

4.6 REPORT OF THE AUDITOR GENERAL

REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE GROUP FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF BUFFALO CITY MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2008

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying group financial statements of the Buffalo City Municipality which comprise the consolidated and separate statement of financial position as at 30 June 2008, consolidated and separate statement of financial performance, consolidated and separate statement of changes in net assets and consolidated 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 applicable basis of accounting determined by the National Treasury, as set out in accounting policy note 1 to the financials statements and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2007 (Act No. 1 of 2007) (DoRA) 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, 2004 (Act No. 25 of 2004) (PAA), 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 and General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on 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. Paragraph 11 et seq. of the Statement of Generally Recognised Accounting Practice, GRAP 1 Presentation of Financial Statements requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Buffalo City Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

9. The municipality's policy is to prepare financial statements on the basis of accounting prescribed by the National Treasury, as set out in accounting policy note 1. Refer to addendum A.

Basis for qualified opinion

Creditors

10. Included in creditors amounting to R269 million as reported in the statement of financial position are trade creditors, other creditors and payments received in advance totalling R233 million. Sufficient appropriate documentation in support of this amount could not be provided, as the municipality did not prepare adequate supplier reconciliations and did not have an adequate alternative system of ensuring that all goods and services received prior to year-end, but not yet paid, were accrued. Therefore, alternative procedures were performed which revealed that creditors were overstated by an estimated R4 million.
11. Furthermore, I was unable to determine the accuracy, obligation and cut-off of creditors as disclosed in the annual financial statements.

Irregular expenditure

12. In terms of section 111 of the MFMA, the accounting officer must ensure that the municipality has and implements a supply chain management policy (SCM). Therefore the municipality has disclosed irregular expenditure incurred to the value of R22, 5 million relating to tenders which were incorrectly awarded for R30 million. In addition, disclosure has been made of expenditure totalling R880 654 which was paid out of an investment vote and for which supporting documentation does not exist. However, a complete tender register and tender documentation requested could not in all instances be presented. I was therefore unable to determine whether all the SCM Regulations as set out in the MFMA were complied with and confirm the completeness of irregular expenditure incurred for the year under review.

Inventory

13. The municipality has not complied with GAMAP 12: Inventories, which requires that all material inventories should be accounted for at cost. Inventory as disclosed in note 13 to the annual financial statements did not include inventories under the control of the directorate of engineering services at year-end. Consequently, inventory is understated by a possible R5 million, while expenditure is overstated by the same amount.

Commitments

14. As a result of the lack of information provided relating to tender documents requested, I was unable to confirm the completeness and accuracy of the disclosure of commitments in the financial statements. The municipality's records did not permit the application of alternative audit procedures regarding commitments.

Opinion

Qualified Opinion

15. 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 the Buffalo City Municipality and group as at 30 June 2008 and its financial performance and cash flows for the year then ended, in accordance with the applicable reporting framework and in the manner required by the MFMA and DoRA.

Emphasis of matters

I draw attention to the following matters:

Amendments to the applicable basis of accounting

16. The National Treasury approved a deviation from the basis of accounting applicable to municipalities on 29 June 2007, which granted the municipality exemption from the disclosure of the reporting standards contained in addendum A.

17. The municipality has elected to early adopt the requirement(s) in GRAP, GAMAP and/or SA GAAP, contained in addendum A, which were exempted in terms of General Notice 522 of 2007, in Government Gazette No. 30013 of 29 June 2007.

Fruitless and wasteful expenditure

18. The municipality disclosed fruitless and wasteful expenditure of R442 399 relating to a second forensic investigation commissioned by the executive mayor on tender-related irregularities. This second investigation was not sanctioned by the council.

Restatement of corresponding figures

19. As disclosed in note 36 to the financial statements, the corresponding figures for 30 June 2007 have been restated as a result of the additional deviations granted by the National Treasury during the year under review.

OTHER MATTERS

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

Internal controls

20. 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 that gave rise to the inefficiencies in the system of internal control, which led to the qualified opinion. The root causes are categorised according to the five components of an effective system of internal control. In some instances deficiencies exist in more than one internal control component.

Reporting item	Control environment	Risk assessment	Control activities	Information and communication	Monitoring
Creditors			<input type="checkbox"/>		<input type="checkbox"/>
Irregular expenditure			<input type="checkbox"/>		<input type="checkbox"/>
Inventory			<input type="checkbox"/>		<input type="checkbox"/>
Commitments			<input type="checkbox"/>		<input type="checkbox"/>

Control environment: establishes the foundation for the internal control system by providing fundamental discipline and structure for financial reporting.

Risk assessment: involves the identification and analysis by management of relevant financial reporting risks to achieve predetermined financial reporting objectives.

Control activities: policies, procedures and practices that ensure that management's financial reporting objectives are achieved and financial reporting risk mitigation strategies are carried out.

Information and communication: supports all other control components by communicating control responsibilities for financial reporting to employees and by providing financial reporting information in a form and time frame that allow people to carry out their financial reporting duties.

Monitoring: covers external oversight of internal controls over financial reporting by management or other parties outside the process; or the application of independent methodologies, like customised procedures or standard checklists, by employees within a process.

Matters of governance

21. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

Matter of governance	Yes	No
Audit committee		
The municipality had an audit committee in operation throughout the financial year.	<input type="checkbox"/>	
The audit committee operates in accordance with approved written terms of reference.	<input type="checkbox"/>	
The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.	<input type="checkbox"/>	
Internal audit		
The municipality had an internal audit function in operation throughout the financial year.	<input type="checkbox"/>	
The internal audit function operates in terms of an approved internal audit plan.	<input type="checkbox"/>	
The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.	<input type="checkbox"/>	
Other matters of governance		
The annual financial statements were submitted for auditing as per the legislated deadlines (section 126 of the MFMA for municipalities and municipal entities)	<input type="checkbox"/>	
The annual report was submitted for the auditor for consideration prior to the date of the auditor's report.		<input type="checkbox"/>
The financial statements submitted for auditing were not subject to any material amendments resulting from the audit.		<input type="checkbox"/>
No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.		<input type="checkbox"/>
The prior year's external audit recommendations have been substantially implemented.		<input type="checkbox"/>
Implementation of Standards of Generally Recognised Accounting Practice (GRAP)		
The municipality submitted an implementation plan, detailing progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 30 October 2007.	<input type="checkbox"/>	
The municipality substantially complied with the implementation plan it submitted to the National Treasury and the relevant provincial treasury before 30 October 2007, detailing its progress towards full compliance with GRAP.	<input type="checkbox"/>	
The municipality submitted an implementation plan, detailing further progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 31 March 2008.	<input type="checkbox"/>	

OTHER REPORTING RESPONSIBILITIES

REPORT ON PERFORMANCE INFORMATION

22. I have reviewed the performance information as set out on pages [xx] to [xx].

Responsibility of the accounting officer for the performance information

23. 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).

Responsibility of the Auditor-General

24. I conducted my engagement in accordance with section 13 of the PAA read with General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008 and section 45 of the MSA.

25. 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.

26. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit findings (performance information)

Non-compliance with regulatory requirements

27. Section 46(1)(c) of the Municipal Systems Act, 2000 (Act No.32 of 2000) requires that a municipality prepares a performance report reflecting measures to improve performance. When the performance report was inspected it was noted that for some of the targets which were not achieved there was no explanation in the performance report stating what measures the municipality has put in place to improve performance.

Measurable objectives not consistent

28. Section 9(1)(a) of the Municipal Planning and Performance Management Regulations requires that a municipality set key performance indicators, including input indicators, output indicators and outcome indicators in respect of each of the development and objectives. Several key performance indicators in the integrated development plan (IDP) of the municipality did not contain input, output or outcome indicators.

Lack of sufficient appropriate audit evidence

29. I was unable to obtain sufficient appropriate audit evidence in relation to the performance information of the Buffalo City Municipality, as I was unable to obtain access to the records pertaining to the programmes/objectives/key performance indicators.

Changes to planned performance information not approved

30. Changes to the outputs/measures/indicators/targets in the current year's IDP were not approved.

Investigations

31. An investigation was being conducted by an independent consultancy firm on request of the municipality to determine if any material procedural irregularities occurred during the evaluation and awarding of the bids for the operation of waste sites and the implementation of waste management by-laws. A forensic report has been completed and referred to the council for consideration. The investigation was still ongoing at the reporting date but criminal action was being considered.

32. An investigation was being conducted to determine if any material procedural irregularities occurred during the evaluation and award of the bid of the grass-cutting contract and if all awards were made through the formal bid process. In addition, the excess value incurred on this contract was the subject of further investigation. There was no clarity at the reporting date on whether or not criminal or civil action would be taken.

33. An investigation was being conducted on allegations of theft of copper from cables in the municipal stores. The purpose of this investigation was to determine if any officials of the municipality were involved with the sale of copper to scrap merchants. Officials have been suspended but at the reporting date no criminal action had been considered.

34. Several other cases of irregularities were being investigated but at the time of the audit it was not clear whether they could be considered to be material in nature, i.e. cases of minor theft or damage to municipal property.

APPRECIATION

The assistance rendered by the staff of Buffalo City Municipality during the audit is sincerely appreciated.

Auditor - General

East London

9 December 2008



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

Basis of preparation

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP) and the Standards of Generally Accepted Municipal Accounting Practices (GAMAP) prescribed by the Minister of Finance in terms of General Notice 991 and 992 of 2005.

The standards are summarised as follows:

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GAMAP 4	The Effects of Changes in Foreign Exchange Rates
GAMAP 6	Consolidated financial statements and accounting for controlled entities
GAMAP 7	Accounting for Investments in Associates
GAMAP 8	Financial Reporting of Interests in Joint Ventures
GAMAP 9	Revenue
GAMAP 12	Inventories
GAMAP 17	Property, Plant and Equipment
GAMAP 19	Provisions, Contingent Liabilities and Contingent Asset

Accounting policies for material transactions, events or conditions not covered by the above GRAP and GAMAP Standards have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3. These accounting policies and the applicable disclosures have been based on the South African Statements of Generally Accepted Accounting Practices (SA GAAP) including any interpretations of such Statements issued by the Accounting Practices Board.

The Minister of Finance has, in terms of General notice 552 of 2007 exempted compliance with certain of the above mentioned standards and aspects or parts of these standards. Details of the exemptions applicable to the municipality have been provided in the notes to the annual financial statements.

The entity has elected to early adopt the following requirement(s) in GRAP, GAMAP and/or SA GAAP, which were exempted in terms of General notice 552 of 2007:

Standard no.	Standard title	GRAP, GAMAP and/or SA GAAP requirement(s), exempted in terms of <i>General Notice 552 of 2007, in Government Gazette no. 30013 of 29 June 2007, that have been early adopted</i>
GAMAP 12	Inventories	<ul style="list-style-type: none"> ▪ The disclosure of water stock on hand only.
IAS 17 (AC 105)	Leases	<ul style="list-style-type: none"> ▪ Recognising operating lease payments / receipts on a straight-line basis if the amounts are recognised on the basis of the cash flows in the lease agreement. (IAS 17.33 – 34 and 50 – 51, SAICA circular 12/06.8 – 11)
IAS 19 (AC 116)	Employee benefits	<ul style="list-style-type: none"> ▪ Defined benefit accounting as far as it relates to defined benefit plans accounted for as defined contribution plans and the

Standard no.	Standard title	GRAP, GAMAP and/or SA GAAP requirement(s), exempted in terms of <i>General Notice 552 of 2007</i> , in <i>Government Gazette no. 30013 of 29 June 2007</i> , that have been early adopted
		defined benefit obligation disclosed by narrative information. (IAS 19.29, 48 – 119 and 120A(c) - (q))
IFRS 3	Business combinations	<ul style="list-style-type: none"> ▪ Preparation of consolidated financial statements

4.7 COUNCIL: 27 JANUARY 2009 REPORT OF THE ACTING CHAIRPERSON OF THE AUDIT COMMITTEE

REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE GROUP FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF BUFFALO CITY MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2008

INTRODUCTION

The Audit Committee is an independent advisory body to the Council. The Committee has considered the Report of the Auditor General on the Annual Financial Statements and Performance Information of the Buffalo City Municipality for the year ended 30 June 2008.

CONSIDERATION OF THE AUDITOR GENERAL'S REPORT

Management presented the Auditor General's report together with their comments thereon to a meeting of the Audit Committee held on 11 December 2008. All Directorates required to respond were represented at the meeting. It must be noted that submission of the report to the Audit Committee is to enable the Committee to interact with Management on the issues raised in the report for the purpose of providing Council with input in terms of section 166 [2] [c] of the Local Government: Municipal Finance Management Act.

The Committee registers concern regarding certain of the findings of the Auditor General and these are elaborated on hereunder. The Committee is, however, appreciative of the efforts of management to reduce the number of qualifications arising from the previous report of the Auditor General.

In general, the comments provided by management give no indication of resources required to implement the actions, or time frames and it is recommended that management should consider these matters and revert to the Audit Committee and Council thereon. Progress reports on implementation may also be of assistance. While noting the comments of management, the Committee was not in all cases satisfied therewith and these matters are highlighted in each section under Audit Committee comments.

Other matters, not highlighted in the Report of the Auditor General, will be dealt with by the Committee in the new calendar year.

THE REPORT

The comments of the Audit Committee are set out under each section of the Report of the Auditor General.

“REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE GROUP FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF BUFFALO CITY MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2008

REPORT ON THE FINANCIAL STATEMENTS

Introduction

35. I have audited the accompanying group financial statements of the Buffalo City Municipality which comprise the consolidated and separate statement of financial position as at 30 June 2008, consolidated and separate statement of financial performance, consolidated and separate statement of changes in net assets and consolidated 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

36. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the applicable basis of accounting determined by the National Treasury, as set out in accounting policy note 1 to the financials statements and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2007 (Act No. 1 of 2007) (DoRA) 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

37. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.

38. I conducted my audit in accordance with the International Standards on Auditing and General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on whether the financial statements are free from material misstatement.

39. 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.

40. An audit also includes evaluating the:

- appropriateness of accounting policies used
- reasonableness of accounting estimates made by management
- overall presentation of the financial statements.

41. Paragraph 11 et seq. of the Statement of Generally Recognised Accounting Practice, GRAP 1 Presentation of Financial Statements requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Buffalo City Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
42. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

43. The municipality's policy is to prepare financial statements on the basis of accounting prescribed by the National Treasury, as set out in accounting policy note 1. Refer to addendum A.

Basis for qualified opinion

Creditors

44. Included in creditors amounting to R269 million as reported in the statement of financial position are trade creditors, other creditors and payments received in advance totalling R233 million. Sufficient appropriate documentation in support of this amount could not be provided, as the municipality did not prepare adequate supplier reconciliations and did not have an adequate alternative system of ensuring that all goods and services received prior to year-end, but not yet paid, were accrued. Therefore, alternative procedures were performed which revealed that creditors were overstated by an estimated R4 million.
45. Furthermore, I was unable to determine the accuracy, obligation and cut-off of creditors as disclosed in the annual financial statements."

Management Comments:

Controls are in place to ensure that monthly supplier reconciliations are performed. At the year end it is possible that creditors could be overstated. However, in order to determine whether there was an overstatement and the precise amount thereof, a detailed listing in this regard would be required from the Office of the Auditor General. Weaknesses in the year end procedures have since been identified and have been addressed and further controls will be implemented.

Audit Committee Comments:

The Committee expresses concern regarding the matter of the supplier reconciliations as well as the apparent weaknesses in the year end procedures. It is considered that these weaknesses contribute to the findings under Irregular expenditure [12] and Commitments [14] and will be elaborated on further under those sections.

While noting the comments from the General Manager: Asset and Risk at the meeting regarding controls to obviate duplicate payments the Committee records concern that in the absence of "adequate supplier reconciliations" as reported by the Auditor General this process may be compromised.

The Committee accordingly recommends that the procedures to ensure the preparation of adequate supplier reconciliations be reviewed possibly to include monthly reporting thereon, and that the year end procedures be revisited.

“Irregular expenditure

46. In terms of section 111 of the MFMA, the accounting officer must ensure that the municipality has and implements a supply chain management policy (SCM). Therefore the municipality has disclosed irregular expenditure incurred to the value of R22, 5 million relating to tenders which were incorrectly awarded for R30 million. In addition, disclosure has been made of expenditure totalling R880 654 which was paid out of an investment vote and for which supporting documentation does not exist. However, a complete tender register and tender documentation requested could not in all instances be presented. I was therefore unable to determine whether all the SCM Regulations as set out in the MFMA were complied with and confirm the completeness of irregular expenditure incurred for the year under review.”

Management Comments:

The disclosure of irregular expenditure in the Annual Financial Statements to the value of R22, 5 million relates to amounts of R20.2 million and R 2.3 million in respect of Casalinga Investments cc t/a Waste Rite and Neo Solutions (Pty) Ltd respectively. Forensic investigations were instituted in both these cases as disclosed in the Annual Financial Statements.

With regard to a complete tender register the Auditor Generals comments are noted and management will ensure that all necessary required details will be included in the register.

The additional disclosure of expenditure totalling R880 654 relates to a payment made to Zinala Investments. A civil case has been instituted as disclosed in the Annual Financial Statements.

Audit Committee Comments:

The Committee expresses serious concern regarding the reported irregular expenditure of R22, 5 million, and understands that this is being dealt with through other processes. Never the less, the apparent failures within the Bid Committee system which gave rise to this event are viewed as material risks to the institution given the substantial values transacted through the system. This system is required to apply certain controls to obviate such instances and a review of these processes may therefore be prudent.

The failure to maintain a complete tender register as well as the apparent inability to produce all required tender documentation is indicative of control issues within the departments concerned. [Refer to section 20 – Internal Controls.] The failure to maintain and safeguard all tender documentation could compromise the administration of contracts and jeopardise potential legal cases. A complete tender register would assist the institution with the determination of the value of outstanding creditors at year end as well as the commitments referred to under point 14. Given the substantial values transacted through the bid committee system it is considered to be a material risk.

The Committee accordingly recommends that attention be given to strengthening the bid committee process to reduce the likelihood of irregular transactions. In addition, the establishment of a complete and up to date tender register should receive urgent attention, as should the processes to file and safeguard all tender documentation.

The payment of R880 654, apparently without value, is noted by the Committee. However, the event gives rise to the impression that the internal control system relating

to such payments requires to be reviewed. It is understood that management has reviewed the system. Nevertheless, the fact that the payment was processed against an investment account, without being detected, remains a concern to the Committee. It is considered that adequate reconciliations of the account against the formal register of investments should have highlighted this incorrect payment. The action being taken to recover the amount paid out is noted.

On the matter of the R880 654 reported, the Committee recommends that the reconciliation and monitoring processes relating specifically to the investment account be strengthened.

“Inventory

47. The municipality has not complied with GAMAP 12: Inventories, which requires that all material inventories should be accounted for at cost. Inventory as disclosed in note 13 to the annual financial statements did not include inventories under the control of the directorate of engineering services at year-end. Consequently, inventory is understated by a possible R5 million, while expenditure is overstated by the same amount.”

Management Comments:

The practice over the years has been for the Directorate of Engineering Services to maintain a stock of materials for daily maintenance which is well below the cost of R5 million. These goods are expensed and utilized as and when required. The situation has improved in that the stock levels have been reduced from previous years. In future the Engineers will be instructed to schedule and take stock of these goods as at year end and the necessary adjustment will be made to reduce expenditure and increase inventory accordingly. Every effort will also be made to reduce the amount of materials on hand without impacting on service delivery.

Further to the above cognizance must be taken that a portion of this stock could relate to stock taken over from the Public Works Department which was previously considered to be obsolete and accounted for accordingly which may distort the perception that these levels were in excess of R5 million. The fact is that some stock is obsolete and was left behind by Public Works during 1998. Therefore it would be incorrect to assume that this would form part of BCM’s inventory.

Audit Committee Comments:

The inventory value reported is considered to be substantial and the Committee expresses concern that inventory to such a value was omitted from the financial statements. The action proposed by management to ensure that the value is reported in future financial statements is noted.

The explanation regarding obsolete stock is not accepted as it is considered that even if the stock is considered to be obsolete and has been accounted for accordingly, it should still be recorded on an official stock schedule and be subjected to stock counts if it remains on Municipal property. A failure to do so could result in shrinkage .The Directorate of Engineering Services provided the value from their own records and the comments by the General Manager: Asset and Risk Management are therefore not considered valid.

The Committee accordingly recommends that management establish all material inventories held by the municipality which may not be scheduled and that these be inspected at year end and valued for the purposes of the financial statements.

“Commitments

48. As a result of the lack of information provided relating to tender documents requested, I was unable to confirm the completeness and accuracy of the disclosure of commitments in the financial statements. The municipality’s records did not permit the application of alternative audit procedures regarding commitments.”

Management Comments:

This relates to the outstanding amounts on tender contracts as at year end. The Auditor General comments are noted and management will ensure that the tender register is properly maintained and updated to enable the confirmation of the completeness and accuracy of the disclosure of commitments in the financial statements.

Audit Committee Comments:

The Committee views the finding that the Auditor General was unable to determine the accuracy, obligation and cut-off of creditors as disclosed in the annual financial statements [refer finding 11] and as a result of a lack of information provided relating to tender documents and was unable to confirm the completeness and accuracy of the disclosure of commitments, in a serious light. Both of these matters have been elaborated on above.

The proposed actions of management in this regard are noted, but the Committee nevertheless is concerned regarding the potential impact that these findings may have on the institution. The complete tender register [refer finding 12] would assist the institution with the determination of the value of outstanding creditors at year end as well as the commitments referred to under this finding. Given the substantial values transacted through the supply chain system the maintenance of the tender register should be seen as a priority.

The Committee recommends accordingly.

“Opinion

Qualified Opinion

49. 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 the Buffalo City Municipality and group as at 30 June 2008 and its financial performance and cash flows for the year then ended, in accordance with the applicable reporting framework and in the manner required by the MFMA and DoRA.

Audit Committee Comments:

The Committee notes the qualified opinion.

The basis for the qualification appears to stem, in the main, from the bid and related supply chain processes e.g. bid committee system, tender registers, lack of documentation and inventory. Based thereon, the Committee concludes that these

activities need to receive special attention by management to ensure that they are strengthened.

The Committee also believes that the processes of supervision and monitoring should also be reviewed as these are the core processes through which the qualifications can be best addressed. The comments under 20 – Internal Control give rise to the unfortunate perception that although basic internal control processes have been designed in certain cases these are not always fully implemented and maintained. While the qualifications arise from issues as set out above, the Committee cautions that internal control processes should be reviewed by management to ensure that they are in operation in areas other than those mentioned by the Auditor General.

The Committee recommends accordingly.

Emphasis of matters

I draw attention to the following matters:

Amendments to the applicable basis of accounting

50. The National Treasury approved a deviation from the basis of accounting applicable to municipalities on 29 June 2007, which granted the municipality exemption from the disclosure of the reporting standards contained in addendum A.
51. The municipality has elected to early adopt the requirement(s) in GRAP, GAMAP and / or SA GAAP, contained in addendum A, which were exempted in terms of General Notice 522 of 2007, in Government Gazette No. 30013 of 29 June 2007.

Management Comments:

The Auditor General Statement is confirmed.

Audit Committee Comments:

These matters are for the information of users of the financial statements and are simply statements of record.

Fruitless and wasteful expenditure

52. The municipality disclosed fruitless and wasteful expenditure of R442 399 relating to a second forensic investigation commissioned by the executive mayor on tender-related irregularities. This second investigation was not sanctioned by the council.”

Management Comments:

The disclosure of fruitless and wasteful expenditure in the Annual Financial Statements relates to Thabani Zulu investigation and report. Procedures are in place to recover the amount involved.

Audit Committee Comments:

While noting the comments of management, it appears that this finding arises from lapses within the governance processes. The Committee accordingly recommends that attention be given to how decisions relating to such matters are taken at an

administrative level to ensure that all actions have a legal basis .The lack of an appropriate documented system of delegations contributes to lapses within governance processes as set out under 20 – Internal Controls.

“Restatement of corresponding figures

53. As disclosed in note 36 to the financial statements, the corresponding figures for 30 June 2007 have been restated as a result of the additional deviations granted by the National Treasury during the year under review.

Management Comments:

The Auditor General Statement is confirmed.

Audit Committee Comments:

This matter is for the information of users of the financial statements and is simply a statement of record.

Notwithstanding, the complexities of the Accounting Standards are well known in the accounting field. Differences of opinions exist between role players, and it may therefore be prudent to consider the appointment of an expert to review the interpretation and application of the applicable standards to ensure that they are applied in a correct and consistent manner. Interaction between these experts and the Auditor General should also occur to ensure a common understanding and application to ensure that differences of opinion are minimised.

This would be a matter of policy for Council to consider following further input from the Chief Financial Officer.

“OTHER MATTERS

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

Internal controls

54. 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 that gave rise to the inefficiencies in the system of internal control, which led to the qualified opinion. The root causes are categorised according to the five components of an effective system of internal control. In some instances deficiencies exist in more than one internal control component.

Reporting item	Control environment	Risk assessment	Control activities	Information and communication	Monitoring
Creditors			√		√
Irregular expenditure			√		√
Inventory			√		√
Commitments			√		√
<p><u>Control environment</u>: establishes the foundation for the internal control system by providing fundamental discipline and structure for financial reporting.</p> <p><u>Risk assessment</u>: involves the identification and analysis by management of relevant financial reporting risks to achieve predetermined financial reporting objectives.</p> <p><u>Control activities</u>: policies, procedures and practices that ensure that management's financial reporting objectives are achieved and financial reporting risk mitigation strategies are carried out.</p> <p><u>Information and communication</u>: supports all other control components by communicating control responsibilities for financial reporting to employees and by providing financial reporting information in a form and time frame that allow people to carry out their financial reporting duties.</p> <p><u>Monitoring</u>: covers external oversight of internal controls over financial reporting by management or other parties outside the process; or the application of independent methodologies, like customised procedures or standard checklists, by employees within a process."</p>					

Management Comments:

Internal control is the responsibility of each Directorate and they are to ensure that proper control procedures are in place. A booklet detailing all relevant internal control procedures has been developed and circulated to all line managers for the necessary implementation thereof.

Audit Committee Comments:

The Committee concurs with the view of the Auditor General that the root cause of certain of the findings contained in the report are as a result of deficiencies relating to control and monitoring activities. The report refers in the main to control activities relating to financial objectives, but the Committee cautions that similar principles exist regarding operating processes e.g. service delivery objectives. The findings relating to performance information illustrate this principle.

While not mentioned specifically, the matter of delegations of power and authority are considered worth mention. The Committee is of the view that the lack of a comprehensive delegations framework has the potential to materially compromise the control environment.

While noting the preparation of a booklet relating to internal controls, which is considered to be a prudent action, it is considered that this is simply guidance. The booklet, while informative, simply sets out brief principles – it contains no concrete rules or further guidance. Officials need to take the process further by preparing appropriate documented internal control procedures otherwise the situation is not likely to improve.

The concern of the Committee is that the core issues identified relate to financial operations i.e. creditors, inventory and commitments, where such principles should be already established. While not downplaying the importance of the process in operational Departments the fact that they were not correctly applied in the financial operations raises certain concerns. Line managers in all departments, both financial and operational, need to be trained to implement the principles of internal control.

It is recommended that further training relating to the principles of internal control practices, including the documentation of appropriate standard operating procedures within Departments should be considered. This could also include the practice of supervision and monitoring.

The Committee accordingly recommends that management focus attention on the control areas listed by the Auditor General, most specifically on the systems or processes to be applied, supervision of the activities and the management oversight there over.

In addition, the Committee recommends that the delegations framework receive urgent attention as this is the basis from which certain internal controls can be exercised. Without it, internal controls may be compromised.

“Matters of governance

55. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

Matter of governance	Yes	No
Audit committee		
The municipality had an audit committee in operation throughout the financial year.	√	
The audit committee operates in accordance with approved written terms of reference.	√	
The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.	√	
Internal audit		
The municipality had an internal audit function in operation throughout the financial year.	√	
The internal audit function operates in terms of an approved internal audit plan.	√	
The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.	√	
Other matters of governance		
The annual financial statements were submitted for auditing as per the legislated deadlines (section 126 of the MFMA for municipalities and municipal entities)	√	
The annual report was submitted for the auditor for consideration prior to the date of the auditor’s report.		√
The financial statements submitted for auditing were not subject to any material amendments resulting from the audit.		√
No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.		√

Matter of governance	Yes	No
The prior year's external audit recommendations have been substantially implemented.		√
Implementation of Standards of Generally Recognised Accounting Practice (GRAP)		
The municipality submitted an implementation plan, detailing progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 30 October 2007.	√	
The municipality substantially complied with the implementation plan it submitted to the National Treasury and the relevant provincial treasury before 30 October 2007, detailing its progress towards full compliance with GRAP.	√	
The municipality submitted an implementation plan, detailing further progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 31 March 2008."	√	

Management Comments:

The Director: Executive Support Services has commented as follows:

The draft performance report will be ready in September of each financial year for inclusion in the draft annual report for consideration prior to the date of the auditor's report.

No other management comments have been received.

Audit Committee Comments:

The four [4] areas requiring attention are set out in the table above [part of the Auditor General's report]. The first finding, namely the Annual report will be commented on under the section relating to performance information. The alterations to the financial statements are understood to be as a result of the complexities of the standards and the comments set out under 19 above are relevant here as well.

The main concerns of the Committee are, however, the delays mentioned by the Auditor General and the actions taken regarding the prior years findings. The delays in providing information and feedback to the Auditor General impacted on their scheduled deadlines and therefore those of the Audit Committee as well. The Committee is therefore not satisfied with the control over the audit process. It appears to the Committee that the level of participation by senior management during the audit itself was not adequate and could possibly be improved. It was only once the draft report was prepared that management realised the problems and acted to deal therewith. This interaction should have commenced at an earlier stage.

It may be that additional Audit Steering Committee Meetings could assist with this process. However, this may not deal with the root cause of the delays and may create accountability / relationship problems. The Audit Work Group was established to deal with the day to day activities during the audit, and the problems experienced at that level e.g. lack of documentation or information, should have been escalated to the Audit Steering Committee where management should have taken immediate action. The Auditor General raised these warnings during Audit Steering Committee meetings.

The matter is, however, one for management to address in the most appropriate manner they see fit and the Committee accordingly recommends that management consider the most cost effective solution thereto, at the same time ensuring that accountability is maintained. The involvement of senior management in the audit process should also be reconsidered.

“OTHER REPORTING RESPONSIBILITIES

REPORT ON PERFORMANCE INFORMATION

56. I have reviewed the performance information as set out on pages [xx] to [xx].

Responsibility of the accounting officer for the performance information

57. 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).

Responsibility of the Auditor-General

58. I conducted my engagement in accordance with section 13 of the PAA read with General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008 and section 45 of the MSA.

59. 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.

60. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit findings (performance information)”

Management Comments:

It is the considered opinion of the Director that negative findings in the AG Audit Report are symptoms of a far more fundamental challenge relating to a shared understanding, within BCM and between BCM and the AG offices (as a key stakeholder/partner in this regard) of an approach to performance management in theory and in its execution.

Without a high level change management exercise in BCM in consultation with the AG office it is not possible for the Director to give timelines for improvement in the areas of concern. A fundamental challenge in this regard is the misplaced notion that performance management is driven from the Directorate in its totality rather than a broad agreement that performance management is a generic line function of all levels of management and a key competence in that regard.

Audit Committee Comments:

At the outset, it is necessary to indicate that the Committee has expressed serious reservations in writing regarding the functionality of the Performance Management System as well as its operations. The Committee in fact considers the Performance Management System to be materially flawed and non functional. These concerns are now endorsed by the Auditor General.

Given that the Auditor General will, in future, issue a report on Performance Information which may give rise to a qualification in the financial year 2008 / 2009, it is recommended that management give serious attention to the underlying flaws in the current Performance Management System. Particular attention should be given to the Institutional Scorecard which is intended to measure the achievement of objectives laid out in the Integrated Development Plan. If this is not done, then the likelihood of a qualification relating to Performance Information cannot be ruled out. The scorecard is assessed by the Committee as inadequate, and for all practical purposes, non functional.

Regarding the matter of a draft annual report, the Committee is of the view that the data required for inclusion therein should be information arising from the Directorates normal course of business. The process for the preparation of the Annual Report was discussed by the Oversight Council appointed by Council early in 2008. If the recommendations of that Committee are implemented, it is envisaged that the preparation of the report could be simplified. This, however, is not a substitute for refining the current Institutional Scorecard.

The Committee accordingly recommends that the findings of the Council's Oversight Committee should be revisited to ensure the timely completion of a draft Annual Report and that the Performance Management System also be reviewed - in particular the Institutional Scorecard.

The Committee also concurs with the view of the Director that a change management process is urgently required. While accepting this suggestion, the Committee cautions that such a process would have to include the rationale for the Performance Management System as well as its operation. It appears to the Committee that there is an incomplete understanding relating to the Performance Management System as tested by the Auditor General. This part of the system is intended to track the achievement of the objectives set in the Integrated Development Plan and not the activities of individuals. The performance of individuals is measured at another level. The Committee submits that if these distinctions cannot be dealt with, then a change management process is unlikely to deliver on its objective.

The Committee, however, is not in a position to recommend a change management process without knowing its terms of reference.

“Non-compliance with regulatory requirements

61. Section 46(1) (c) of the Municipal Systems Act, 2000 (Act No.32 of 2000) requires that a municipality prepares a performance report reflecting measures to improve performance. When the performance report was inspected it was noted that for some of the targets which were not achieved there was no explanation in the performance report stating what measures the municipality has put in place to improve performance.”

Management Comments:

The review of the Institutional Performance Management Policy has been included as a target for the 2008/9 financial year which will include the roles and responsibilities of all relevant stakeholders within and outside the institution, specific information relating to planning, measurement, monitoring and reporting standards.

Audit Committee Comments:

The Committee notes and concurs with the findings of the Auditor General. While noting the comments of management, the processes to actually implement the framework appear to be the main issue. The framework currently refers to the matters raised by

management and it is not clear that a review at that level will solve the problem. It appears to the Committee that the principles set out in the framework require to be developed into operational activities and be applied.

A change management process, if correctly scoped, could assist by developing a common understanding of the Performance Management System [as tested by the Auditor General] which could then serve as a platform for the actual implementation of the system.

“Measurable objectives not consistent

62. Section 9(1)(a) of the Municipal Planning and Performance Management Regulations requires that a municipality set key performance indicators, including input indicators, output indicators and outcome indicators in respect of each of the development and objectives. Several key performance indicators in the integrated development plan (IDP) of the municipality did not contain input, output or outcome indicators.”

Management Comments:

Framework will elucidate how the indicators will be prepared to meet the requirements of legislation. Further a common understanding amongst Directors relating to the formulation of indicators - target date June 2009.

Audit Committee Comments:

The Committee notes and concurs with the findings of the Auditor General. The written reports of the Audit Committee highlight this failing in the current Institutional Scorecard. Detailed reports on this matter have been submitted to management by the internal audit unit and the findings of these reports should be seriously considered by management to assist in dealing with this matter. The matters highlighted over the past two [2] financial years by the Auditor General and the internal audit unit appear to have received limited or minimal management attention. The framework currently refers to the matters raised by management and it is not clear that a review at that level will solve the problem. It appears to the Committee that the principles set out in the framework require to be developed into operational activities and be applied.

The Committee recommends that management review the reports of the internal audit unit and implement the recommendations contained therein.

“Lack of sufficient appropriate audit evidence

63. I was unable to obtain sufficient appropriate audit evidence in relation to the performance information of the Buffalo City Municipality, as I was unable to obtain access to the records pertaining to the programmes/objectives/key performance indicators.”

Management Comments:

Framework / Policy does not indicate how evidence will be kept / filled. The departments will be encouraged to keep their own evidence on a quarterly basis. The unit will make an effort to get departments to file evidence on the fourth quarter 2008/9.

Audit Committee Comments:

The Committee notes and concurs with the findings of the Auditor General. The written reports of the Audit Committee highlight this failing in the current Institutional Scorecard. Detailed reports on this matter have been submitted to management by the internal audit

unit and the findings of these reports should be seriously considered by management to assist in dealing with this matter. The matters highlighted over the past two [2] financial years by the Auditor General and the internal audit unit appear to have received limited or minimal management attention. The framework currently refers to the matters raised by management and it is not clear that a review at that level will solve the problem. It appears to the Committee that the principles set out in the framework require to be developed into operational activities and be applied.

The Committee recommends that management review the reports of the internal audit unit and implement the recommendations contained therein.

“Changes to planned performance information not approved

64. Changes to the outputs/measures/indicators/targets in the current year’s IDP were not approved.”

Management Comments:

Changes / alterations to strategies and indicators during the IDP and institutional scorecard review will be submitted to council for approval.

Audit Committee Comments:

The Committee notes with concern the findings of the Auditor General that the provisions of the legislation regarding amendments to the Integrated Development Plan have not been complied with. The framework currently refers to the matters raised. It appears to the Committee that the principles set out in the framework require to be developed into operational activities and be applied.

The Committee is of the view that this failure is symptomatic of other underlying issues relating to the formulation of the Integrated Development Plan. The change management process may be of assistance in this regard. However, the Committee is of the view that substantial changes should be duly motivated.

“Investigations”

Audit Committee Comments:

The Audit Committee notes the various investigations being conducted. While accepting that fraud within an institution cannot be eliminated, it is important that there be clear processes to deal with fraud and fraud risk issues. The Committee has raised this matter with management but remains concerned that it appears that it is not receiving the level of attention which the Committee considers appropriate. The Committee wishes to stress that these matters do not fall under the internal audit activity and are management tasks.

The Audit Committee notes the matter and recommends that the processes of fraud, risk and fraud risk issues should be elevated within the institution to create a disincentive. The Committee also cautions that in the current economic situation, the likelihood of fraud related issues will surely increase. Management needs to strengthen supervisory and related monitoring controls to create a disincentive.

It is also vital that the internal audit activity be strengthened and the Committee recommends accordingly.

The Committee accordingly recommends that urgent attention be given to the functions of risk, fraud risk and fraud.

65. "An investigation was being conducted by an independent consultancy firm on request of the municipality to determine if any material procedural irregularities occurred during the evaluation and awarding of the bids for the operation of waste sites and the implementation of waste management by-laws. A forensic report has been completed and referred to the council for consideration. The investigation was still ongoing at the reporting date but criminal action was being considered.

Management Comments:

This relates to Gobodo Forensic Services which Council has already actioned.

Audit Committee Comments:

The Audit Committee notes the matter and recommends that this matter be dealt with as expeditiously as is practical.

66. An investigation was being conducted to determine if any material procedural irregularities occurred during the evaluation and award of the bid of the grass-cutting contract and if all awards were made through the formal bid process. In addition, the excess value incurred on this contract was the subject of further investigation. There was no clarity at the reporting date on whether or not criminal or civil action would be taken.

Management Comments:

This relates to the Forensic investigation undertaken by Deloitte which is being addressed by Council.

Audit Committee Comments:

The Audit Committee notes the matter and recommends that this matter be dealt with as expeditiously as is practical.

67. An investigation was being conducted on allegations of theft of copper from cables in the municipal stores. The purpose of this investigation was to determine if any officials of the municipality were involved with the sale of copper to scrap merchants. Officials have been suspended but at the reporting date no criminal action had been considered.

Management Comments:

Line Departments have been requested to take necessary disciplinary action.

Audit Committee Comments:

The Audit Committee notes the matter and recommends that this matter be dealt with as expeditiously as is practical.

68. Several other cases of irregularities were being investigated but at the time of the audit it was not clear whether they could be considered to be material in nature, i.e. cases of minor theft or damage to municipal property."

Management Comments:

Management is not able to comment in this instance as insufficient details have been provided.

Audit Committee Comments:

The Audit Committee notes that the finding refers to “cases of minor theft or damage to municipal property” which can not for practical reasons be elaborated on. Never the less, it is clear that the Auditor General wishes to caution that a number of cases of irregularities are on record.

The Audit Committee cautions that in the current economic situation, the likelihood of fraud related issues will surely increase. Management needs to strengthen supervisory and related monitoring controls to create a disincentive.

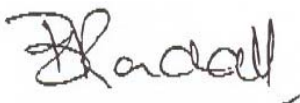
It is also vital that the internal audit activity be strengthened and the Committee recommends accordingly.

The Committee accordingly recommends that urgent attention be given to the functions of risk, fraud risk and fraud.

RECOMMENDATIONS

*Having considered the above matters the Committee accordingly **RECOMMENDS***

- 1. That the report of the Auditor General on the Group Financial Statements and Performance Information of Buffalo City Municipality for the year ended 30 June 2008 be accepted by Council.*
- 2. That the comments of Management as set out in the report to the Audit Committee meeting held on 11 December 2008 be noted by Council.*
- 3. That the concerns of the Audit Committee as set out in the report of the Acting Chair person of the Audit Committee be noted by Council.*
- 4. That the recommendations embodied in the report of the Acting Chair person of the Audit Committee be included as formal recommendations of the Council.*
- 5. That the concerns of the Audit Committee relating to Performance Information be noted by Council.*
- 6. That appropriate measures be introduced to ensure compliance with the legislation, including the formulation of well constructed measurement tools [indicators and data sets] for the Performance Management System.*



**B RANDALL
ACTING CHAIRPERSON
BUFFALO CITY: AUDIT COMMITTEE.**

4.8 GOVERNANCE MATTERS: INTERNAL AUDIT REPORT OF THE ACTING CHAIRPERSON OF THE AUDIT COMMITTEE

ANNUAL REPORT OF THE AUDIT COMMITTEE FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

INTRODUCTION

In terms of section 166 [1] of the Local Government: Municipal Finance Management Act, No. 56 of 2003 the municipality and each of the municipal entities must have an audit committee.

In terms of legislation an audit committee is an independent advisory body appointed by the Council which must —

advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality, or the board of directors, the accounting officer and the management staff of the municipal entity, on matters relating to, inter alia, internal financial control and internal audits, risk management, accounting policies, the adequacy, reliability and accuracy of financial reporting and information, performance management, effective governance, compliance with the Local Government: Municipal Finance Management Act, the annual Division of Revenue Act and any other applicable legislation and performance evaluation.

The Committee is, in addition, required to review the annual financial statements to provide the council of the municipality and, in the case of a municipal entity, the council of the parent municipality and the board of directors of the entity, with an authoritative and credible view of the financial position of the municipality or municipal entity, its efficiency and effectiveness and its overall level of compliance with the Local Government: Municipal Finance Management Act and any other applicable legislation and should respond to the council on any issues raised by the Auditor-General in the audit report.

The Audit Committee is required to report in the Annual Report of the Municipality on their perception of the overall control environment and whether or not they consider that the Annual Financial statements should be accepted by the Council.

APPOINTMENT OF AUDIT COMMITTEE

The Audit Committee was appointed by Council following recommendation by the Executive Mayor.

The members of the Audit Committee during the period under review were:

Member	Position
Mr. Chris Guest (Chairperson)	Chairperson [Resigned December 2007.]
Ms. Brechtje Randall	Acting Chairperson [January 2008.]
Ms. Patience Phindiwe Ndamase	Member
Mr. Dumisani Sonamzi	Member

A vacancy exists on the Committee and the recommendation is that the vacancy be filled as soon as is possible to enable the Committee to more effectively carry out its mandate.

TERMS OF REFERENCE OF AUDIT COMMITTEE

The Audit Committee has adopted appropriate terms of reference which are encapsulated in an Audit Committee Charter, approved by Council. The committee has, in addition, approved an internal audit charter which regulates the operations of the Internal Audit unit.

The Audit Committee is also the Performance Audit Committee of the Municipality as well as the Audit Committee for the one Municipal entity, the Buffalo City Development Agency.

MEETINGS OF THE COMMITTEE

The Audit Committee convened regularly during the financial year.

Date	C Guest *	B Randall	P Ndamase	D Sonamzi
2 August 2007.	√	√	√	√
6 September 2007. [Special private meeting]	√	√	√	√
1 November 2007.	√	√	√	√
3 November 2007. [Special private meeting]	√	√	√	Apology
14 December 2007	√	√	√	√
6 February 2008	N/A	√	√	√
30 May 2008	N/A	√	√	Apology
Total	5/5	7/7	7/7	5/7

The Accounting Officer [Municipal Manager] attended and participated in Audit Committee meetings.

Members of the Committee sat on other official Committees as follows:

Date	Event
25 July 2007	Audit Readiness meeting
20 August 2007	Credit Control Policy seminar
22 February 2008.	Committee appointed to consider the payment of bonuses to Contract General Managers.
28 February 2008	Oversight Committee appointed to consider the Annual Report.
12-13 March 2008	Oversight Committee appointed to consider the Annual Report.
26 March 2008	Oversight Committee appointed to consider the Annual Report.
31 March 2008	Council Meeting
25 April 2008	Oversight Committee appointed to consider the Annual Report.
26 May 2008	Audit Steering Committee
28 May 2008	Private meeting with Manager: Internal Audit to discuss the process followed for Bonus Moderation.
29 May 2008	Council Meeting

* The Chairperson, Mr C Guest, resigned in December 2007 to take up a position in the United Arab Emirate. Ms B Randall was appointed as Acting Chairperson in January 2008.

EFFECTIVENESS OF INTERNAL CONTROL

The Manager: Internal Audit reports operationally to the Audit Committee. The Audit Committee has reviewed reports from the Internal Audit Unit in terms of the approved internal audit plan. Based on our evaluation of the work of the Internal Audit Unit, as well as feedback received from the Office of the Auditor-General, the Committee is of the opinion that the control environment requires to be reinforced to ensure that a generally sound system of internal control exists. The findings of reports from the Internal Audit Unit, as well as the unfortunate recent press releases, give rise to the unfortunate view that the control environment is currently stressed. Follow up reviews have, in addition, revealed that management actions proposed in response to findings contained in internal audit reports have not in all cases been implemented. Control weaknesses identified by the internal audit unit and the Auditor-General require to be addressed by management, specifically in the areas of monitoring, review and reconciliations. Supervisory control is also identified as a control weakness which requires attention by management. The importance of the findings contained in these reports to management should not be down played.

The Committee is therefore of the opinion that the control environment within many sections of the Municipality is currently stressed and that a concerted effort should be put in place to deal with this situation. A failure to do so may result in further audit qualifications. The Supply Chain Management System in particular is considered to present substantial reputation and service delivery risks and requires urgent interventions to bring it back on course.

RISK MANAGEMENT, FRAUD AND LOSS CONTROL

No formal risk assessment exercise was performed by management during the period under review. The original risk assessment performed in June 2005 therefore essentially remains in place. There has been no update of this assessment which is now considered to be outdated and in urgent need of revision as evidenced by the comments under the effectiveness of internal control. The lack of a formalized Policy or Framework to co-ordinate, control and monitor risks prevalent in the institution is a contributing factor.

While a draft Risk Management Framework was compiled late in the year under review, this Framework, while sound in many respects is considered not to be aligned with the structure of the Municipality, or its key activities – a point stressed by the Manager: Internal Audit who prepared the draft Framework at short notice. While efforts have been made to provide some form of Risk Management structure, the lack of ownership of the process by senior management appears to be a major reason for the process not becoming embedded within the institution. A high level champion is required to manage the process and ensure that it becomes embedded within the organizational culture. An annual risk assessment exercise is considered to be an important informant of the Integrated Development Planning process.

While certain Departments may have performed individual and specific risk assessments at varying levels, the principle of enterprise wide integrated risk assessment, based on a uniform standard, is not apparent.

The committee therefore reports that the principles of effective risk management appear not to be apparent in the institution. The lack of this important process is considered to be one of the root causes of certain of the unfortunate instances reported on by the Auditor General. To improve this situation it is important that the Municipal Manager and Directors assume the role of risk champions. If this is not done, then it is unlikely that the principles of risk management will become embedded within the Municipality.

Regarding Fraud, the existing Fraud Policy does not meet the expectations of the Audit Committee. While a revised draft has been prepared there is no ownership of this vital process. In these current difficult times, fraud risks escalate and need to be effectively managed.

The committee reports that an effective fraud mitigation strategy is not apparent in the institution. It is considered that the instances reported on by the Auditor General may be but the “tip of an ice berg”. Without an effective strategy to identify, investigate and prosecute fraud, there will be no disincentive to those bent on fraud. It is therefore important that the Municipal Manager and Directors assume a proactive role in this matter. If this is not done, then the likelihood of further cases of fraud can not be ruled out.

PERFORMANCE MANAGEMENT

Institutional

The Audit Committee has reviewed the quarterly reports from the Internal Audit Unit and reports that a performance management system has been approved by Council and measurements against this system were performed.

The quarterly reports of the internal audit unit relating to the performance management system, however, conclude that attention needs to be given specifically to the determination of indicators and the measurement thereof. The reports laid before the Committee indicate that considerably more attention requires to be given to the indicators and targets set out in the institutional scorecard as many did not meet the expected criteria of being specific or measurable. Where measurements were performed, many indicators were either inadequately or inaccurately measured. This mitigates against the use of the system as a tool to assist with the review of the Integrated Development Plan. In addition, it is not clear that the objectives and strategies contained in the Integrated Development Plan are correctly structured which in turn gives rise to misaligned or inappropriate indicators.

The Audit Committee expresses concern that the findings contained in reports in the current year are not substantially different to those reported in the previous year. The Committee is therefore concerned that the findings are not being adequately considered and dealt with, resulting in the continuation of a system which is not operationally effective and not in compliance with the requirements of legislation. The discussion on this matter at Audit Committee Meetings gives rise to an impression that the Performance Management System and its associated measurement is the responsibility of the Integrated Development Planning Unit. It is important that this observation be dealt with, lest it result in an audit qualification in the financial year 2008 / 2009. For the financial year 2008 / 2009, the Auditor General will express an opinion on the Performance Management system. Based on the review for the financial year 2007 /2008 the prognosis is not favourable. It is therefore important that the Municipal Manager and Directors pay close attention to this matter to avoid an audit qualification.

The Committee is therefore of the opinion that the institutional performance management system was not functional during the period under review and this has resulted in the Council and stakeholders not being in a position to accurately measure the performance of the municipality against predetermined and agreed targets as required by legislation.

Individual

A member of the Committee attended at the Moderation Committee appointed to review the performance bonuses paid to senior staff. The limitations of this process are such that while it appears that every effort was made to approach the matter in a diligent manner, the

construction of certain of the indicators and the lack of specific evidence to support measurements mitigates against the result.

The concern exists that the process was used essentially to deal with the matter of bonuses payable. The view is expressed that the management of performance and the payment of bonuses should, to the extent possible, be separated. As matters currently stand, the process is complicated by the emotions of those being evaluated for the purpose of payment of a bonus; an understandable response.

The Committee, while noting the outcome, records that it can give no assurance on this matter.

INTERNAL AUDIT PLAN

The staff situation in the unit is severely strained. A complement of only five operational Internal Auditors, which includes the Manager, cannot hope to adequately serve the interests of the institution. Difficulties in attracting appropriate staff complicate this matter further. As a result the Internal Audit Plan for the year had to be curtailed. Nevertheless, the Committee is satisfied with the progress being made by the Internal Audit Unit. The quality of reports is high and add value to the operations of the Municipality.

The current staff situation complicates efforts to comply with the Standards of the Institute of Internal Auditors and a caution is issued that the operations of the Internal Audit Unit are not sustainable with the current staff levels. Unless additional resources are allocated to the Internal Audit Unit, the Unit will not be in a position to continue to deliver on its mandate. The overall control environment within the institution is then likely to decline further, increasing the risks associated therewith. As a result, the strategic development of the unit is compromised. As an aspirant Metro, it is considered that the time has now come for the required resources to be allocated to the Unit to enable it to better perform its mandate.

The Internal Audit Unit does not currently utilize the wording “work conducted in accordance with the Standards of the Institute of Internal Auditors” as no external assessment has been conducted.

EVALUATION OF FINANCIAL STATEMENTS

The Audit Committee reports that the annual financial statements for the year under review were compiled as required by legislation and were submitted to the Auditor General for statutory examination. The Committee expresses concern that the Auditor General appears to have experienced problems in obtaining certain information necessary for their review purposes. This provides further evidence of a stressed control environment.

The Audit Committee was engaged with the Audit Steering Committee during the Audit process. The Audit Committee has considered the Auditor-General’s Report and concurs with the findings. While noting the responses received from management, which comments are considered to be only partially acceptable, the Committee stresses the need for further detailed interventions to deal with the underlying causes. The Committee accepts the conclusions of the Auditor-General on the Annual Financial Statements and is of the opinion that the audited annual financial statements should be accepted and read together with the report of the Auditor-General, the report of the Municipal Manager to the Audit Committee meeting held on 11 December 2008 and the Audit Committee’s report to Council.

The findings of the Committee in this regard were tabled in a separate report to the Council and will be submitted to the Council’s Oversight Committee.

COMPLIANCE WITH LEGISLATION

The Audit Committee considered a report from the internal audit unit relating to compliance with selected provisions of legislation. In general, the Committee is satisfied that management has adopted a proactive approach to compliance issues, more specifically those requirements set out in the principle pieces of legislation, namely the Local Government: Municipal Structures Act, the Local Government: Municipal Systems Act and the Local Government: Municipal Finance Management Act. Notwithstanding, concern is expressed regarding the lack of appropriate operating delegations from the Accounting Officer to Senior Managers and from these Senior Managers to operational levels. It is apparent that an appropriate delegations framework is not in place. The risks associated with a failure to set appropriate delegations include possible legal challenges, as well as actions not aligned with the objectives of Council which may have a negative impact on service delivery. The matters appearing in the press are sufficient evidence of this.

Other important issues reported include processes to give effect to transparent systems of governance including the lack of a process to manage potential conflicts of interest through declarations and gifts registers. Allied with this, operations of the Bid Evaluation Committee, in particular, revealed unfavourable findings regarding the quality of reports submitted for consideration. The operations of the bid committees were compromised through poor quality reports as well as capacity within the Bid Committees. Accordingly, the Committee considers procurement operations to be a material risk.

A report on Loss Control, considered in the previous year, indicated that while there was an awareness of legislation relating to operational loss control activities, not all loss control activities were receiving appropriate attention. It is understood that in certain cases, the availability of resources is a challenge. These matters include occupational health and safety, data security for stand alone computers, etc. These matters pose substantial risks for the institution.

These assessments provide further indications that the control environment is currently stressed.

REPORTS BY THE COMMITTEE

During the year, the Audit Committee submitted quarterly progress reports to the Executive Mayor on the operations of the Audit Committee and the Internal Audit Unit. Bi-annual reports on the Performance Management System were, as required by legislation, submitted to the Executive Mayor for tabling in Council.

BUFFALO CITY DEVELOPMENT AGENCY

The Buffalo City Development Agency [an entity] did not have an internal audit activity during the year. The Internal Audit Unit of the parent Municipality does not have the resources to support the entity. Consequently, the Agency outsourced this activity. A report on this assignment [largely a follow up on an assignment conducted in the previous year] was considered by the Audit Committee after the close of the financial year. This report revealed that bid as well as leave processes pose certain risks.

The Committee is of the view that the Management of the entity should be more proactive in this regard and ensure that appropriate internal audit and related reviews are conducted at regular intervals. This is a matter of concern which the Audit Committee will pursue in early 2009.

MANAGEMENT ASSURANCES

Other than for the report relating to the report of the Auditor General, Management provided no other assurances relating to the status of controls within the institution. This is a matter of concern which the Audit Committee will pursue in early 2009.

APPRECIATION

The Committee expresses its sincere appreciation to the Council, Executive Mayor, Accounting Officer [Municipal Manager], Directors and General Managers, as well as other management officials, for their support and interest in the activities of the Committee during the year under review. The support and advice of the Business Executive of the Provincial Office of the Auditor – General, Mr. Singa Ngqwala and his staff is also acknowledged as are the untiring efforts of my committee members in furthering the cause of effective corporate governance and sound accountability within Buffalo City Municipality. Special thanks must also be extended to Mr. C R Guest, the Chairperson for part of the year, for the way in which he managed and developed the newly appointed Committee.

Appreciation is also extended to the staff who minuted meetings of the Committee.

A special word of appreciation is extended to Mr. Geoff Walton and his staff in the Internal Audit unit for their steadfast efforts during the year under review, despite the limited resources at their disposal.



**B RANDALL
ACTING CHAIRPERSON
BUFFALO CITY AUDIT COMMITTEE**

INTERNAL AUDIT PLAN 2007/2010

INTRODUCTION

The Institute of Internal Auditors (IIA) defines internal auditing as follows:

“..... an independent, objective assurance and consulting activity designed to add value and improve organizations operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

PURPOSE

This document sets out the Internal Audit Plan for the period 2007/8 to 2009/10 for consideration and approval by the Audit Committee. The plan incorporates:

- Annual Internal Audit Plan for the financial year ending 30 June 2008
- Strategic Three-year rolling Internal Audit Plan

The Internal Audit Plan was designed to provide an independent, objective assurance and advisory / consulting service, in an efficient and effective manner, to the following key stakeholders:

- The Audit Committee;
- The Accounting Officer
- Top Management Team; and
- Line Management.

The overall approach was to formulate a risk-based plan to align the priorities of the Internal Audit Unit with the strategic objectives and goals of the Buffalo City Municipality and the related strategic and major business risks as identified by management.

INTERNAL AUDIT – ROLE AND RESPONSIBILITIES

The Internal Audit Unit evaluates and contributes to the improvement of risk management, control and governance systems.

Governance

The Internal Audit Unit assists Management in achieving the goals of the Buffalo City Municipality by evaluating the process through which:

- Goals and values are established and communicated.
- Risk and control information is communicated.
- The accomplishment of goals is monitored (Municipal performance)
- Accountability is ensured and corporate ethics and values are preserved.

Risk Management

Internal Audit Unit assists Buffalo City Municipality in facilitating the risk management process. This includes assisting management in identifying, evaluating and assessing significant strategic and organizational risks, and the monitoring thereof.

Controls

The Internal Audit Unit evaluates the internal controls upon which management relies to mitigate the risks to acceptable levels, to determine if they are appropriate and function as intended and develops recommendations for enhancements or improvements to the control environment.

The Internal Audit unit is authorized to:

- Have unrestricted access to all functions, records, property and personnel of the Buffalo City Municipality.
- Have full and uninhibited access to the Audit Committee.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- Obtain the necessary assistance of personnel, Directorates and Departments of Buffalo City Municipality where they perform reviews, as well as other specialized services from within or outside the municipality.

The Internal Audit Unit is not authorized to:

- Perform any operational duties for Buffalo City Municipality
- Initiate or approve accounting transactions external to the Internal Audit Unit.
- Direct the activities of any municipal employee not employed by the Internal Audit Unit, except to the extent that such employees may have been assigned to auditing teams or to otherwise assist the internal auditors in carrying out investigations.

The Internal audit Unit will conduct audits in accordance with the “*Code of Ethics*” and “*Standard for the Professional Practice of Internal Auditing*” of the Institute of Internal Auditors as well as relevant Municipal legislations.

Other internal audit responsibilities / activities

Additional internal audit activities include:

Planning and reporting

Planning and reporting activities of the Internal Audit Unit include amongst others:

- Preparation of a detailed annual internal audit plan;
- Liaison with management, external auditors and key stakeholders;
- Reporting to the Audit Committee and management.

Project management

Project management activities of the Internal Audit Unit include amongst others:

- Organizing and directing internal audit staff.
- Review of working papers and reports;
- Monitoring actual activities against plan; and
- Quality assurance reviews.

Consulting services

Advisory or consulting service activities of the Internal Audit Unit include amongst others;

- Providing assistance and expertise on either newly developed systems or improving current systems;
- Assisting management with facilitation of risk assessments and implementation of a formal system of risk management; and
- Act as a “sounding board” to management for ad-hoc projects.

Management responsibilities

Management is responsible for the establishment and maintenance of effective systems of governance, risk management and internal control.

The objectives of the system of internal control are, *inter alia*, to provide management with reasonable, but not absolute, assurance that:

- Risks are properly managed,
- Assets are safeguarded,
- Financial and operational information is reliable,
- Operations are effective and efficient, and
- Laws, regulations and contracts are complied with.

The principal safeguard against fraud, misstatement and irregularities is an effective system of internal control. It must, however, be recognized that there are inherent limitations in any system of internal control – including human error and circumventions through collusion. The prevention and detection of fraud is a management responsibility.

STATUTORY AUDIT/WORK 2007/2008

1.1 Institutional Performance in accordance with the I D P

<p>Audit Objectives/Approach:</p> <p>[Four [4] audits are required during the year]</p> <p>The purpose of this audit is to determine</p> <ul style="list-style-type: none"> • the level of compliance with legislation • the functionality and reliability of the Performance Management System • the adequacy and effectiveness of controls instituted to ensure the completeness and reliability of information used to measure performance indicators in accordance with the Municipal Systems Act and the Performance Management Regulations. 	<p>These audits are complicated, to an extent subjective, and emotionally charged.</p> <p>Estimated 5 weeks per audit per audit = 20 weeks plus reporting of 4 weeks</p> <p>1 000 hours</p>
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1.2 Compliance with MFMA / MSA / MStA and other applicable legislation

<p>Audit Objectives/Approach</p> <p>The purpose of this audit is to determine</p> <ul style="list-style-type: none"> • the level of compliance with the selected provisions of the MFMA and related regulations. 	<p>Estimated time for completion 8 weeks.</p> <p>400 hours</p>
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1.3 DORA

<p>Audit Objectives/Approach</p> <p>The purpose of this audit is to determine</p> <ul style="list-style-type: none"> • the adequacy and effectiveness of internal controls over the accounting for and use of funds allocated by other spheres of Government. 	<p>400 hours</p>
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1.5 Auditor General's Report [ongoing work] and follow ups as required by Department of Housing, Local Government and Traditional Affairs

<p>This work will focus on the presentation of the Auditor General's report to the Audit Committee and Council.</p>	<p>480 hours</p>
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1.6 Audit Committee Support [ongoing work]

<p>This work will concentrate on providing the Audit Committee with ongoing advice and service.</p>	<p>300 hours</p>
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1.7 Staff Training	
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Training.	850 hours
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Total.	3430 hours
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2 Audits taken from the Risk Register of Buffalo City Municipality.
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2.1 Account Processing

<p>The purpose of this audit is to determine the adequacy and effectiveness of internal controls over.</p> <ul style="list-style-type: none"> • Opening Accounts • Standing data • Data Amendments • Meter Reading • Authorizing of input • Journal Vouchers • Interest • R D cheques • Balancing of input • Deposits & guarantees • Credits etc • Vote balancing • Statistics • Reconciliation statement • Meter readings complete • Meter Changes • Private works [Sundries] • Sewer/elect/water call outs • Administration of Estates • Tariffs • Customer care 	1 000 hours
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2.2 Receipting and Reconciliation
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<p>Audit Objectives/Approach</p> <p>The purpose of this audit is to determine</p> <ul style="list-style-type: none"> • management and physical control of cash and negotiable items. • the reliability of internal controls relating to receipting, balancing and depositing of cash [control, accounting, and processing of cash related transactions] • safeguards against waste, loss, unauthorized use and misappropriation, • systems to ensure all cash receipted is correctly 	800 hours
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<p>uploaded and balanced to the ledgers and accounts</p> <ul style="list-style-type: none"> • Cash pick up procedures [to determine the extent of the controls over the collection of Municipal funds by both private contractors as well as Municipal officials and compliance by Directorates therewith.] • Opening of mail / Crossing of cheques • Manual receipts • Rolling of Cash • Safes and Strong rooms • Key control • Cash in transit • Security in Banking hall <p>Risk level</p> <p>The risk level is high, and the value is high.</p>	
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2.3 Procurement, Contract administration and Reconciliation of Creditors

<p>Audit Objectives/Approach</p> <p>The purpose of this audit is to determine</p> <ul style="list-style-type: none"> • the adequacy and effectiveness of internal controls over the procurement procedures. • the review of procedures and systems involved in contracts and consultancy appointments, • the review of contract agreements, solicitation and competitive bidding, awarding, contract administration, payment certificates, compliance with contractual terms, retention etc. • Management and physical control of creditor's payments and reconciliations as well as internal controls which ensure prompt reconciliations, reviews, and managerial oversight. <p>Risk level</p> <p>The risk level is high, and the value is high</p>	<p>500 hours</p>
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2.4 Internal Control Review - Human Resources System

<p>Audit Objectives/Approach</p> <p>The purpose of this audit is to determine</p> <ul style="list-style-type: none"> • an evaluation of the controls including input controls over data received for processing, proper authorisation, reasonable assurance that data processing has been performed as intended for 	<p>1 000 hours</p>
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<p>the particular application, that all transactions are processed as authorized, that no authorized transactions are omitted, and that no unauthorized transactions are added.</p> <ul style="list-style-type: none"> • Internal controls over leave applications and recording. • Staff terminations - adequacy and effectiveness of internal controls over staff terminations • Staff induction - the adequacy and effectiveness of induction procedures followed for newly appointed staff. • Issue and recovery of identity cards. <p>Risk level</p> <p>The risk level is high, and the value is high</p>	
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Total.	3300 hours
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3 Audits taken from management requests
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3.1 Stock take

<p>Audit Objectives/Approach</p> <p>The purpose of this audit is to determine</p> <ul style="list-style-type: none"> • the adequacy and effectiveness of internal controls over the stock take procedure. <p>Risk level</p> <p>The risk level is moderate, but the value is high</p>	300 hours
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Total.	300 hours
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4 Follow up audits

4.1 Pharmacy

<p>Audit Objectives/Approach</p> <p>The purpose of this audit is to</p> <ul style="list-style-type: none"> • follow up on the implementation of findings relating to the Pharmacy. <p>Risk level</p>	240 hours
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The risk level is high and the value is moderate.

4.2 Fresh Produce Market

Audit Objectives/Approach:

The purpose of this audit is to

- follow up on the implementation of findings relating to the Fresh Produce Market.

Risk level

The risk level is moderate, but the value is high.

300 hours

4.3 Swimming Pools

Audit Objectives/Approach:

The purpose of this audit is to

- follow up on the implementation of findings relating to the Swimming Pools.

Risk level

The risk level is moderate, but the value is high.

240 hours

4.4 Supply Chain Management

Audit Objectives/Approach:

The purpose of this audit is to

- follow up on the implementation of findings relating to the Supply Chain Management System including Bid Committees.

Risk level

The risk level is moderate, but the value is high.

800 hours

4.5 Gonubie Resort

Audit Objectives/Approach:

The purpose of this audit is to

- follow up on the implementation of findings relating to the Gonubie Resort.

300 hours

Risk level	
The risk level is moderate, but the value is high.	

Total.	1880 hours
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5 Consultancy and Advisory Services.

5.1 Risk Assessment and Management

Audit Objectives/Approach:	480 hours
<p>The purpose of this assignment is to</p> <ul style="list-style-type: none"> assist and facilitate at Risk Assessment workshops initiated by Management to identify strategic, operational and process risks for inclusion in the Risk Register. 	

5.3 Anti Fraud Strategy.

Audit Objectives/Approach	200 hours
<p>This purpose of this assignment is to</p> <ul style="list-style-type: none"> assist management with the development of an anti fraud strategy and educate officials thereon. 	
Risk level	
The risk level is high, and the value is high.	

Total.	680 hours
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6 Special investigations

As may be required and approved by the Audit Committee.	
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Total.	400 hours
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Total time available [based on 100% of staff]	10 074 hours
Project time	9 990 hours

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NOTE.

The implementation of the above work is reliant upon the appointment of qualified staff to prepare and perform the audit work.

All time based on one person for the period stipulated.

It must be noted that no programs currently exist for the work to be performed [save for the Institutional Performance Management System] and these will require time for development.

Alignment with Risk Register

<u>Risk No</u>	<u>Strategic Risk</u>	<u>Where covered</u>
1	Inefficient debt recovery	Receipting and reconciliation. Account processing.
2	Inadequate / Inappropriate skills resulting in:- Non compliance to policies and procedures - Lack of accountability - Poor service delivery - Insufficient funds to provide training - Incorrect and inaccurate qualifications - Safety and health hazard - Legal liability - Insufficient experience	Human Resources.
3	Misuse of power - Roles and responsibilities of all concerned - Pressure to make decision - Power struggle / Conflict of interest	Not covered.
4	Inability to grow the economic base of the City as a result of: - Macro economic environment - Closure of current business - Inadequate development planning - Unemployment - Globalisation - Competitiveness - Currency fluctuation	Not covered.
5	Lack of financial resources - Insufficient funds to provide training - Poor service delivery - Ageing infrastructure (capital funding)	Not covered.
6	Occupational Health and Safety risks	Not covered.
7	Ineffective utilisation of assets / resources - Attendance of inappropriate meetings - Inadequate systems and tools - Improper allocation of the budgetary process	Covered in all audits scheduled.

	and organogram	
	Inappropriate design of municipal structure - Scope of responsibility too high - Split responsibility	Not covered.
9	Aging infrastructure- Sustainability of delivery	Not covered
10	Scarcity of skills	Human Resources
11	Lack of proper channels of communication - Delay in response time - Lack of communication channels across the Municipality	Not covered.
12	Non compliance with policies, procedures and bylaws.	Covered in all audits scheduled.
13	Non compliance with legislation	Covered in all audits scheduled.
14	Reputation risk - Misunderstanding of local government by the outside people - Lack of customer care - Unrealistic expectations in terms of job creation, etc. - Negative perception	Institutional Performance in accordance with IDP as well as in other audits
15	HIV / AIDS - Loss of productivity / expertise	Not covered
16	Poor service delivery - More time doing paper work than service delivery - Poor productivity - Ageing infrastructure - Absenteeism (use of temporary untrained staff) - Lack of commitment. Inadequate budgets	Not covered
17	Improper allocation of funding - Core functions of the Municipality - How realistic / will it be able to meet the strategic objectives	Not covered
18	Lack of strategic direction	Not covered
19	Failure by Provincial / National / District Government to perform its functions / duties	Not covered.
20	Failure to broaden the economic base	Not covered.
21	Socio economic risks: - Crime	Not covered.

	<ul style="list-style-type: none"> - Vandalism - Tampering 	
22	<p>Ineffective integration / coordination resulting in:</p> <ul style="list-style-type: none"> - SILO management / mentality - Territorial disputes 	Not covered.
23	<p>Over complicated and outdated internal control systems</p> <ul style="list-style-type: none"> - Technological innovation 	Covered in all audits scheduled.
24	Established Municipal entities not achieving their objectives	Separate internal audit of Buffalo City Development Agency. [If required but not included in the Plan.]
25	<p>Sustainability of labour cost:</p> <ul style="list-style-type: none"> - Increase in the labour cost resulting in a decrease in services being delivered 	Not covered.
26	Strategies not aligned to mission and vision	Not covered.
27	<p>Poor governance resulting in fraud and corruption:</p> <ul style="list-style-type: none"> - Non compliance to policies and procedures - Existence of employee on payroll - Unauthorised system changes - IT, errors - Lack of internal controls across the board - Human factor - division of duties - Collusion between developers and staff during land disposal. 	Covered in all audits scheduled.
28	<p>Low staff morale as a result of:</p> <ul style="list-style-type: none"> - The transition at the Municipality - Outdated equipment - Overregulation - Political interference - Uncertainty of direction - Lack of capacity - High stress levels 	Not covered.
29	<p>Unfunded mandates</p> <ul style="list-style-type: none"> - Performance of service delivery no in terms of mandate - Performance of functions on behalf of other spheres of Government 	Not covered.
30	<p>Inadequate management of service providers</p> <ul style="list-style-type: none"> - Poor service delivery - Reputation risk - Labour disputes - Sustainability of services (continued use of contractors) 	Procurement, Contract administration and reconciliations. Stock take

31	Change in legislation	Not covered.
32	Lack of management of transformation risk	Not covered.
33	Impact of RED's- Loss of income for the Municipality	Not covered.
34	Inability to take decisions as a result of: - Over regulation - Bureaucracy - Lack of accountability - More time doing paper work than service delivery - Lack of delegation	Not covered.
35	Theft and abuse of Councils assets	Covered in all audits scheduled.
36	Inadequate stakeholder buy in	Not covered.
37	Loss of staff	Human Resources.
38	Lack of performance	Institutional Performance in accordance with IDP
39	Un sustainability of environmental management.	Not covered.

No	Stage	Key Processes within Stage
1	Planning	<ul style="list-style-type: none"> ▪ Communicate timing and scope of project to key management and staff of auditable area. ▪ Document the systems of control in detail. ▪ Obtain analytical / comparative information. ▪ Identify key objectives and risks of auditable area. ▪ Determine audit resources required and project timing.
2	Adequacy Assessment	<ul style="list-style-type: none"> ▪ Review the adequacy of controls in place to mitigate risks. ▪ Where controls are inadequate or non-existent, report on this. ▪ Where controls are adequate, carry forward to “effectiveness testing” below. ▪ Design an appropriate audit programme.
3	Effectiveness Testing	<ul style="list-style-type: none"> ▪ Determine appropriate sample sizes for testing of control effectiveness. ▪ Test the effectiveness/ proper functioning of controls in place. ▪ Where controls are effective, no further reporting required. ▪ Where controls are not effective/ not functioning, report on this.
4	Reporting	<ul style="list-style-type: none"> ▪ Discuss audit findings with management and gain agreement on the timing and accountability of corrective action. ▪ Prepare internal audit report, with each finding detailing: <ul style="list-style-type: none"> □ Standard – control norm or standard. □ Condition – deficiency found during project. □ Impact – impact of deficiency on organisation. □ Cause – “root” cause of deficiency identified. □ Recommended corrective action – internal audit’s recommendation to management on how to effectively address the identified deficiency. □ Management’s agreed corrective action – the timing and persons responsible to address the identified deficiency. ▪ Distribute the internal audit report to appropriate management, appropriate Council members, the Audit Committee and external audit. ▪ Report on findings at Audit Committee meetings.
5	Follow-up	<ul style="list-style-type: none"> ▪ Follow up on previously issued reports/ findings, to ensure that deficiencies have been adequately addressed by management and risk mitigated. ▪ Re-report unmitigated risks/ deficiencies previously identified.