



AUDITOR - GENERAL

The Municipal Manager  
Inxuba Yethemba Municipality  
P O Box 24  
**CRADOCK**  
5880

30 November 2007

Reference: 21302REG06/07

Dear Sir

**Report of the Auditor-General on the financial statements and performance information of the Inxuba Yethemba municipality for the year ended 30 June 2007**

The above-mentioned report of the Auditor-General are submitted herewith in terms of section 21(1) of the Public Audit Act, 2004 (Act No. 25 of 2004 read in conjunction with section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 121(3) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003)(MFMA)

In terms of section 121(3) and 127(2) of the MFMA municipalities have to include the audit report in the municipality's annual report for tabling within seven months after the end of the financial year.

Until tabled as required by section 127(2) the report is **not a public document** and should therefore be treated as **confidential**.

As your municipality will be responsible for publishing the attached audit report as part of the annual report, you are required to do the following:

- Submit the final printer's proof of the annual report (which includes the audit report) to the relevant audit manager of the Auditor-General for verification of the audit-related references before it is printed or copied. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
- The signature at the end of the hard copy of the audit report should be scanned in when preparing to print the report. The signature Auditor-General in the handwriting of the auditor authorised to sign the audit report, as well as the place and date of signing and the logo should also appear at the end of the report, as in the hard copy that is provided to you. The official logo and the authorised signature will be made available to you in electronic format.

Please notify the Provincial Auditor-General (Business Executive) well in advance of the date on which the audit report, or the annual report containing this audit report, will be tabled at the municipality.

Your co-operation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely



For Business Executive: Eastern Cape

Enquiries: MPJ Lourens  
Telephone: (043) 704 2509  
Fax: (043) 727 1238  
Email: [thinus@agsa.co.za](mailto:thinus@agsa.co.za)

## **Report of the Auditor-General**

### **REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF INXUBA YETHEMBA MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2007**

Report on the financial statements

#### **Introduction**

1. I have audited the accompanying financial statements of the Inxuba Yethemba Municipality which comprise the balance sheet as at 30 June 2007, income statement, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages [xx] to [xx].

#### **Responsibility of the accounting officer for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury as set out in note 1 to the financial statements and in the manner required by the Municipal Finance Management Act (MFMA), 2003 (Act No. 56 of 2003). This responsibility includes:
  - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
  - selecting and applying appropriate accounting policies
  - making accounting estimates that are reasonable in the circumstances.

#### **Responsibility of the Auditor-General**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act (PAA), 2004 (Act No. 25 of 2004) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation

and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

6. An audit also includes evaluating the:
- appropriateness of accounting policies used
  - reasonableness of accounting estimates made by management
  - overall presentation of the financial statements.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### Basis of accounting

8. The municipality's policy is to prepare financial statements on the accrual basis of accounting determined by the National Treasury, as set out in note 1 of the Accounting Policies.

#### Basis for qualified opinion

#### 9. Funds and investments

##### 9.1 Differences between Funds and respective Investments balances

The general ledger balances for Conditional Grants and the respective Investments were not reconciled during the financial year under review and as a result unresolved / unexplained differences existed at year end. The following are the details of material differences:

<i>Fund</i>	<i>Fund balance R</i>	<i>Investment balance R</i>	<i>Difference R</i>
Drought Relief	5 077 274	577 274	4 500 000
MIG Funding	839 253	1 192 873	(353 620)

##### 9.2 Grant amounts received per the general ledger not agreeing to the Financial Statements

There are unresolved differences between the grant amounts recorded in the general ledger and the financial statements as follows:

<i>Description</i>	<i>Amount per general ledger R</i>	<i>Amount per Annual Financial Statements R</i>	<i>Difference R</i>
Equitable Share	5 502 034	5 601 084	182 950
CHDM Health Clinics	2 452 592	2 835 656	383 065

### 9.3 Unconditional grant understated

An amount of R13 032 848 for equitable shares relating to an unconditional grant was received during the current year and only R7 530 814 was recognised in income thus understating income and overstating funds by R5 502 004.

### 9.4 Statutory funds used to finance operating activities

The following funds were used to finance operating activities, which is contrary to the funding agreement:

- ??  
1'
- (a) R45 million of the ABSA drought relief investment was used during the year under review to pay the municipality's salary expenses which is in contravention of the grant's purpose. No disclosure of such irregularity was then included in the notes.
  - (b) R11 500 for the rehabilitation of roads and streets grant was used to repair the roof of the municipality's property (Mischaudal Library).

## 10. Fixed assets

### 10.1. Municipality assets are not adequately insured

The assets of the municipality are not adequately insured. Details are shown below:

<i>Details</i>	<i>R</i>
Sum insured	143 000 000
Book value of fixed assets	179 119 161
<b>Value of under-insurance</b>	<b>36 119 161</b>

### 10.2. Differences between fixed asset register, general ledger and financial statements

- (a) The amount disclosed in the Annual Financial Statements does not agree with the amount per the general ledger and fixed asset register.

<i>Details</i>	<i>R</i>
Amount as per financials statements (AFS)	179 119 070
Amount as per General Leger (GL)	176 011 396
<b>Difference (AFS to GL)</b>	<b>3 107 674</b>
Amount as per Asset Register	179 119 162
<b>Difference (GL and Register)</b>	<b>(3 107 765)</b>

(b) The category totals per fixed asset register do not reconcile to the General ledger as shown below:

<i>Category</i>	<i>Fixed asset register R</i>	<i>General ledger R</i>	<i>Variance R</i>
Infrastructure	104 926 651	90 462 453	13 464 198
Fixed assets other	74 192 510	88 656 616	(14 464 106)

10.3. **No documentation to support the value of R20 648 893 adjustment to assets**

No documents could be provided to support the following adjustments:

- R19 419 813 relating to the Lingelirie and Michausdal housing projects concerning houses that were being removed (adjusted) from the asset register. This was reported in the prior year report and,
- R1 229 080 relating to current year write off of assets below the value of R10 000.

10.4. **Opening value of fixed assets could be misstated**

I was unable to satisfy myself, with regard to the accuracy and valuation of the current year opening balance of the fixed assets of R176 735 803. This balance was qualified in the prior year.

10.5. **Differences between the fixed assets additions listing and the financial statements**

A variance was noted between the fixed asset additions listing and financial statement as follows:

<i>Description</i>	<i>R</i>
Amount as per financial statements (note 4)	3 211 389
Balance per additions listing	3 190 148
<b>Difference</b>	<b>21 241</b>

10.6. **Receivables**

10.6.1. **Provision for doubtful debts**

Good financial management discipline requires management to assess the recoverability of debtors and make adequate provision for irrecoverable debtors. Debtors amounted to approximately R97,7 million at year-end (2006: R83,1 million) before taking into account any provision for doubtful debts.

Debtors outstanding for longer than 90 days amounted to R85 823 871. The recoverability of these debtors is doubtful as a major portion of this amount is due by indigents. The current provision for bad debts amounts to R13 640 279. The

provision may be understated with R72 183 592 being the difference between the debtors outstanding for longer than 90 days and the current provision for bad debts.

11. **No documents to support debtors of R385 253 included in the ledger**

No documents could be provided to support debtors amounting to R385 253 included in the ledger. The following are the details:

<i>Vote Number</i>	<i>Account Description</i>	<i>Amount R</i>
629423506100	CDHM-CLEAN UP PROJECTS	230 444
629423503000	CHDM - WASTE MANAGEMENT 06/07	154 809
	<b>Total</b>	<b>385 253</b>

12. **Long term liabilities – Loan repayments to DBSA**

The municipality is not complying with the loan repayment conditions. An amount of only R50 000 per month is being paid resulting in the loan not being fully repaid at the end of the 2004/5 financial year. There was still an amount of R1 552 003 owing to DBSA as at 30 June 2007.

13. **Accounts payable**

13.1 **Creditors could not be verified**

The following account balances which are disclosed as creditors could not be traced to supporting documentation and therefore could not be verified:

<i>Account number</i>	<i>Description</i>	<i>Amount R</i>
829423868700	Sanitation 3rd phase	1 192 921
629423868600	CMIP project	1 023 881
629383122100	SUNDRY CREDITOR – DBSA	1 165 604
629383136800	HEALTH SUBS in advance(CHDM)	762 361
629383136900	HEALTH SUBS (Nxuba Yethemba)	258 377
629383184900	SUNDRY CREDITOR – TRAFFIC	1 738 801
	<b>Total</b>	<b>6 141 943</b>

13.2 **Supporting documentation for Valuation costs not submitted**

Supporting management calculations and assumptions for the R350 000 provisions for valuation costs accounted for as a provision could not be submitted for audit purposes.

**13.3 Tax payments done by Chris Hani Municipality on behalf of the Inxuba Yethemba Municipality incorrectly accounted**

Payments amounting to R20 706 861 relating to tax paid to SARS by Chris Hani Municipality on behalf of Inxuba Yethemba Municipality could not be supported by the SARS receipts. The municipality also did not recognize Chris Hani Municipality as a creditor as there was no written agreement between the Inxuba Yethemba Municipality and the Chris Hani Municipality to waive the repayment of this amount. This amount was incorrectly accounted as a part of the appropriation for the year instead of as a creditor until there is a written agreement between the municipalities, in which Chris Hani would waive claim for the payment.

**14. Limitation of scope**

The following documentation was not received;

- Rental agreements for the Sharp AR 163 and EP 180 photocopiers.
- A register for assets in the Erven trust could not be provided for audit purposes.
- An invoice amounting to R18 963,29 could not be provided.

**15. Qualified Opinion**

In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of Inxuba Yethemba Municipality as at 30 June 2007 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting and in the manner required by the Municipal Finance Management Act, 2003 (Act No 56 of 2003).

**16. Emphasis of matter(s)**

I draw attention to the following matters:

**16.1. Going Concern**

The municipality's financial statements were prepared on the going concern basis, which assumes that the municipality will be able to meet its future obligations and commitments in the ordinary course of business. Accordingly, these financial statements do not include any adjustments relating to the valuation of assets and the classification of liabilities, which might be necessary if the municipality is unable to continue as a going concern.

Without the continued support from National and Provincial government, it is evident that the Municipality will not be able to fulfil all its current and long-term obligations. The following conditions indicated the existence of a material uncertainty that may cast significant doubt on the municipality's ability to continue as a going concern;



**(a) Increase in bank overdraft**

The bank account was in overdraft for a large part of the year, which is in contravention of section 45 of the MFMA, 2003. The overdraft of the municipality was increased to R2,5 million, however, as at year end the municipality had an overdraft of R5 517 398. This was an indication that the municipality is experiencing cash flow problems.

**(b) Concomitant assets are not sufficient to support statutory funds**

Insufficient concomitant assets exist to support unspent grant funds and statutory funds. The total statutory funds and unspent grant funds as at 30 June 2007 was R33 286 467 against total concomitant assets of R1 756 500 leaving a deficit of R31 529 967.

**16.2. Other matters**

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

**16.2.1 Non-compliance with applicable legislation**

During the audit the following non-compliance with the laws and regulations were identified;

**(a) Property Rates Act, 2004 (Act 6 of 2004)**

The municipality does not make the property register/valuation roll available for public viewing, as prescribed by Section 88 of the Property Rates Act, 2004 (Act 6 of 2004)

**(b) Value-added Tax (VAT) Act, 1991 (Act 89 of 1991)**

Municipal houses were rented to the following employees at a monthly rental charge which is not market related. A fringe benefit between the actual rental and a market related rental charge was not recognized and included in the employee's gross income:

<b><i>Fringe benefit- Free Housing</i></b>	<b><i>Employee</i></b>
1) Managers House at Cradock Spa	Mr John Martiens
2) Old House at Cradock Spa	Ms Natasha van Eden
3) House at Cradock Sports Complex	Mr FJ Jors
4) House at Michausdal Sports Complex	Mr David Maart
5) House at Middleburg Caravan Park	Mr Toto Dastile
6) House at Cradock Sewerage Works	Mr Graham Ratcliffe

Value-added tax output needs to be declared on the fringe benefit in compliance with the Value-added Tax Act, 1991 (Act 89 of 1991)

**(c) VAT not paid within the required time period**

VAT for June 2007 of R465 037 was not paid to SARS by the 25<sup>th</sup> July 2007.

**16.2.2. Division of Revenue Act, section 25(1) – Transfers made in error**

Section 25(1) of the Division for Revenue Act provides that "Despite anything to the contrary contained in any law, the transfer of an allocation to a province in error is regarded as not legally due to the province" and it is the responsibility of the accounting officer to reimburse it to the disbursing department

During the year under audit, an amount of R258 377 was received in error as it was due to Nxuba Municipality and it was not reimbursed.

**16.2.3. Bank account not in name of Inxuba Yethemba Municipality**

The municipality holds a bank account with ABSA, account number 40-4005-5295 in the name CDK Municipality.

**16.2.4. Non submission of bank account details**

The entity did not submit bank details to the Provincial Treasury and the Auditor-General contrary to the provisions of section 9 of the MFMA, 2003.

**16.2.5. MFMA, section 65(2)(e) – Payments due to creditors to be settled within 30 days**

The following suppliers were not paid by the municipality within 30 days;

<i>Invoice/ Statement Date</i>	<i>Creditor</i>	<i>Payment Date</i>	<i>Amount R</i>
25-Apr-07	PDK	30-Jun-07	17 198
31-Mar-07	Canon	30-Jun-07	1 046
20-Feb-07	R Data	29-Jun-07	1 203
30-Mar-07	R Data	29-Jun-07	2 294
28-Feb-07	R Data	29-Jun-07	3 605
23-Mar-07	R Data	29-Jun-07	4 788
28-Feb-07	Governance Forum	30-Jun-07	8 740
14-Feb-07	Datatec	29-Jun-07	1 197
26-Feb-07	Datatec	29-Jun-07	2 766
17-Apr-07	Datatec	29-Jun-07	1 197
24-Apr-07	Datatec	29-Jun-07	2 113

**16.2.6. MFMA, section 70 (2) – National Treasury to be informed of any overdrawn position.**

Contrary to the above, the municipality did not inform the National Treasury about the overdrawn position of its bank accounts.

**16.2.7 MFMA , section 115(1)(b) – Fraud Prevention Plan**

The municipality does not have a fraud prevention plan to prevent and detect fraud and to mitigate specific fraud risks.

### 16.2.8 MFMA, sections 165 and 166 – Internal Audit Function

The municipality does not have a fully functional internal audit function or an audit committee.

## 17. Fixed Assets

### 17.1. Recording of assets

The fixed asset register was only partially updated as some assets are recorded in the register with wrong descriptions while some are not recorded at all.

<i>Bar Code</i>	<i>Description</i>	<i>Comment</i>
2807	Monitor	Wrong Description
240	Desk wood	Wrong Description
262	Filing Cabinet	Wrong Description
264	Monitor	Wrong Description
238	Monitor	Wrong Description
242	CPU	Wrong Description
■	LT Cable 400v 3phase	Wrong description
3327	Epson Printer	Not recorded in register
3548	LG Laptop	Not recorded in register

■ No bar code

### 17.2. Proceeds from the disposals of assets

I was unable to satisfy myself regarding the accounting/recording of proceeds from the disposals of assets as I could not trace the individual proceeds of each asset to the proceeds received from the auction due to the fact that the breakdown could not be provided. The details are as follows:

<i>Asset No.</i>	<i>Description</i>	<i>Cost R</i>	<i>Book Value R</i>	<i>Proceeds R</i>
2505	Personal Computer	14 911	14 911	-
2506	Personal Computer	14 911	14 911	-
2507	Personal Computer	14 911	14 911	-
2508	Personal Computer	14 911	14 911	-
2519	Personal Computer	14 911	14 911	-
2620	Personal Computer	14 911	14 911	-
2621	Personal Computer	14 911	14 911	-
2525	Personal Computer	14 911	14 911	-
2594	Personal Computer	14 911	14 911	-
2594	Personal Computer	14 911	14 911	-
<b>Total</b>		<b>366 218</b>	<b>366 218</b>	<b>32 605</b>

## 18. Reconnections fees

The following reconnection fees could not be traced to proof of payment:

<b>Account No.</b>	<b>Name</b>	<b>Address</b>
600376001	Church of The Nazarene	Cnr Cross & Sprigg streets
601285002	Balie BS	15 De Kock Street
604243006	Nortje H	7 Tweedelaan Culldene
604425010	Stander BT	13 High Street
643779000	Jacobs W	Blesbokstraat
643541000	Copeman R	Alfreda Straat
644496200	Ndike DS	Raymond Mhlaba
644530900	Maghienda W	Fort Calata Street
644532100	Mbeteni NC	Fort Calata Street
644532800	Latola R	Olifant Str

## 19. Matters of governance

The municipality does not have a fully functional internal audit department or an audit committee. In the absence of these, management cannot continually monitor the operation of internal controls throughout the municipality. A risk therefore exists that possible fraud may not be detected and internal controls may not be effective, due to ineffective execution of operational procedures.

## 20. Internal Control

Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes of the matters indicated, as they relate to the five components of internal control. In some instances deficiencies exist in more than one internal control component.

<b>Reporting item</b>	<b>Control environment</b>	<b>Assessment of risks</b>	<b>Control activities</b>	<b>Information and communication</b>	<b>Monitoring</b>
<b>Basis for qualification of opinion</b>					
Pervasive					
Funds and Statutory			✓		✓
Fixed assets	✓	✓	✓	✓	✓
Inventory	✓	✓	✓	✓	✓
Receivables	✓		✓	✓	✓
Investments			✓		
Revenue	✓		✓	✓	
Expenditure			✓	✓	✓
Payables			✓	✓	✓
Long term liabilities	✓	✓	✓	✓	✓

<b>Reporting item</b>	<b>Control environment</b>	<b>Assessment of risks</b>	<b>Control activities</b>	<b>Information and communication</b>	<b>Monitoring</b>
Employee cost	✓	✓	✓	✓	✓
<b>Emphasis of matter</b>					
Going concern	✓				
Funds and Statutory			✓		✓
Fixed assets		✓	✓	✓	✓
Inventory	✓	✓	✓	✓	✓
Receivables			✓	✓	✓
Investments		✓	✓		✓
Revenue	✓	✓	✓	✓	✓
Expenditure	✓	✓	✓	✓	✓
Payables			✓		✓
Long term liabilities	✓	✓	✓	✓	✓
Employee cost	✓	✓	✓	✓	
Bank and cash		✓	✓		✓
Revenue	✓		✓		✓
Accumulated surplus			✓		✓
<b>Other matters</b>					
Non-compliance with applicable laws and regulations	✓	✓			
Matters of governance	✓				
Material corrections to the financial statements	✓		✓		✓
Value for money matters			✓	✓	✓

21. **Control environment and information systems**

The findings as per the Information Systems Auditor indicate that the computer systems environment was identified as high risk and include the following:

#### 21.1 Information technology security policy

The following weaknesses were identified;

- There was no formal assignment of responsibility for the formulation of internal control and security procedures to a specific person; and
- There was no documented and approved IT security policy in place

#### 21.2 Disaster recovery plan

The following weaknesses were identified;

- The disaster recovery plan is in draft format;
- The disaster recovery plan needs to be updated to reflect the current environment of the Municipality;
- A disaster recovery site, to be used for the resumption of operations in the event of a disaster, did not exist;
- The disaster recovery plan has not been tested;
- No training with regards to the disaster recovery process has been conducted;

#### 21.3 Backup procedures

The following weaknesses were identified with regard to the backup policy for the PROMUN system;

- The backup policy needs to be updated to reflect the current environment. Information within the backup policy should still be completed, such as, the offsite contact persons- list, which represents the contact details of the institution where backups are stored; and
- The backup policy is still in draft format

#### 21.4 User account management

During the evaluation of the user account management process it was noted that there were no documented and approved user account management procedures with regard to the PROMUN system.

#### 21.5 Physical access and environmental controls

Weaknesses were identified with regard to the environmental controls in that there were no smoke or water detectors or fire suppression system in the server room.

#### 23. Unaudited supplementary schedules

The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion on them.

**24. Other reporting responsibilities****24.1 Reporting on performance information**

I have audited the performance information as set out on pages xx to xx.

**24.2 Responsibility of the accounting officer for the performance information**

In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

**24.3 Responsibility of the Auditor-General**

I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No 25 of 2004) read with *General Notice 646 of 2007*, issued in *Government Gazette No.29919 of 25 May 2007*. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

I believe that the evidence I have obtained is sufficient and appropriate to report that no significant findings have been identified as a result of my audit.

**25. Appreciation**

The assistance rendered by the staff of the Ixuba Yethemba Municipality during the audit is sincerely appreciated.

*Auditor-General*  
East London,

29 November 2007.



A U D I T O R - G E N E R A L

# Report of the Auditor-General

## Basis for qualified opinion

### 1. Funds and investments

#### 9.1 Differences between Funds and respective Investments balances

The general ledger balances for Conditional Grants and the respective Investments were not reconciled during the financial year under review and as a result unresolved / unexplained differences existed at year end. The following are the details of material differences:

<i>Fund</i>	<i>Fund balance R</i>	<i>Investment balance R</i>	<i>Difference R</i>
Drought Relief	5 077 274	577 274	4 500 000
MIG Funding	839 253	1 192 873	(353 620)

#### Answer:

*During the month, expenditure with regard to these funds is paid from the General Account. Early the following month, the net expenditure is then transferred from the fund to the general account. The following standard procedure is followed : At the end of the financial year, the creditors are kept open during July in order to finalise the creditors for the financial year. The result is that some of the June expenditure is captured during July. Due to technicalities with the bank account, there is reconcilable difference.*

*We do not agree with this finding. Reconciliations are done on a monthly basis, the reconciliations of the relevant projects were given to the Auditors on two occasions. The utilisation of the drought relief was done in terms of a Council Resolution and this was communicated to the Auditors several times. Explanations were also given regarding the differences on the MIG funding. See appendix A.*

*The following for information:*

- a. Funds and investments are reconciled monthly*
- b. Expenditure on the projects is withdrawn at the beginning of the next month with the exception of June. In June funds are withdrawn before month end in order to ensure that the balances as close as possible.*

*Factors affecting the balances:*

- The last day of June was on a Saturday.*



- Creditors were kept open until the end of July 2007 in order to capture all outstanding invoices (Creditors Section moved from Cradock to Middelburg just before year end)
- Year end journals.

*These funds were handled in the same manner as those of the previous year which were not queried or qualified by the auditors last year.*

**Responsible person: R Crouse**

***It is recommended that guidance be obtained from a audit firm such as PWC in order to avoid a simaliar audit query next year***

**9.2 Grant amounts received in the general ledger not agreeing to the Financial Statements**

There are differences between the grant amounts recorded in the general ledger and the financial statements as follows;

<i>Description</i>	<i>Amount per general ledger R</i>	<i>Amount per Annual Financial Statements R</i>	<i>Difference R</i>
Equitable Share	5 502 034	5 684 984	182 950
CHDM Health Clinics	2 452 592	2 835 656	383 065

**Answer:**

*We do not agree with the statement made on equitable shares.*

- a) *An amount of R182 949-88 was journalized to the resealing of streets. A plan was drawn up during 2005/2006 for 2006/2007 regarding the "spending" of the equitable share and the resealing of streets formed part of this plan. See appendix B.*

*We do not agree with the statement regarding the health subsidy.*

- a) *The total of the health subsidies per the GL is R2 736 157. (Although an amount of R283 565 was allocated on the equitable share item code.) The amount of R 2 835 656 indicated by the Auditor is incorrect. See attachment C.*

*This matter was handled in exactly the same manner as it had been handled the previous year where this was acceptable to the auditors.*

**Responsible person: R Crouse**

***The Auditor General must please ensure that the auditors are familiar with standards and procedures applicable to municipalities to prevent these unnecessary audit qualifications.***

**9.3 Unconditional grant understated**

An amount of R13 032 848 for equitable shares relating to an unconditional grant was received during the current year and only R7 530 814 was recognised in income thus understating income and overstating funds by R5 502 004.

**Answer:**

*We do not agree with this statement.*

*The balance of the equitable share that was not reflected in the income statement had been used to pay the outstanding indigent consumer accounts on a monthly basis. (Purpose for which the equitable share is intended) Had the used portion been reflected in the income statement, it would mean that the income have been reflected twice, firstly when levied and secondly when receipted as the same amount as income.*

*This matter was handled in exactly the same manner as it had been handled the previous year where there was no audit query.*

**Responsible person: R Crouse**

***This matter was handed according accounting procedures and the Auditor General is requested to advise IYM how to handle this matter in future.***

**9.4 Statutory funds used to finance operating activities**

The following funds were used to finance operating activities, which is contrary to the funding agreement:

**Answer:**

- (a) R4.5 million of the ABSA drought relief investment was used during the year under review to pay the municipality's salary expenses which is in contravention of the grant's purpose. No disclosure of such irregularity was then disclosed in the notes.*
- (b) R11 500 for the rehabilitation of roads and streets grant was used to repair the roof of the municipality's property (Mischaudal Library).*

*a) We do agree, but the amount was incorrectly reflected, being only R4.5m and not R45m. During 2006/2007 we had no choice other than*

to reflect them in this manner. This irregularity will be disclosed in future.

b) The other projects were 100% completed. Permission was obtained for the utilisation of the interest to repair the roof. We were told that as long as the conditions had been met the interest could be utilised.

The possibility of an audit query in this regard was brought to Council's attention on a number of occasions.

## 2. Fixed assets

### 10.1. Municipality assets are not adequately insured

The assets of the municipality are not adequately insured. Details are shown below:

<b>Details</b>	<b>R</b>
Sum insured	143 000 000
Book value of fixed assets	179 119 161
<b>Value of under-insurance</b>	<b>36 119 161</b>

#### Answer:

*The value of the assets used by the auditors is incorrect. They used the balance before the amendments. All the information required by the Insurers was given to them. No claim has ever been rejected. This matter will be taken up with the Council's Insurers.*

*This matter did not raise an audit qualification during previous years, however, in order to address this problem, the function of the asset register and insurance have been combined in order to address this problem.*

**Responsible person: R Crouse & D Meyer**

***This will be handled with IYM's short term insurers.***

### 10.2. Differences between fixed asset register, general ledger and financial statements

(a) The amount disclosed in the Annual Financial Statements does not agree with the amount on the general ledger and fixed asset register.

<b>Details</b>	<b>R</b>
Amount as per financials statements.(AFS)	179 119 070
Amount as per General Leger (GL)	176 011 396

<b>Difference (AFS to GL)</b>	<b>3 107 674</b>
Amount as per Asset Register	179 119 162
<b>Difference (GL and Register)</b>	<b>(3 107 765)</b>

**Answer:**

*We do not agree with the amounts reflected by the auditors. There was only a **R92** difference between the asset register and the financial statements which is not material. (Rounded off) They are also still using the old figures.*

**Responsible person: R Crouse**

***This should not have been an audit qualification as the auditors utilized the incorrect figures, namely R179 119 162 instead of R179 642 401.***

(b) The category totals per fixed asset register does not reconcile to the General ledger as shown below:

<b>Category</b>	<b>Fixed asset register R</b>	<b>General ledger R</b>	<b>Variance R</b>
Infrastructure	104 926 651	90 462 453	13 464 198
Fixed assets other	74 192 510	88 656 616	(14 464 106)

**Answer:**

*We do agree. The classification of the assets will receive attention as soon as the asset department is functioning again. (Final outcome of hearing was in December 2007)*

**Responsible person: R Crouse**

**10.3. No supporting documentation to support the value of R20 648 893 adjustment to assets**

No supporting documents could be provided to support the following adjustments:

- R19 419 813 relating to the Lingelihle and Michausdal housing projects relating to the houses that were being removed (adjusted) from the asset register. This was reported in the prior year report and,
- R1 229 080 relating to current year write off of assets below the value of R10 000.

**Answer:**

*We do not have any proof of the R19m. This was just a "reversal" of assets previously capitalized. The houses were capitalized but it was directly transferred in the name of the owners.*

*This was a qualification the previous year. We do not have the supporting documents for the housing scheme involved. This was taken up with the Auditors and their recommendation was that this R19 million be written back. However, the writing back of the R19 million might lead to a further audit query as we do not own this asset.*

*Although a separate list was not available, Excel spreadsheets were given to the auditors as working documents. This list will be simplified in order to balance to the said amount.*

**Responsible person: R Crouse**

**The Auditor General is requested to advise IYM how to handle this matter in future.**

10.4. **Opening value of fixed assets could be misstated**

I was unable to satisfy myself, with regard to the accuracy and valuation of the current year opening balance of the fixed assets of R176 735 803. This balance was qualified in prior year.

**Answer:**

*This balance was only qualified in the prior year as a result of the matters mentioned in 10.3. We did not have a proper asset register and it was decided to bar code all assets and compile an asset register from the actual asset count. Had we have taken all assets as per the excel spreadsheets into consideration, the assets would have been overstated.*

*This query needs to be taken up with a consultant in order to correct it in the correct manner.*

**Responsible person: R Crouse**

***The Auditor General is requested to advise IYM how to handle this matter in future.***

10.5. **Differences between the fixed assets additions listing and the financial statements**

A variance was noted between the fixed asset additions listing and financial statement as follows:

<b>Description</b>	<b>R</b>
Amount as per financial statements (note 4)	3 211 389
Balance per additions listing	3 190 148
<b>Difference</b>	<b>21 241</b>

**Answer:**

*More information is required. The addition list and the additions to the financial statements are the same, namely R3 211 389.*

*Once again, this qualification is a result of the communication gap between officials and the auditors.*

**Responsible person: R Crouse**

10.6. **Receivables**

10.6.1. **Provision for doubtful debts**

Good financial management discipline requires management to assess the recoverability of debtors and make adequate provision for irrecoverable debtors. Debtors amounted to approximately R97,7 million at year-end (2006: R83,1 million) before taking into account any provision for doubtful debts.

Debtors outstanding for longer than 90 days amounted to R85 823 871. The recoverability of these debtors is doubtful as a major portion of this amount is due by indigents. The current provision for bad debts amounts to R13 640 279. The provision may be understated with R72 183 592 being the difference between the debtors outstanding for longer than 90 days and the current provision for bad debts.

**Answer:**

*Our current budget for the financial year under review is R86m. It is impossible to make more provision for doubtful debts. However we are doing our best to collect all outstanding amounts.*

*This has been brought to Council's attention on numerous occasions as this provision will have a detrimental effect on our tariff structure.*

**Responsible person: R Crouse**

11. **No supporting documents to support debtors of R385 253 included in the ledger**

No supporting documents to support debtors amounting to R385 253 included in the ledger. The following are the details:

<b>Vote Number</b>	<b>Account Description</b>	<b>Amount R</b>
629423506100	CDHM-CLEAN UP PROJECTS	230 444
629423503000	CHDM - WASTE MANAGEMENT 06/07	154 809
	<b>Total</b>	<b>385 253</b>

**Answer:**

*This origin of this qualification is claims which have been made to CHDM by the Community Services Department. Several attempts have been made with various officials in Community Services for the last 3 – 4 years in an attempt to clear this account. No response has been received from this Department.*

**Responsible person: Manager Community Services**

12. **Long term liabilities – Loan repayments to DBSA**

The municipality is not complying with the loan repayment conditions. An amount of only R50 000 per month is being paid resulting in the loan not fully repaid at the end of the 2004/5 financial year. There was still an amount of R1 552 003 owing to DBSA as at 30 June 2007.

**Answer:**

*We do agree. Council, however, has an arrangement with DBSA to pay a monthly amount of R50 000 until the cash flow has improved. New proposals have been sent by DBSA during November 2007 for approval.*

**Responsible person: R Crouse**

13. **Accounts payable**

13.1 **Creditors could not be verified**

The following account balances which are disclosed as creditors could not be traced to supporting documentation and therefore could not be verified:

<b>Account number</b>	<b>Description</b>	<b>Amount R</b>
829423868700	Sanitation 3rd phase	1 192 921
629423868600	CMIP project	1 023 881
629383122100	SUNDRY CREDITOR – DBSA	1 165 604
629383136800	HEALTH SUBS in advance(CHDM)	762 361
629383136900	HEALTH SUBS (Nxuba Yethemba)	258 377
629383184900	SUNDRY CREDITOR – TRAFFIC	1 738 801
	<b>Total</b>	<b>6 141 943</b>

**Answer:**

*We do agree that only 3 of the 6 could not be verified. All the documentation for the other 3 is available and it was communicated to the auditors.*

*In order to resolve this qualification it is recommended that the creditors be written off against the Appropriation Account.*

**Responsible person: R Crouse**



13.2 **Supporting documentation for Valuation costs not submitted**

Supporting management calculations and assumptions for the R350 000 provisions for valuation costs accounted for as a provision could not be submitted for audit purposes.

**Answer:**

*This was an attempt to make provision for the general valuation process from the surplus of the previous financial year.*

*The implementation of the MPRA is a compliance issue. At that stage no other funding was available.*

*Furthermore, this is an indication of the lack of insight that the external auditors had into municipal legislation.*

**Responsible person: R Crouse**

13.3 **Tax payments done by Chris Hani Municipality on behalf of the Inxuba Yethemba Municipality incorrectly accounted**

Payments amounting to R20 706 861 relating to tax paid to SARS by Chris Hani Municipality on behalf of Inxuba Yethemba Municipality could not be supported by the SARS receipts. The municipality also did not recognize Chris Hani Municipality as a creditor as there was no written agreement between the Inxuba Yethemba Municipality and the Chris Hani Municipality to waive the payment of this amount. This amount was incorrectly accounted as a part of the appropriation for the year instead of a creditor until there is a written agreement between the municipalities, in which Chris Hani would waive claim for the payment.

**Answer:**

*We do agree that we did not have any receipts from SARS. The communication was between Chris Hani District Municipality and SARS.*

*We were not sure how CHDM has handled this matter, whether they consider this amount a grant, loan, donation, etc. We obtained a council resolution (this was forwarded to the auditors) to write off the said amount until an agreement was made between the two parties.*

*Feedback was received from CHDM only in 2007/2008 after completion of the financial statements.*

**Responsible person: R Crouse**

14. **Limitation of scope**

The following documentation was not received;

- Rental agreement for the Sharp AR 163 and EP 180 photocopiers.
- A register for assets in the Erven trust could not be provided for audit purposes.
- An invoice amounting to R18 963,29 could not be provided.

**Answer:**

*We do agree that:*

- a) No documentation is available for the copiers.*
- b) No register for the Erven trust is available*
- c) No invoice was attached to the expenditure voucher. Postage is payable to the Post Office and they do not issue invoices or receipts.*

**Responsible person: (a) & (b) Manager Corporate and (c) D Meyer**

15. **Qualified Opinion**

In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of Inxuba Yethemba Municipality as at 30 June 2007 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting and in the manner required by the Municipal Finance Management Act, 2003 (Act No 56 of 2003).

16. **Emphasis of matter(s)**

I draw attention to the following matters:

16.1. **Going Concern**

The municipality's financial statements were prepared on the going concern basis, which assumes that the municipality will be able to meet its future obligations and commitments in the ordinary course of business. Accordingly, these financial statements do not include any adjustments relating to the valuation of assets and the classification of liabilities, which might be necessary if the municipality is unable to continue as a going concern.

Without the continued support from National and Provincial government, it is evident that the Municipality will not be able to fulfil all its current and long-term obligations. The following conditions indicated the existence of a material uncertainty that may cast significant doubt on the municipality's ability to continue as a going concern;



**(a) Increase in bank overdraft**

The bank account was in overdraft for a large part of the year, which is in contravention of section 45 of the MFMA, 2003. The overdraft of the municipality was increased to R2,5 million, however, as at year end the municipality had an overdraft of R5 517 398. This was an indication that the municipality is experiencing cash flow problems.

**Answer:**

*We do agree that we have cash flow problems. The overdraft of R5 517 398 is only a book entry. We do our best to pay our creditors on time and to collect all outstanding amounts.*

**Responsible person: R Crouse**

**(b) Concomitant assets are not sufficient to support statutory funds**

Insufficient concomitant assets exist to support unspent grant funds and statutory funds. The total statutory funds and unspent grant funds as at 30 June 2007 was R33 286 467 against total concomitant assets of R1 756 500 leaving a deficit of R31 529 967.

**Answer:**

*Due to cash constraints we are unable to invest the differences as indicated. These amounts have been growing over a number of years and to invest the said amounts are not possible. The only way to get rid of this query is via converting to GAMAP/GRAP. All funds have to be backed by cash or be written off.*

**Responsible person: R Crouse**

**16.2. Other matters**

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

**16.2.1 Non-compliance with applicable legislation**

During the audit the following non-compliance with the laws and regulations were identified;

**(a) Property Rates Act, 2004 (Act 6 of 2004)**

The municipality does not make the property register/valuation roll available for public viewing, as prescribed by Section 88 of the Property Rates Act, 2004 (Act 6 of 2004)

**Answer:**

*The municipality is currently busy compiling the General Valuation Roll in terms of the MPRA for implementation July 2009. This will be made available for public viewing as prescribed by the Act. Due to the fact that we the process will commence from January 2008 it is logical that no valuation roll in terms of the Act is available.*

**Responsible person: CFO**

***This is a superfluous query as the process to comply to the Act only commence during January 2008.***

**(b) Value-added Tax (VAT) Act, 1991 (Act 89 of 1991)**

Municipal houses were rented to the following employees at a monthly rental charge which is not market related .A fringe benefit between the actual rental and a market related rental charge was not recognized and included in the employee's gross income:

<b><i>Fringe benefit- Free Housing</i></b>	<b><i>Employee</i></b>
1) Managers House at Cradock Spa	Mr John Martiens
2) Old House at Cradock Spa	Ms Natasha van Eden
3) House at Cradock Sports Complex	Mr FJ Jors
4) House at Michausdal Sports Complex	Mr David Maart
5) House at Middleburg Caravan Park	Mr Toto Dastile
6) House at Cradock Sewerage Works	Mr Graham Ratcliffe

Value-added tax output need to be declared on the fringe benefit in compliance with the Value-added Tax Act, 1991 (Act 89 of 1991)

**Responsible person: D Meyer**

**(c) VAT not paid within the required time period**

VAT for June 2007 of R465 037 was not paid to SARS by the 25<sup>th</sup> July 2007.

**Responsible person: D Meyer**

***The auditors interpretation of this matter was not correct as the SARS owed the money to IYM and not vice versa.***

**16.2.2. Division of Revenue Act, section 25(1) – Transfers made in error**

Section 25(1) of the Division for Revenue Act provides that “Despite anything to the contrary contained in any law, the transfer of an allocation to a province in error is regarded as not legally due to the province” and it is the responsibility of the accounting officer to reimburse it to the disbursing department

During the year under audit, an amount of R258 377 was received in error as it was due to Nxuba Municipality and it was not reimbursed.

**Responsible person: R Crouse**

***This issue was never queried by the Provincial Department and this took place approximately 5 years ago and thus is not relevant to this audit year.***

**16.2.3. Bank account not in name of Inxuba Yethemba Municipality**

The municipality holds a bank account with ABSA, account number 40-4005-5295 in the name CDK Municipality.

**Responsible person: R Crouse**

*This account was been closed during July 2007*

**16.2.4. Non submission of bank account details**

The entity did not submit bank details to the Provincial Treasury and the Auditor-General contrary to the provisions of section 9 of the MFMA, 2003.

**Responsible person: R Crouse**

**16.2.5. MFMA, section 65(2)(e) – Payments due to creditors to be settled within 30 days**

The following suppliers were not paid by the municipality within 30 days;

<b><i>Invoice/ Statement Date</i></b>	<b><i>Creditor</i></b>	<b><i>Payment Date</i></b>	<b><i>Amount R</i></b>
25-Apr-07	PDK	30-Jun-07	17 198

31-Mar-07	Canon	30-Jun-07	1 046
20-Feb-07	R Data	29-Jun-07	1 203
30-Mar-07	R Data	29-Jun-07	2 294
28-Feb-07	R Data	29-Jun-07	3 605
23-Mar-07	R Data	29-Jun-07	4 788
28-Feb-07	Governance Forum	30-Jun-07	8 740
14-Feb-07	Datatec	29-Jun-07	1 197
26-Feb-07	Datatec	29-Jun-07	2 766
17-Apr-07	Datatec	29-Jun-07	1 197
24-Apr-07	Datatec	29-Jun-07	2 113

**Responsible person: D Meyer**

***This occurred due to cash flow problems experienced by the municipality. IYM aspires to comply to the MFMA regarding the payment of creditors as our cash flow improves.***

**16.2.6. MFMA, section 70 (2) – National Treasury to be informed of any overdrawn position.**

Contrary to the above, the municipality did not inform the National Treasury about the overdrawn position of its bank accounts.

**Responsible person: R Crouse**

**16.2.7 MFMA , section 115(1)(b) – Fraud Prevention Plan**

The municipality does not have a fraud prevention plan to prevent and detect fraud and to mitigate specific fraud risks.

**Responsible person: Internal Auditor**

***This matter may be addressed by the current initiative from CHDM with internal audit shared services.***

**16.2.8 MFMA, sections 165 and 166 – Internal Audit Function**

The municipality does not have a fully functional internal audit function or an audit committee.

**Responsible person: Internal Auditor**

***This matter may be addressed by the current initiative from CHDM with internal audit shared services.***

17. **Fixed Assets**

17.1. **Recording of assets**

The fixed asset register was only partially updated as some assets are recorded in the register with wrong description while some are not recorded at all.

<b>Bar Code</b>	<b>Description</b>	<b>Comment</b>
2807	Monitor	Wrong Description
240	Desk wood	Wrong Description
262	Filing Cabinet	Wrong Description
264	Monitor	Wrong Description
238	Monitor	Wrong Description
242	CPU	Wrong Description
■	LT Cable 400v 3phase	Wrong description
3327	Epson Printer	Not recorded in register
3548	LG Laptop	Not recorded in register

■ No bar code

**Responsible person: R Crouse**

***With the appointment of the clerk in the section this will be addressed.***

17.2. **Proceeds from the disposals of assets**

I was unable to satisfy myself regarding the accounting/recording of proceeds from the disposals of assets as I could not trace the individual proceeds of each asset to the proceeds received from the auction due to the fact that the breakdown could not be provided. The details are as follows:

<b>Asset No.</b>	<b>Description</b>	<b>Cost R</b>	<b>Book Value R</b>	<b>Proceeds R</b>
2505	Personal Computer	14 911	14 911	-
2506	Personal Computer	14 911	14 911	-
2507	Personal Computer	14 911	14 911	-
2508	Personal Computer	14 911	14 911	-
2519	Personal Computer	14 911	14 911	-
2620	Personal Computer	14 911	14 911	-
2621	Personal Computer	14 911	14 911	-
2525	Personal Computer	14 911	14 911	-
2594	Personal Computer	14 911	14 911	-
2594	Personal Computer	14 911	14 911	-
<b>Total</b>		<b>366 218</b>	<b>366 218</b>	<b>32 605</b>

**Responsible person: D Meyer**



18. **Reconnections fees**

The following reconnection fees could not be traced to proof of payment:

<b>Account No.</b>	<b>Name</b>	<b>Address</b>
600376001	Church of The Nazarene	Cnr Cross & Sprigg streets
601285002	Balie BS	15 De Kock Street
604243006	Nortje H	7 Tweedelaan Culldene
604425010	Stander BT	13 High Street
643779000	Jacobs W	Blesbokstraat
643541000	Copeman R	Alfreda Straat
644496200	Ndike DS	Raymond Mhlaba
644530900	Maghienda W	Fort Calata Street
644532100	Mbeteni NC	Fort Calata Street
644532800	Latola R	Olifant Str

**Responsible person: D Coetzer**

19. **Matters of governance**

The municipality does not have a fully functional internal audit department or an audit committee. In the absence of these, management cannot continually monitor the operation of internal controls throughout the municipality. A risk therefore exist that possible fraud may not be detected and internal controls may not be effective, due to ineffective execution of operational procedures

**Responsible person: Internal Auditor**

***This matter may be addressed by the current initiative from CHDM with internal audit shared services.***

20. **Internal Control**

Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes of the matters indicated, as they relate to the five components of internal control. In some instances deficiencies exist in more than one internal control component.

<b>Reporting item</b>	<b>Control environment</b>	<b>Assessment of risks</b>	<b>Control activities</b>	<b>Information and communication</b>	<b>Monitoring</b>
<b><i>Basis for qualification of opinion</i></b>					
Pervasive					
Funds and Statutory			✓		✓
Fixed assets	✓	✓	✓	✓	✓

<i>Reporting item</i>	<i>Control environment</i>	<i>Assessment of risks</i>	<i>Control activities</i>	<i>Information and communication</i>	<i>Monitoring</i>
Inventory	✓	✓	✓	✓	✓
Receivables	✓		✓	✓	✓
Investments			✓		
Revenue	✓		✓	✓	
Expenditure			✓	✓	✓
Payables			✓	✓	✓
Long term liabilities	✓	✓	✓	✓	✓

<b>Reporting Item</b>	<b>Control environment</b>	<b>Assessment of risks</b>	<b>Control activities</b>	<b>Information and communication</b>	<b>Monitoring</b>
Employee cost	✓	✓	✓	✓	✓
<b>Emphasis of matter</b>					
Going concern	✓				
Funds and Statutory			✓		✓
Fixed assets		✓	✓	✓	✓
Inventory	✓	✓	✓	✓	✓
Receivables			✓	✓	✓
Investments		✓	✓		✓
Revenue	✓	✓	✓	✓	✓
Expenditure	✓	✓	✓	✓	✓
Payables			✓		✓
Long term liabilities	✓	✓	✓	✓	✓
Employee cost	✓	✓	✓	✓	
Bank and cash		✓	✓		✓
Revenue	✓		✓		✓
Accumulated surplus			✓		✓
<b>Other matters</b>					
Non-compliance with applicable laws and regulations	✓	✓			
Matters of governance	✓				
Material corrections to the financial statements	✓		✓		✓
Value for money matters			✓	✓	✓

21. **Control environment and information systems**

The findings as per the Information Systems Auditor indicate that the computer systems environment was identified as high risk and include the following:

### 21.1 Information technology security policy

The following weaknesses were identified;

- There was no formal assignment of responsibility for the formulation of internal control and security procedures to a specific person; and
- There was no documented and approved IT security policy in place

### 21.2 Disaster recovery plan

The following weaknesses were identified;

- The disaster recovery plan is in draft format;
- The disaster recovery plan needs to be updated to reflect the current environment of the Municipality;
- A disaster recovery site, to be used for the resumption of operations in the event of a disaster, did not exist;
- The disaster recovery plan has not been tested;
- No training with regards to the disaster recovery process has been conducted;

**Responsible person: CFO**

***IYM does not have an IT manager currently. These matters will be addressed within our limited capacity.***

### 21.3 Backup procedures

The following weaknesses were identified with regard to the backup policy for the PROMUN system;

- The backup policy needs to be updated to reflect the current environment. Information within the backup policy should still be completed, such as, the offsite contact persons- list, which represents the contact details of the institution where backups are stored; and
- The backup policy is still in draft format

**Responsible person: CFO**

### 21.4 User account management

During the evaluation of the user account management process it was noted that there were no documented and approved user account management procedures with regard to the PROMUN system.

**Responsible person: CFO**

### 21.5 Physical access and environmental controls

Weaknesses were identified with regard to the environmental controls in that there were no smoke, water detectors or fire suppression system in the server room.

**Responsible person: CFO**

**23. Unaudited supplementary schedules**

The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion on them.

**24. Other reporting responsibilities**

**24.1 Reporting on performance information**

I have audited the performance information as set out on pages xx to xx.

**24.2 Responsibility of the accounting officer for the performance information**

In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

**Responsible person: MM**

**24.3 Responsibility of the Auditor-General**

I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No 25 of 2004) read with *General Notice 646 of 2007*, issued in *Government Gazette No.29919 of 25 May 2007*. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

I believe that the evidence I have obtained is sufficient and appropriate to report that no significant findings have been identified as a result of my audit.

**25. Appreciation**

The assistance rendered by the staff of the Inxuba Yethemba Municipality during the audit is sincerely appreciated.