,772	2,021,075
Income collected on behalf of PRODIBA	1,353,772	496,001
Accrued expenses	4,570,787	15,389,987
Other deposits	72,208	45,039
	<b>16,527,779</b>	<b>24,243,843</b>

## 10. Revenue

Property rates	3,394,967	3,752,162
Service charges	<u>28,646,786</u>	<u>20,959,348</u>
Rental of facilities & equipment	353,298	250,124
Fines	72,140	42,307
Licences and permits	6,225,601	7,270,436

Government grants & subsidies	248,889,189	192,311,142
	<b>287,581,981</b>	<b>224,585,519</b>

**The amount included in revenue arising from exchanges of goods or services are as follows:**

Service charges	28,646,786	20,959,348
Rental of facilities & equipment	353,298	250,124
Licences and permits	6,225,601	7,270,436
	<b>35,225,685</b>	<b>28,479,908</b>

**The amount included in revenue arising from non-exchange transactions is as follows:**

**Property rates and traffic fines**

Property rates	3,394,967	3,752,162
Fines	72,140	42,307

**Grant income**

Grant receipts	248,889,189	192,311,142
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	<b>252,356,296</b>	<b>196,105,611</b>
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**1. Government grants and subsidies**

Equitable share	172,932,353	139,973,939
MSIG grant	423,957	735,000
MIG grant	63,311,255	35,161,735
Water subsidy	7,917,000	12,751,000
International electric grant	216,718	1,241,282
FMG grant	3,301,814	2,448,186
EPWP	105,420	-
Nkangala District Municipality	680,672	-
	<b>248,889,189</b>	<b>192,311,142</b>

**Equitable Share**

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of R - (2010: R -), which is funded from the grant.

**MIG grant**

Balance unspent at beginning of year	37,213,274	8,945,008
Current-year receipts	74,088,000	63,430,001
Conditions met - transferred to revenue	(63,311,255)	(35,161,735)
	<hr/>	<hr/>
	<b>47,990,019</b>	<b>37,213,274</b>

Conditions still to be met - remain liabilities (see note 7).

**FMG grant**

Balance unspent at beginning of year	301,814	-
Current-year receipts	3,000,000	2,750,000
Conditions met - transferred to revenue	(3,301,814)	(2,448,186)
	<hr/>	<hr/>
	-	<b>301,814</b>

**International electric grant**

Balance unspent at beginning of year	216,718	-
Current-year receipts	-	1,458,000
Conditions met - transferred to revenue	(216,718)	(1,241,282)
	<hr/>	<hr/>
	-	<b>216,718</b>

**MSIG grant**

Current-year receipts	750,000	735,000
Conditions met - transferred to revenue	(423,957)	(735,000)
	<hr/>	<hr/>
	<b>326,043</b>	-

Conditions still to be met - remain liabilities (see note 7).

**EPWP**

Current-year receipts	1,209,000	-
Conditions met - transferred to revenue	(105,420)	-
	<hr/>	<hr/>
	<b>1,103,580</b>	<b>-</b>

Conditions still to be met - remain liabilities (see note 7).

**Nkangala District Municipality**

Balance unspent at beginning of year	680,672	680,672
Conditions met - transferred to revenue	(680,672)	-
	<hr/>	<hr/>
	<b>-</b>	<b>680,672</b>

**12. Other income**

Other income	4,133,710	5,322,422
	<hr/>	<hr/>

**The amount included in other revenue arising from exchanges of goods or services are as follows:**

Application for tender documents	398,358	319,483
Sale of houses	129,568	43,192
Sale of stands	225,342	262,438
Septic Tank Fees	168,107	109,849
	<hr/>	<hr/>
	<b>921,375</b>	<b>734,962</b>

**The amount included in other revenue arising from non-exchange transactions is as follows:****Donated assets**

Deemed income from donated assets	2,154,407	-
	<hr/>	<hr/>

### 13. General expenses

Auditors remuneration	1,916,491	1,508,030
Provision for rehabilitation of dumping site	114,362	8,511,798
Consulting and professional fees	3,234,648	6,650,416
Prodiba	1,027,850	384,721
Insurance	983,115	1,686,268
Sanitation	19,229,963	17,443,991
VIP Toilets	2,140,838	-
Lease rentals on operating lease	1,022,586	1,139,893
Legal costs	1,638,492	1,542,488
Motor vehicle expenses	2,026,073	1,557,755
VAT recovery expenses	5,735,960	-
Valuation roll	1,184,211	-
Fuel and oil	1,993,346	1,469,987
Data cleansing - indigent register	3,241,142	-
Other expenses	7,154,824	6,442,681
Security (Guarding of municipal property)	6,872,630	6,229,324
Telephone and fax	415,252	1,234,538
Travel - local	2,422,902	954,059
Electricity and water services	2,429,923	2,114,463
Free basic water	6,519,015	7,030,543
Free basic electricity	2,634,937	2,983,107
	<b>73,938,560</b>	<b>68,884,062</b>

### 4. Operating surplus

Operating surplus for the year is stated after accounting for the following:

#### Income from controlled entities

Interest	1,544,945	2,853,830
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#### Operating lease charges

Premises		
• Contractual amounts	918,259	913,530
Equipment		
• Contractual amounts	104,327	226,363
	<b>1,022,586</b>	<b>1,139,893</b>

Employee costs	59,028,907	53,223,322
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## 15. Employee related costs

Basic	35,513,096	29,364,075
Medical aid - company contributions	2,686,426	2,791,392
UIF	219,580	192,089
WCA	-	493,371
SDL	400,332	232,779
Leave pay provision charge	611,696	1,061,638
Cellphone allowances	988,799	-
Councillor's allowance	12,378,701	12,469,159
Post-employment benefits - Pension - Defined contribution plan	5,180,218	4,712,100
Travel, motor car, accommodation, subsistence and other allowances	96,000	1,576,947
Housing benefits and allowances	954,059	329,772
	<b>59,028,907</b>	<b>53,223,322</b>

### Remuneration of municipal manager

Annual Remuneration	-	459,490
Car Allowance	-	100,000
Contributions to UIF, Medical and Pension Funds	-	29,123
	-	<b>588,613</b>

### Remuneration of chief finance officer

Annual Remuneration	-	214,954
Car Allowance	-	36,000
Contributions to UIF, Medical and Pension Funds	-	2,668
	-	<b>253,622</b>

### Remuneration of executive directors

Annual Remuneration	1,530,730	1,110,273
Car Allowance	170,000	300,707
Performance Bonuses	-	14,000
Contributions to UIF, Medical and Pension Funds	59,342	173,034
	<b>1,760,072</b>	<b>1,598,014</b>

## 6. Debt impairment

Debt impairment	37,661,160	24,867,415
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## 17. Interest income

### Interest income

Investments	1,544,945	2,853,830
Bank	2,623,796	1,228,865
Consumer debtors	9,279,587	5,548,176
	<b>13,448,328</b>	<b>9,630,871</b>

## 18. Auditors' remuneration

Fees	1,916,491	1,508,030
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## 19. Grants and subsidies paid

### Other subsidies

Grant expenditure	809,998	1,241,282
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## 20. Bulk purchases

Water	75,180,534	61,859,472
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## 21. Cash generated from operations

Surplus	53,963,695	24,758,379
<b>Adjustments for:</b>		
Debt impairment	37,661,160	24,867,415
Movements in provisions	114,362	8,511,798
Provision for leave	1,662,752	1,061,638
Interest on consumer debtors	(13,448,327)	(9,630,872)
Income raised on donated assets	(2,154,407)	-
<b>Changes in working capital:</b>		
Trade and other receivables	(39,840,579)	(32,809,577)
Trade and other payables	(7,716,064)	(15,434,337)
VAT	22,029,915	(4,594,802)
Unspent conditional grants	11,007,164	25,892,852

Movement in provisions	-	6,654,454
Interest on consumer debtors	13,448,327	9,630,872
	<b>76,727,998</b>	<b>38,907,820</b>

## 22. Commitments

### Authorised capital expenditure

#### Already contracted for but not provided for

Property, plant and equipment	57,579,815	48,215,130
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## 23. Contingencies

We are not aware of any contingent liabilities which the municipality might have.

## 4. Related parties

### Relationships

Fellow Municipalities

Members of key management

Refer to accounting officer's report note  
Kungwini Local Municipality  
Dr JS Moroka Local Municipality  
Nkgangala District Municipality  
Councillors  
Section 57 managers

### Related party balances

#### Conditional Grants - Owing to related parties

Nkgangala District Municipality	-	(680,672)
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#### Amounts included in Trade receivable (Trade Payable) regarding related parties

Dr JS Moroka Local Municipality	(79,727)	(34,276)
Kungwini Local Municipality	(1,935,951)	(6,942,225)

### Related party transactions

#### Purchases from (sales to) related parties

Dr JS Moroka Local Municipality	1,169,029	741,299
Kungwini Local Municipality	20,121,515	15,871,456

### Remuneration

Councillors	1,875,867	12,433,727
Section 57 Managers	1,803,822	2,440,247

## 25. Accounting Officer and Chief Financial Officer's emoluments

No emoluments were paid to the accounting officer and the chief financial officer during the year.

### Executive

2010	Emoluments	Pension paid or receivable	Compensation for loss of office	Gain on exercise of options	Total
For services as directors	1,598,012	-	-	-	1,598,012

## 6. Prior period errors

During the current year, the municipality performed a 100% count and valuation of property, plant and equipment in order to present an accurate asset register which resulted in the recognition of errors in the fixed assets register in prior years.

The municipality did not provide for future rehabilitation costs on their 2 dumping sites.

The municipality did not provide for leave.

Reserves for the Housing Development Fund were incorrectly presented without the existence of the scheme assets.

Revenue from the water users was incorrectly treated as deposits.

80% of collections from motor licence fees was incorrectly treated as the municipality's income with payments to the Department of Roads and Transport being incorrectly treated as the municipality's expenditure.

Collections for the printing of licences which is payable to PRODIBA as per regulation were incorrectly treated as the municipality's income.

During the year debtors with no movements in their accounts for the previous 3 years were found not to have been provided for as irrecoverable.

The municipality incorrectly raised a liability for consumer deposits which were never received.

During the year costs for regravelling of roads were found to be incorrectly capitalised to infrastructure assets.

During the year payments to suppliers for goods and services relating to prior year were found to be incorrectly recorded in the current year.

The municipality did not record some of the income received per the bank statements as well as payments made per the bank statements.

The correction of the errors results in adjustments as follows:

### Statement of financial position

Property, plant and equipment	45,328,982
Trade and other payables	5,755,936
Cash and cash equivalents	(29,883,802)

Unspent conditional grants	(7,471,635)
Provisions	(8,511,798)
Housing development fund	4,671,486
Opening Accumulated surplus or deficit	(65,725,287)
Trade and other receivables	(16,188,445)
VAT receivable	- 1,599,102
<b>Statement of financial performance</b>	
General expenses	63,195,759
Revenue	7,229,702
<b>Cash flow statement</b>	
<b>Cash flow from operating activities</b>	
Cash paid to suppliers	68,951,697
Cash received from customers	(7,359,646)
	<b>61,592,051</b>
	<hr/>
<b>Cash flow from investing activities</b>	
Acquisition of property plant and equipment	17,520,997
	<hr/>
<b>Cash flow from financing activities</b>	
Unspent conditional grants	7,471,635
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## 27. Risk management

### Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for members and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

There are no externally imposed capital requirements.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

Less: Cash and cash equivalents	6	84,584,233	52,330,850
Net debt		(84,584,233)	(52,330,850)
Total equity		146,230,842	92,267,147
<b>Total capital</b>		<b>61,646,609</b>	<b>39,936,297</b>

## Financial risk management

### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

### Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

## 28. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

## 29. Events after the reporting date

- The Technical Manger was suspended.
- The suspension does not have any financial impact.

## 30. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure		-	694,836
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### 31. Irregular expenditure

Opening balance		20,522,975	-
Add: Irregular Expenditure - current year		39,499,002	20,522,975
		<u>60,021,977</u>	<u>20,522,975</u>

#### Details of irregular expenditure – prior year

	Disciplinary steps taken/criminal proceedings	
Proper supply chain procedures were not followed during the procurement of the above transactions of goods and services.	An investigation where top management was involved is in progress and the outcome is not yet known.	20,522,975

#### Details of irregular expenditure - current year

	Action taken by the municipality	
There is no proof of evaluation and adjudication minutes. These contracts were awarded in the 2009/2010 financial year and are still continuing in the 2010/2011 financial year. Council is in the process of condoning these payments.	The municipality is busy trying to locate the said documents.	28,411,785
There is no proof of supplier invoices to support payments made. These contracts were awarded in the 2009/2010 financial year and are still continuing in the 2010/2011 financial year. Council is in the process of condoning these payments.	The municipality is contacting suppliers to re-issue invoices.	108,699
There is no proof of tender documents. These contracts were awarded in the 2009/2010 financial year and are still continuing in the 2010/2011 financial year. Council is in the process of condoning these payments.	The municipality is busy trying to locate the said documents.	1,232,053
There is no proof of minutes for the bid specifications committee. These contracts were awarded in the 2009/2010 financial year and are still continuing in the 2010/2011 financial year. Council is in the process of condoning these payments.	The municipality is busy trying to locate the said documents.	9,696,465
		<b>39,449,002</b>

### 32. Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:

Net surplus per the statement of financial performance	53,963,695	24,758,379
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### 33. Reconciliation between budget and cash flow statement

Reconciliation of budget surplus/deficit with the net cash generated from operating, investing and financing activities:

#### Operating activities

Actual amount as presented in the budget statement 76,727,998 106,507,631

#### Investing activities

Actual amount as presented in the budget statement (44,474,615) (106,507,631)

#### Net cash generated from operating, investing and financing activities

**32,253,383 -**

#### Detailed Income statement

Figures in Rand

2011

#### Revenue

Property rates 3,394,967 3,752,162

Service charges 28,646,786 20,959,348

Rental of facilities and equipment 353,298 250,124

Fines 72,140 42,307

Licences and permits 6,225,601 7,270,436

Government grants & subsidies 248,889,189 192,311,142

Other income 4,133,710 5,322,422

Interest received - investment 13,448,328 9,630,871

#### Total Revenue

**305,164,019 239,538,812**

#### Expenditure

Personnel (59,028,907) (53,223,322)

Debt impairment (37,661,160) (24,867,415)

Repairs and maintenance (4,581,165) (4,704,880)

Bulk purchases (75,180,534) (61,859,472)

Grants and subsidies paid (809,998) (1,241,282)

General Expenses 13 (73,938,560) (68,884,062)

**Total Expenditure**

**(251,200,324) (214,780,433)**

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**Surplus for the year**

**53,963,695 24,758,379**

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