



AUDITOR - GENERAL



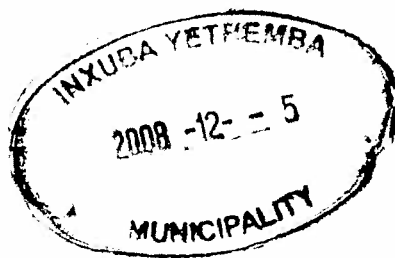
Accountability

Integrity

Independence

Impartiality

5/8/11



AUDITOR - GENERAL

**INXUBA YETHEMBA  
MUNICIPALITY**

**Management and Audit  
Report**

30 November 2008

Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed



.....  
Senior Manager

Enquiries: Daneal Hibbers  
Telephone: (043) 709 7200  
Fax: (043) 709 7300  
Email: danealh@agsa.co.za



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

The Accounting Officer

Inxuba Yethemba Municipality  
P.O Box 24  
Cradock  
5880

28 November 2008

Reference: 21302REG07-08

Dear Sir

**Report of the Auditor-General on the financial statements and performance information of Inxuba Yethemba Municipality for the year ended 30 June 2008**

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

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

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

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

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

Please notify the undersigned Business Executive well in advance of the date on which the audit report, or the annual report containing this audit report, will be tabled at the municipality.

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

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the accompanying financial statements of Inxuba Yethemba Municipality which comprise the balance sheet as at 30 June 2008, income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages [xx] to [xx].

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

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the entity-specific basis of accounting, as set out in accounting policy note 1.1, 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) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing 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 whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

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

**Basis of accounting**

8. The Municipality's policy is to prepare financial statements on the entity-specific basis of accounting, as set out in accounting policy note 1.1.

**Basis for qualified opinion**

**Fixed Assets**

9. Material prior year errors, as reported in the Report of the Auditor General for the year ending 30 July 2007 has not been adjusted for. These errors relate to unreconcilable differences between the general ledger and the fixed asset register, amounting to R3 107 674, and a limitation of scope due to unsubstantiated adjustments of R20 648 893 made on fixed assets. I was therefore unable to satisfy myself, with regard to the valuation, existence, rights and obligations and the completeness of the opening balance of the fixed assets. Accordingly I am unable to express any opinion with regard to the valuation, existence, rights and obligations and the completeness of fixed assets of R 179 642 401 as disclosed in the balance sheet.
10. Sufficient appropriate audit evidence could not be provided for expenditure, totaling R580 000, relating to infrastructure projects. I was therefore unable to obtain sufficient assurance, even by alternative means, with regard to the accuracy and occurrence of the relevant expenditure.
11. A difference, of R 265 784 exists between the bank and cash balance as disclosed in the balance sheet and the underlying general ledger reconciliation. In effect the bank and cash item on the balance sheet is under stated by the said amount.
12. The Municipality paid salaries amounting to R 3 000 000 using funds from the Drought Relief Fund. This constitutes unauthorized expenditure as this operating expenditure was paid using a conditional grant for purposes other than specified in the grant.

**Qualified opinion**

13. In my opinion, except for the effects of any such adjustments, if any as might have been determined to be necessary had I been able to satisfy myself as to the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of Inxuba Yethemba Municipality as at 30 June 2008 and its financial performance and cash flows for the year then ended, in accordance with the identified basis of accounting (*per par. 8*) and in the manner required by the MFMA.

### **Emphasis of matters**

I draw attention to the following matters:

#### **Going concern**

14. The ability of the municipality to continue to render uninterrupted services to stakeholders in future has been considered and in this regard the following matters identified suggest that the outlook for future trading activities is not favorable:
  - The collection of overdue amounts due to the municipality by customers remains a constant factor facing the municipality. Although management has introduced additional measures during the course of the year under review to facilitate cash collection, the likelihood of significant success in the immediate future is doubtful. As a result, the adverse effect on cash flows is expected to remain in the foreseeable future.
  - The municipality's balance sheet reflects an insolvent position and its accumulated losses amount to R25 722 310.
  - The balance of debtors that was deemed irrecoverable was R60 072 081, being debtors (excluding indigents) that are more than 90 days old. Debtors' days have also increased from 377 to 425 days. The situation indicates the existence of material uncertainty that may cast significant doubt on the Municipality's ability to continue as a going concern. The financial statements do not disclose this fact.

### **Highlighting critically important matters presented or disclosed in the financial statements**

#### **Irregular, Fruitless and wasteful expenditure**

- 15 As disclosed in note 35 to the financial statements, the Municipality incurred the following costs, interest levied on late payment of compensation for occupational injuries R 15 690, interest on late payment of VAT R 8 322 and penalties levied on late payment on occupational injuries R 28 654. These costs represent fruitless and wasteful expenditure.
16. As disclosed in note 36 to the financial statements, the Municipality exceeded its approved overdraft limit by R 400 649. This excess was not approved by Council and thus represents irregular expenditure.
17. As disclosed in note 36 to the financial statements, the Municipality overspent on the following conditional grants Vusubuntu and Transformation by R 79 461. This excess was not approved by Council and thus is irregular expenditure.

### **OTHER MATTERS**

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

#### **Internal controls**

18. 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
Opening Balances					✓
Infrastructure Projects	✓				
Revenue	✓		✓		
Expenditure	✓		✓		✓
Cash and Bank	✓		✓		✓
VAT	✓		✓		✓

**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 allows 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.

### Material non-compliance with applicable legislation

19. Section 30(1) of the Municipal Property Rates Act, 2004 (Act No. 6 of 2004) requires a municipality to perform a general valuation and maintain a valuation roll for properties within the municipality's jurisdiction for purposes of levying rates. However, the last valuation roll for the Municipality was prepared in 2002 and no other subsequent supplementary valuations were done.
20. The Municipality, which operates landfill sites, has an obligation in terms of S 28 of the National Environment Management Act, No 107 of 1998 to restore such sites. The municipality does not assess the remaining useful life of landfill sites. Detailed records of the capacity of landfill sites are not maintained by the municipality's engineers. Consequently, a provision for the rehabilitation of landfill sites has not been raised in the financial statements. Due to the specialist nature of such a provision and lack of appropriate records, I was unable to determine the extent of the misstatement.

### 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 we have assessed as follows:

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

## OTHER REPORTING RESPONSIBILITIES

### REPORT ON PERFORMANCE INFORMATION

22. I was engaged to audit the performance information.

**Responsibility of the accounting officer**

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 Public Audit Act, 2004 (Act No. 25 of 2004) 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 audit evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgment.
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**

##### **Non-compliance with regulatory requirements**

##### **Existence and functioning of a performance audit committee**

27. Inxuba Yethemba Municipality did not appoint and budget for a performance audit committee, neither was another audit committee utilized as the performance audit committee.

##### **Internal auditing of performance measurements**

28. Inxuba Municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required in terms of section 45 of the Municipal Systems Act.

#### **APPRECIATION**

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

  
East London

28 November 2008



AUDITOR - G E N E R A L





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

Mr. MS Tantsi  
Inxuba Yethemba Municipality  
P.O Box 24  
Cradock  
5880

13 November 2008

Reference: 21302REG07-08

Dear Sir

**MANAGEMENT REPORT ON THE REGULARITY AUDIT AND THE AUDIT OF PERFORMANCE  
INFORMATION OF INXUBA YETHEMBA MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2008.**

**INTRODUCTION**

1. We have completed the audit of the financial statements of Inxuba Yethemba Municipality for the year ended 30 June 2008. This management report is provided to the Accounting Officer and communicates any matters that came to our attention during the audit which, in our opinion, are relevant to the Municipality.

**AUDITOR'S RESPONSIBILITY**

2. Our responsibility is to express an opinion on the financial statements and to report on findings related to our review of performance information.
3. Our audit was conducted in accordance with the International Standards on Auditing read with *General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008.*
4. The auditing standards require us to plan and perform the audit as well as to obtain all the information and explanations that we consider necessary in order to obtain reasonable assurance that the financial statements are free of material misstatements, whether caused by fraud or error. This involves performing procedures to obtain assurance about the amounts and disclosures in the financial statements.
5. The procedures selected depend on our 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 we consider the internal controls relevant to the preparation and presentation of the financial statements. Our audit also includes evaluating the appropriateness of the accounting policies and the reasonableness of the accounting estimates made by management, as well as the overall presentation of the financial statements.
6. We do not examine every transaction, nor do we guarantee complete accuracy of the financial statements or performance information, or compliance with all applicable legislation. Because of the test nature and other inherent limitations of an audit, together with the inherent limitations of any information and internal control systems, there is an unavoidable risk that some, even material, misstatements might remain undiscovered.
7. In addition to our responsibility to express an opinion on the financial statements, we have also performed procedures of an audit nature to obtain evidence about the performance information and related systems, processes and procedures. The procedures selected depend on our judgement.
8. Our audit report arising from the annual audit will also contain an elaboration on non-compliance with any applicable legislation relating to financial matters, financial management and other related matters.

9. In addition, we will read other information accompanying the financial statements to determine whether there are material inconsistencies between the audited financial statements and the other information.

#### **RESPONSIBILITY OF THE ACCOUNTING OFFICER**

10. The responsibility for the preparation of financial statements that fairly present the financial position, financial performance and cash flows of the Municipality in accordance with the applicable basis of accounting is that of the Accounting Officer. Our audit report will explain that the Accounting Officer is responsible for the fair presentation of the financial statements in accordance with the applicable financial reporting framework. This responsibility includes:
- designing, implementing and maintaining internal controls relevant to the preparation of financial statements that are free from misstatement, whether due to fraud or error
  - selecting and applying appropriate accounting policies
  - making accounting estimates that are appropriate in the circumstances.
11. In addition, the Accounting Officer is responsible for ensuring, through oversight of management, that the Municipality establishes and maintains internal control to provide reasonable assurance with regard to the effectiveness and efficiency of operations and compliance with applicable legislation. The systems of financial and risk management and internal control should provide reasonable assurance that adopted policies and prescribed procedures are adhered to for the prevention and detection of errors and irregularities, including fraud and illegal acts. They should also provide for the regular monitoring of performance against objectives, and ensure that waste is minimised and business is conducted with due regard to probity.
12. The financial statements, maintenance of effective control measures and compliance with any applicable legislation are the responsibility of Accounting Officer.
13. Furthermore it is the responsibility of the Accounting Officer to provide us with:
- all information, such as records and documentation, and other matters that are relevant to the preparation and presentation of the financial statements
  - any additional documentation that we may request from management and, where appropriate, those charged with governance
  - unrestricted access to those within the entity from whom we determine it necessary to obtain audit evidence.
14. The Accounting Officer also has specific responsibilities as legislated in the Municipal Finance Management Act, 2003 (Act No. 56 of 2003 (MFMA)) to report information related to performance against predetermined objectives.

## **SIGNIFICANT FINDINGS FROM THE AUDIT**

### **Limitation of scope**

15. Material prior year errors, as reported in the Report of the Auditor General for the year ending 30 July 2007 has not been adjusted for. These errors relate to un-reconcilable differences between the general ledger and fixed asset register, amounting to R 3 107 674, and a limitation of scope due to unsubstantiated adjustments of R 20 648 893 made on fixed assets. I was therefore unable to satisfy myself, with regard to the valuation, existence, rights and obligations and the completeness of fixed assets of R 179 642 401 as disclosed in the balance sheet.
16. Sufficient appropriate audit evidence could not be provided for expenditure totalling R 580 000, relating to infrastructure projects. I was therefore unable to obtain sufficient assurance, even by alternative means, with regard to the accuracy and occurrence of the relevant expenditure.
17. A difference of R 265 784 exists between the bank and cash balance as disclosed in the balance sheet and the underlying general ledger reconciliation. In effect the bank and cash item on the balance sheet is understated by the said amount.
18. The Municipality paid salaries amounting to R 3 000 000 using funds from the Drought Relief Fund. This constitutes unauthorised expenditure as this operating expenditure was paid using a conditional grant for purposes other than specified in the grant.

### **Highlighting critically important matters presented or disclosed in the financial statements**

19. As disclosed in note 35 to the financial statements, the Municipality incurred the following costs, interest levied on late payment of compensation for occupational injuries R 15 690, interest on late payment of VAT R 8 322 and penalties levied on late payment on occupational injuries R 28 654. These costs represent fruitless and wasteful expenditure.
20. As disclosed in note 36 the Municipality exceeded its approved overdraft limit by R 400 649. This excess was not approved by Council and thus represents irregular expenditure.
21. As disclosed in note 36 the Municipality overspent on the following conditional grants Vusubuntu and Transformation by R 79 461. This excess was not approved by Council and thus is irregular expenditure.

### **Going concern**

22. The ability of the Municipality to continue to render uninterrupted services to stakeholders in future has been considered and in this regard the following matters identified suggest the the outlook for future trading activities is not favourable:
  - The collection of overdue amounts due to the Municipality by customers remains a constant factor facing the Municipality. Although management has introduced additional measures during the course of the year under review to facilitate cash collection, the likelihood of significant success in the immediate future is doubtful. As a result, the adverse effect on the cash flows is expected to remain in the foreseeable future.
  - The Municipality's balance sheet reflects an insolvent position and its accumulated losses amount to R 25 722 310.
  - The balance of debtors that was deemed irrecoverable was R 60 072 081, being debtors (excluding indigents) that are more than 90 days old. Debtors' days have also increased from 377 to 425 days. The situation indicates the existence of material uncertainty that may cast significant doubt on the Municipality's ability to continue as a going concern. The financial statements do not disclose this fact.

### **Internal controls – root causes**

23. 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	Opening balances	Infrastructure projects	Revenue	Expenditure	Cash and bank	VAT
<b>Control environment</b>		✓				
Assignment of authority and responsibility			✓	✓		✓
<b>Risk assessment</b>						
Identification of objectives						
<b>Control activities</b>						
Financial			✓	✓		✓
<b>Information and communication</b>						
Financial reporting information						
<b>Monitoring</b>						
Ongoing monitoring	✓		✓	✓		✓
Separate evaluations	✓					
Reporting deficiencies	✓		✓	✓		✓

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 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 allows 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.

## Non-compliance with applicable legislation

24. Section 30(1) of the Municipal Properties Rates Act, 2004 (Act No. 6 of 2004) requires a municipality to perform a general valuation and maintain a valuation roll for properties within the municipality's jurisdiction for purposes of levying rates. However, the last valuation roll for the Municipality was prepared in 2002 and no other subsequent supplementary valuations were done.
25. The Municipality which operates landfill sites has an obligation in terms of S28 of the National Environmental Management Act, No 107 of 1998 to restore such sites. The Municipality does not assess the remaining useful life of landfill sites. Detailed records of the capacity of landfill sites are not maintained by the municipality's engineers. Consequently, a provision for the rehabilitation of landfill sites has not been raised in the financial statements.

## Matters of governance

26. 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 we have assessed as follows:

No.	Matter of governance	Yes	No
	<b>Audit committee</b>		
1(a)	The Municipality had an audit committee in operation throughout the financial year.		X
1(b)	The audit committee operates in accordance with approved written terms of reference.		X
1(c)	The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.		X
	<b>Internal audit</b>		
2(a)	The Municipality had an internal audit function in operation throughout the financial year.	X	
2(b)	The internal audit function operates in terms of an approved internal audit plan.		X
2(c)	The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.		X
	<b>Other matters of governance</b>		
3	The annual financial statements were submitted for audit as per the legislated deadlines section 126 of the MFMA for municipalities and municipal entities	X	
4	The financial statements submitted for audit were not subject to any material amendments resulting from the audit.		X
5	No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.		X
6	The prior year's external audit recommendations have been substantially implemented.		X
7	There are documented policies and procedures and control systems to ensure the reliability of financial reporting.		X
8	There are documented policies and procedures and control systems to ensure compliance with applicable laws and regulations.		X
10	The information systems were appropriate to facilitate the preparation of financial statements that are free from material misstatement.	X	
11	Delegations of responsibilities are in place.	X	
12	Supply chain management policies and procedures were appropriately applied.		X
13	There is a functioning performance management system.	X	
14	Based on the available information, performance bonuses are only paid after proper assessment and approval by those charged with governance.	X	
15	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	X	

No.	Matter of governance	Yes	No
16	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 full compliance with GRAP.	X	
17	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.	X	

### **Misstatements in the financial statements submitted for audit on 30 August 2008**

#### **Material misstatements corrected that were not initially identified by the entity's control systems**

27. The financial statements approved by the accounting officer and submitted for audit on 31 August 2008 have been significantly revised in respect of the following misstatements identified during the audit:

- Provision for leave was overstated by R474 633.
- Employee cost was understated by R211 806.
- Provision for bad debts was understated by R38 431 802.
- Current liabilities (VAT Control Account) was understated by R364 554.

#### **Misstatements not corrected**

28. Although the corrections detailed above were made to the financial statements, management elected not to make the following corrections of R 79 814 as management maintained that they were immaterial both individually and in aggregate.

- VAT output was paid twice on CHDM grant received.

#### **Significant difficulties experienced during the audit**

29. Unavailability of expected information.

#### **Indicators of fraud risk**

30. During the audit of the year end bank reconciliation, an amount R 282 204 was included as 'outstanding deposits'. Upon further review it was noted that these individual deposits were double receipted in the general ledger. This gives rise to the risk of misappropriating cash as valid cash received can be duplicated on receipts and indicated as outstanding on the bank statement.

#### **Performance information**

31. Performance Management System was not reviewed by the Audit Committee and Internal Audit.

#### **RATINGS OF DETAILED AUDIT FINDINGS**

32. For the purposes of this report, the detailed audit findings included in annexure A to C have been classified as follows:

- Matters to be included in the audit report

*These matters should be addressed as a matter of urgency.*

- Other important matters – deficiencies that could adversely affect the entity's ability to initiate record, process and report financial data consistent with the assertions of management on the financial statements and in accordance with the applicable basis of accounting. Unacceptable risk that errors and irregularities may occur that will not be prevented or detected by the internal controls in good time.

*These matters should be addressed within the next 12 months.*

- Administrative matters – non-material non-compliance with applicable legislation, or misstatements in the financial statements that are unlikely to affect the decisions of a user and do not affect the financial statements as a whole, or opportunities for improvement, or other matters of governance interest.

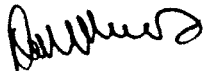
*These matters should be addressed at the discretion of the entity.*

Failure to address matters reported in a particular category may result in the matter being rated as more significant in the next financial year.

## **APPRECIATION**

33. We would like to express our appreciation for the courtesy extended and assistance rendered by the staff of the Inxuba Yethemba Municipality during the audit.

Yours sincerely



Senior Manager

Enquiries: Daneal Hibbers  
Telephone: (043) 709 7200  
Fax: (043) 709 7300  
Email: danealh@agsa.co.za

### **Distribution:**

CEO  
CFO  
Audit committee chair  
Head of internal audit

# SUMMARY OF AUDIT FINDINGS

Page. no.	Finding	Classification	Control Component	Impact on audit report					Administrative matters	Reported in previous years	In which years was it reported		
				Qualification	Emphasis of matter	Other matters	Other reporting responsibilities	Other important matters			2006/07	2005/06	2004/05
	Distribution losses									No			
<b>APPROPRIATED FUNDS</b>													
	Funds, Reserves and Provisions; Insufficient Concomitant Assets	Financial	Control environment					✓		No			
	Funds, Reserves and Provisions: Overspent on conditional grants.	Financial	Control environment					✓		No			
	Accumulated Surplus/Deficit; Amount paid on quotation instead of invoice.	Control	Control environment						✓	No			
<b>BORROWINGS &amp; LONG-TERM LOANS</b>													
<b>CASH AND CASH EQUIVALENTS</b>													
	Bank and cash: Returned paid cheques are not appropriately managed in accordance with recommended procedures.	Control	Monitoring of controls						✓	No			
	Bank and cash: Overdraft over credit limit authorised by Council.	Compliance (Non-AFS)	Control environment		✓					No			
	Bank and cash: Controls over reviews of the bank reconciliations.	Control	Control environment					✓		No			
	Bank and cash: Bank reconciliation not prepared not time.	Control	Control activities					✓		No			
	Bank and cash : Controls over journals	Control	Control activities					✓		No			
	Bank and cash : Going Concern Risk	Financial	Control activities		✓					No			

Page. no.	Finding	Classification	Control Component	Impact on audit report					Administrative matters	Reported in previous years	In which years was it reported		
				Qualification	Emphasis of matter	Other matters	Other reporting responsibilities	Other important matters			2006/07	2005/06	2004/05
	Bank and cash: Cheque account credit limit.	Financial	Control activities		✓					No			
	Bank and cash: Outstanding cheque list for main account not accurate.	Financial	Control environment					✓		No			
	Bank and cash: Cash book balance does not agree to bank reconciliation statement.	Financial	Control activities	✓						No			
	Bank and cash: Cheques to be written back to payables.	Financial	Monitoring of controls					✓		No			
	Bank and cash: Balance per General Ledger not agreeing with cash book balance.	Financial	Control activities					✓		No			
	Bank and cash: Petty cash register not being maintained.	Control	Control activities					✓		No			
	Bank and cash : Bank account details	Control	Control activities					✓		No			
	Bank and cash: Daily direct deposit control sheet not being maintained.	Control	Control activities					✓		No			
	Bank and cash: Daily direct deposits register not maintained.	Control	Control activities					✓		No			
<b>PLANNING</b>													
	Planning : Internal audit charter	Compliance (Non-AFS)	Control environment			✓				No			
	Planning : Financial accounting policies and procedures not documented	Control	Control activities					✓		No			
	Planning : Lack of Fraud prevention and Risk management policy	Control	Control activities					✓		No			
	Planning: Policy on skills retention and monitoring of staff competency not in place.	Compliance (Non-AFS)	Control activities					✓		No			
	Planning : Non completion of the financial disclosure	Compliance	Control					✓		No			

Page. no.	Finding	Classification	Control Component	Impact on audit report					Other important matters	Administrative matters	Reported in previous years	In which years was it reported		
				Qualification	Emphasis of matter	Other matters	Other reporting responsibilities	2006/07				2005/06	2004/05	
	form	(Non-AFS)	activities											
COMPLIANCE WITH LEGISLATION (NON-AFS)														
	Compliance: Absence of Grant register and Reconciliation to the ledger	Control	Control activities						✓		No			
	Expenditure & Compliance: List of Accredited Prospective Providers	Control	Control environment						✓		No			
	Compliance -There is no permit for the waste disposal sites	Compliance (Non-AFS)	Control activities						✓		No			
	Compliance: website	Compliance (Non-AFS)	Control environment						✓		No			
	Compliance: Municipality does have rehabilitation plan	Compliance (Non-AFS)	Control environment						✓		No			
	Compliance: No business declaration made by the councillors.	Compliance (Non-AFS)	Control activities						✓		No			
	MFMA; Short term debt agreement not available.	Compliance (Non-AFS)	Control activities						✓					
EMPLOYEE COSTS														
	Employee costs : No dismissal notice	Control	Control activities							✓	No			
	Employee costs : Retirement before the age of 65	Control	Control activities							✓	No			
	Employee costs : No personnel files were obtained	Control	Control activities							✓	No			
	Employee costs :Incorrect classification and interpretation of information	Control	Control activities						✓		No			
	Employee Costs :Overpayment of Remuneration	Control	Control activities							✓	No			

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Page. no.	Finding	Classification	Control Component	Impact on audit report				Other important matters	Administrative matters	Reported in previous years	In which years was it reported		
				Qualification	Emphasis of matter	Other matters	Other reporting responsibilities				2006/07	2005/06	2004/05
	Employee Costs : Not maintaining consistent information between departments	Control	Control activities					✓		No			
	Employee Costs : Candidate did not have the required qualifications	Control	Control activities						✓	No			
	Employee Costs : No Curriculum Vitae (cv ) in the personnel files	Control	Control activities					✓		No			
	Employee Costs - No printed short list of suitable candidates	Control	Control activities					✓		No			
	Employee Costs - No application forms for leave.	Control	Control activities						✓	No			
	Employee Costs - Staff Establishment outdated	Control	Control activities						✓	No			
	Employee Cost : No advertisements for the filled positions	Control	Control activities						✓	No			
	Employee Cost - The Municipality does not have a wage register.	Control	Control activities					✓		No			
	Employee Costs - no personnel files for Waged workers	Control	Control activities					✓		No			
	Employee Costs - No supporting documentation to agree to the payslips	Control	Control activities					✓		No			
	Employee Costs - Leave register has loose pages	Control	Control environment						✓	No			
	Employee Costs - Non compliance with sec 7(4) SALBC	Compliance (Non-AFS)	Control activities					✓		No			
	Employee Costs - No notice for termination of services (retirement)	Control	Control environment						✓	No			
	Employee Costs - Leave form not approved	Control	Control environment						✓	No			
	Employee Cost - Doctors Certificate on the	Control	Control						✓	No			

Page. no.	Finding	Classification	Control Component	Impact on audit report				Other Important matters	Administrative matters	Reported in previous years	In which years was it reported		
				Qualification	Emphasis of matter	Other matters	Other reporting responsibilities				2006/07	2005/06	2004/05
	Municipality's Letter head		activities										
	Employee Costs - No approval of overtime before it is worked	Control	Control activities					✓		No			
	Employee Cost - Overtime constitutes more than 30% of the employee's monthly salary	Control	Control activities					✓		No			
	Employee Costs - No salary scale on the list	Control	Control activities					✓		No			
	Employee Costs - Over payment	Control	Control activities						✓	No			
	Employee Costs - No communication of the remaining leave days	Control	Control environment						✓	No			
	Employee Costs - Leave register does not agree to the System	Control	Control activities					✓		No			
	Employee Costs - No policy for the Telephone Allowance	Control	Control environment					✓		No			
	Employee Costs - No authorisation could be obtained for the approval of deductions	Control	Control environment						✓	No			
	Employee Costs - No contract could be obtained or any other supporting documentation to confirm that the employee is entitled to allowances	Control	Control environment					✓		No			
<b>FRUITLESS &amp; WASTEFUL EXP.</b>													
	VAT: The Municipality incurred the fruitless and wasteful expenditure.	Compliance (Non-AFS)	Control activities		✓					No			
	Fruitless and Wasteful Expenditure; Penalties and interest paid to the commissioner.	Financial	Control environment		✓					No			
	Fruitless and Wasteful Expenditure.	Compliance (Non-AFS)	Control environment		✓					No			

Page. no.	Finding	Classification	Control Component	Impact on audit report					Other important matters	Administrative matters	Reported in previous years	In which years was it reported		
				Qualification	Emphasis of matter	Other matters	Other reporting responsibilities	2006/07				2005/06	2004/05	
INVENTORY														
INVESTMENTS														
	Investments : Investment Policy - Quotation	Control	Control environment						✓		No			
	Investments : Unauthorised expenses withdrawn from funds	Control	Control environment	✓							No			
	Investments : Investment Register - Monthly Reconciliations	Compliance (Non-AFS)	Control environment						✓		No			
	Investments: Investment policy not including withdrawal procedures.	Compliance (Non-AFS)	Control environment						✓		No			
	Investments : Presentation & disclosure of investments	Compliance (Non-AFS)	Control environment						✓		No			
LEASES														
	Leases – No policies	Compliance (Non-AFS)	Control environment						✓		No			
	Leases - Contracts	Control	Monitoring of controls						✓		No			
	Leases - Completeness	Control	Monitoring of controls						✓		No			
OPERATING EXPENDITURE														
	Expenditure: No Invoice attached to the payment vouchers	Control	Control activities						✓		No			
	Expenditure : Inadequate Quotations Obtained	Control	Control activities						✓		No			

Page. no.	Finding	Classification	Control Component	Impact on audit report				Other Important matters	Administrative matters	Reported in previous years	In which years was it reported		
				Qualification	Emphasis of matter	Other matters	Other reporting responsibilities				2006/07	2005/06	2004/05
	Expenditure : SARS tax Clearance	Control	Control activities					✓		No			
	Expenditure: No entries were posted from accumulated surplus to the Government Grant Reserve for capital grant expenditure.	Control	Control environment					✓		No			
	Expenditure: No investment for grants received	Financial	Control environment					✓		No			
	Expenditure: Funds and Expenditure does not balance	Financial	Control environment			✓				No			
<b>PAYABLES</b>													
	Accounts payable : Journals not authorised	Control	Control activities					✓		No			
	Accounts payable : Creditors Reconciliation not performed	Control	Control activities					✓		No			
	Creditors payment	Compliance (Non-AFS)	Control activities					✓		No			
	Purchases and payables - Invoices could not be obtained for audit purposes	Financial	Control activities					✓		No			
<b>PERFORMANCE INFORMATION</b>													
	Planning : Internal Audit Committee	Compliance (Non-AFS)	Control environment			✓				No			
	Planning : Non compliance to section 45 of the Municipal Systems Act	Compliance (Non-AFS)	Control environment			✓				No			
	Performance information: no performance audit committee in place	Performance information	Control environment			✓				No			
	Performance information: No internal audit unit to review the performance management	Performance information	Control environment			✓				No			

Page. no.	Finding	Classification	Control Component	Impact on audit report				Other important matters	Administrative matters	Reported in previous years	In which years was it reported			
				Qualificat- ion	Emphasis of matter	Other matters	Other reporting responsi- bilities				2006/07	2005/06	2004/05	
PROPERTY, PLANT & EQUIPMENT														
	Fixed Assets - fixed asset register	Control	Monitoring of controls					✓		No				
	Fixed Assets - Physical verification and asset condition	Control	Control activities					✓		No				
	Fixed Assets - Physical Verification - Asset count	Control	Monitoring of controls					✓		No				
	Fixed Assets - Physical Verification - Asset count reports	Control	Monitoring of controls					✓		No				
	Fixed Assets - Physical Verification - Write off	Financial	Control activities					✓		No				
	Fixed Assets - Supporting documentation could be obtained for the following Fixed Assets additions.	Control	Monitoring of controls					✓		No				
	Fixed Assets - Additions - Bar Code.	Control	Control environment						✓	No				
	Fixed Assets - Additions - Missing	Control	Control activities			✓				No				
	Fixed Assets - Journals – Authorisation	Control	Monitoring of controls			✓				No				
	Fixed Assets - Contracts Register not updated	Control	Monitoring of controls					✓		No				
	Property Register	Compliance (Non-AFS)	Control activities					✓		No				
	Fixed Assets - Opening balance	Financial	Monitoring of controls	✓						No				
	Fixed Assets - Leases - No contract	Compliance (Non-AFS)	Monitoring of controls					✓		No				

Page. no.	Finding	Classification	Control Component	Impact on audit report					Other important matters	Administrative matters	Reported in previous years	In which years was it reported		
				Qualification	Emphasis of matter	Other matters	Other reporting responsibilities	2006/07				2005/06	2004/05	
PROVISIONS														
	Provisions -Leave provision was incorrectly accounted for.	Financial	Control activities			✓					No			
	Provisions-There is no approved procedure for calculation of leave provision.	Financial	Control activities			✓					No			
	Provisions-The actual payment that was made was more than the amount that was provided for.	Financial	Control activities			✓					No			
RECEIVABLES														
	Receivables - Creditors paid in advance	Financial	Control environment			✓					No			
	Receivable: Recoverability's of sundry debtors	Financial	Control environment			✓					No			
	Receivable: Debtor's recoverability not certain	Financial	Information system and comm.		✓						No			
	Receivable: Increase in debtor's collection period	Control	Monitoring of controls						✓		No			
RESERVES														
	Statutory Funds: Insufficient Concomitant assets to support the existence of statutory funds.	Financial	Control activities						✓		No			
	Funds, Reserves and Provisions, Register for Trust funds not being maintained.	Control	Control environment						✓		No			
	Funds, Reserves and provisions; Municipality do not have a policy for bad debt reserve.	Control	Control environment						✓		No			
	Funds, Provisions and Reserves; No accounting policy.	Compliance (Non-AFS)	Control environment							✓	No			

Page. no.	Finding	Classification	Control Component	Impact on audit report				Other important matters	Administrative matters	Reported in previous years	In which years was it reported		
				Qualification	Emphasis of matter	Other matters	Other reporting responsibilities				2006/07	2005/06	2004/05
	Funds, Reserves and Provisions; Reserves for bad debts not authorised by council.	Compliance (Non-AFS)	Control environment					✓		No			
	Funds, Reserves and Provisions; No council policy in place.	Compliance (Non-AFS)	Control environment					✓		No			
<b>REVENUE</b>													
	Revenue : Amounts recorded incorrectly	Financial	Control activities					✓		No			
	Investment : Investment Register - Interest	Financial	Information system and comm.					✓		No			
	Service Contracts-Application for Municipal Services	Control	Control activities					✓		No			
	Valuation Role - Incorrect rates being applied	Financial	Information system and comm.				✓			No			
<b>TAXES</b>													
	VAT: VAT returns not timeously submitted to SARS.	Compliance (Non-AFS)	Control activities					✓		No			
	VAT: Unexplained variances in the VAT output and VAT input disclosed.	Financial	Control activities					✓		No			
	VAT: Municipality's VAT registration number not on the supplier's invoice.	Compliance (Non-AFS)	Control activities					✓		No			
<b>UNAUTHORISED EXPENDITURE</b>													
<b>HIGH LEVEL REVIEW ON THE FINANCIAL STATEMENTS</b>													
	Planning: Discrepancies in the Financial statements	Value	for	Control				✓		No			

Page. no.	Finding	Classification	Control Component	Impact on audit report					Other Important matters	Administrative matters	Reported in previous years	In which years was it reported		
				Qualification	Emphasis of matter	Other matters	Other reporting responsibilities	2006/07				2005/06	2004/05	
	Infrastructure Projects: Limitation of scope.	money Control	environment Control environment	✓							No			
	Infrastructure Projects: No evidence obtained that the Tender was advertised on the CIDB website.	Compliance (Non-AFS)	Control environment						✓		No			

#### INFORMATION SYSTEMS

	Lack of IT Support	Control	Control environment					✓			No			
	Master file amendments	Control	Control environment					✓						
	No qualification for IT personnel	Control	Control environment					✓						

**MATTERS AFFECTING THE AUDIT REPORT****CASH AND CASH EQUIVALENTS****1. Bank and cash: Overdraft over credit limit authorised by Council.****Audit finding**

During the audit we noted that the Municipality bank statement balance was overdrawn by R 3 900 649. This exceeded its council authorised and approved overdraft limit of R 3 500 000.

Facility	Actual as per Bank Statement	Authorised and Approved Limit (R)	Variance (R)	Actual Exceeds Limit (R)
Bank Overdraft	3,900,649	3,500,000	400,649	400,649

This is in contravention with section 62(c) (i) of the MFMA 56 of 2003 which states that the Accounting Officer is responsible for managing the financial administration of the Municipality and should take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal controls.

**Root cause**

All elements of the control environment have not been developed and documented.

**Risk**

The excess expenditure is unauthorised by Council and therefore represents irregular expenditure.

**Recommendation**

The Accounting Officer should design and implement effective policies and procedures to ensure that the council approves the overtime limit or increases before the application is made with the bank.

**Management response**

Note is taken of your recommendation and will be implemented.

Name: Mrs. E. Crouse.

Date: 17/11/2008

**Auditor's response**

The finding is transferred to the Management report.

## **2. Bank and cash : Going Concern Risk**

### **Audit finding**

During the audit we noted that the Municipality already had a negative bank balance at year end and should all payments appearing on the outstanding cheques list at year end be cleared, the bank balance would substantially exceed the overdraft limit. Therefore the cheques would not have been processed due to insufficient funds.

This is in contravention with section 62(c) (i) of the Municipal Finance Management Act 56 of 2003 (MFMA) which states that the Accounting Officer is responsible for managing the financial administration of the Municipality and should take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal controls.

### **Root Cause**

#### **Root cause**

All elements of control activities have not been developed and documented.

#### **Risk**

The Municipality might have a going concern problem is not disclosed in the Annual Financial Statements.

### **Recommendation**

The Accounting Officer must design and implement policies and procedures to ensure that the Municipality maintains effective, efficient and transparent systems of financial and risk management and internal controls.

### **Management response**

Note is taken of your finding and all possible steps will be taken to eliminate recurring incidents.

Name: Mrs. E. Crouse

Date: 14/11/2008

### **Auditor's response**

The finding is transferred to the Management report.

### **3. Bank and cash: Cheque account credit limit.**

#### **Audit finding**

It was identified that cheques are printed, processed and not sent to suppliers within 30 days as to prevent non compliance. The remaining overdraft facility at year end was not sufficient to allow for the payment of the outstanding cheque list of R 4,476,315.

This is contravention with section 65(e) of the MFMA which states that that all money owing by the Municipality to be paid within 30 days of receiving the relevant invoice or statement.

#### **Root cause**

All elements of control activities have not been developed and documented.

#### **Risk**

The Municipality might have a going concern problem is not disclosed in the Annual Financial Statements.

#### **Recommendation**

Management must design and implement policies and procedures to ensure that creditors are paid within 30 days of receiving the relevant invoice or statement

#### **Management response**

Due to cash flow problems these cheques have not been sent out but were paid within the second week of July 2008.

Name: Mrs. E. Crouse

Date: 14/11/2008

#### **Auditor's response**

The finding is transferred to the Management report.

**4. Bank and cash: Cash book balance does not agree to bank reconciliation statement.**

**Audit finding**

During the audit we noted that the balance per cash book did not agree to the balance recorded in the bank reconciliation statement at year end.

Balance per Cash book as noted in the bank reconciliation	R 9 150 606.40
Balance per General ledger	<u>R 9 416 390.74</u>
Difference	<u>R 265,784.34</u>

This is in contravention with section 62(c)(i) of the MFMA which states that the accounting officer is responsible for managing the financial administration of the municipality and should take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal controls.

**Root cause**

All elements of the control activities have not been developed and documented.

**Risk**

Balances in the cash book cannot be substantiated resulting in misstatement of records.  
Errors will not be identified and addressed immediately.

**Recommendation**

The accounting officer must design and implement policies and procedures ensuring that the Cash book balance should be used in preparing bank reconciliations, any differences between the bank reconciliation and the cash book should be investigated and cleared on time.

**Management response**

Note is taken of your finding. This was discussed with R-Data on 30 October 2008. A program is available which will show the difference but this program has to run just after a month was reconciled. This will be done from October 2008.

Comment: Mrs. E. Crouse

Date: 14 November 2008

**Auditor's response**

Audit finding will be transferred to management letter.

## **FRUITLESS AND WASTEFUL EXPENDITURE.**

### **4. VAT: The Municipality incurred Fruitless and Wasteful Expenditure**

#### **Audit finding**

Whilst performing procedures on VAT, it was noted that the following VAT amount was not paid on time to the Receiver of Revenue. This resulted in the Municipality incurring interest in respect of the late payment.

Tax period	Date of payments	Total VAT amount payable	Interest
Dec-07	29/01/2008	R 182,246.56	R 1,929.07
Jan-08	26/02/2008	R 122,428.66	R 1,163.30
Feb-08	26/03/2008	R 79,584.23	R 584.24
		<u>R 384,259.45</u>	<u>R 3,676.61</u>

This in contravention with Section 62(1)(d) of the MFMA: General financial management functions," which state that the Accounting Officer of a Municipality is responsible for managing the financial administration of the Municipality, and must for this purpose take all reasonable steps to ensure that unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented.

#### **Root cause**

All elements of the control activities have not been developed and documented.

#### **Risk**

Non compliance with Section 62(1) (d) of the MFMA.  
Interest expense is understated in the financial statements.

#### **Recommendation**

VAT payments should be made on time to avoid interest and penalties.

#### **Management response**

We were not aware of this interest at year end. However this interest relates to prior years. SARS has been requested to waive the interest. If not successful this will be written off against the appropriation account as it relates to prior years.

Measures will also be put in place to prevent this from happening again.

Name: Mrs. E. Crouse

Responsible Official: Mrs. N. Beja

Date: 14 November 2008

#### **Auditor's response**

The finding is transferred to the Management report.

## **5. Fruitless and Wasteful Expenditure; Penalties and interest paid to the Compensation Commissioner.**

### **Audit finding**

Whilst performing audit procedures for the year under review, we noted the following cases of fruitless and wasteful expenditure amounting to R 52 576.

- Interest levied on accounts due to late payment of compensation for occupational injuries and diseases amounting to R 15 690.
- Interest levied on late payment of VAT amounting to R 8 322.
- Penalties levied on accounts due to late payment of compensation for occupational injuries and diseases amounting to R 28 564.

This is in contravention with section 62(c)(i) of the Municipal Finance Management Act, Act 56 of 2003 (MFMA), which state that the Accounting Officer of a Municipality must take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

### **Root cause**

All elements of the control environment have not been developed and documented.

### **Risk**

Fruitless and wasteful expenditures could be incurred.

### **Recommendation**

The Accounting Officer must design and implement the policies and procedures to ensure that all payments are made on time to avoid penalties and interest.

### **Management response**

Note is taken of your finding. Measures will be put in place to eliminate occurring incidents.

Name: Mrs. E. Crouse

Responsible Official: Mrs. E. Crouse

Date: 14 November 2008

### **Auditor's response**

The finding is transferred to the Management report.

## INVESTMENTS

### 6. Investments : Unauthorised expenses withdrawn from funds

#### Audit finding

During the inspection of supporting documentation for investment withdrawals, we noted that the following funds were withdrawn from the Drought Relief Fund to pay salaries.

Bank	Fund Details	Account No	Date	Amount
First National Bank	Drought relief	62 076 426 123	31/03/2008	2,000,000.00
First National Bank	Drought relief	62 076 426 123	24/10/2007	1,000,000.00
				<b>R3,000,000.00</b>

This is in contravention with section 62(c) (i) of the Municipal Finance Management Act 56 of 2003 (MFMA) which states that the Accounting Officer is responsible for managing the financial administration of the Municipality and should take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal controls.

#### Root cause

All elements of the control activities have not been developed and documented.

#### Risk

Funds are withdrawn from investments for unauthorised expenses.

#### Recommendation

Withdrawals on specified grants should be only used for the specified conditions as donors could interpret this as a misuse of funds and withdraw funding or withhold future funding to the Municipality

#### Management response

Note is taken from you finding. Due to the cash flow situation this was critical in order for us to pay salaries.

Name: J Krapohl

Responsible Official: J Krapohl.

Date: 14 November 2008

#### Auditor's response

The finding is transferred to the Management report.

## **PERFORMANCE INFORMATION**

### **7. Planning : Internal Audit Committee**

#### **Audit finding**

During our normal audit procedures we noted that the Municipality's Internal Audit Committee was not fully functional.

The audit committee has not established appropriate measures to effectively discharge its mandate in respect of the following areas;

- Adequacy and effectiveness of the systems of internal and financial control, accounting practices, and auditing processes;
- Respond to the council on any issues raised by the AG in the audit report;
- Carry out investigations into the financial affairs of the entity as requested.
- Review the internal control procedures followed by management.
- Review the controls designed to ensure that assets are safeguarded
- Review risk management and related policies
- Review the Fraud prevention plan implemented to prevent and detect fraud
- Review compliance with prescribed accounting framework
- Review the audit plan with the external auditors to ensure that the audit will address any concerns of the councillors' and directors
- Review the external auditors' observations as presented in the management letter and the adequacy of management responses
- Review the subsequent implementation of agreed improvements.
- Review and approve the scope and the implementation of the internal audit plan
- Assess the effectiveness of internal audit
- Advise the council / board on any significant accounting and auditing problems identified by the external auditors.
- Communicate to the external auditor, any fraud, suspected fraud or fraud investigation currently being conducted
- Review the credibility and objectivity of financial statements and reports
- Facilitate and promote communication with the external auditors and the head of internal audit.
- Internal Audit unit having an annual plan in place, and evidence that the performance of the Municipality was audited by the Internal Audit unit.

This is in contravention with the section 165 (1) of the Municipal Finance Management Act 56 of 2003 that stipulates that each Municipality and municipal entity must have an Internal Audit unit that prepares a risk based plan and an Internal Audit plan for each financial year.

#### **Root cause**

All elements of the control environment have not been developed and documented.

#### **Risk**

Non compliance to the Municipal Finance Management Act (No. 56 of 2003) section 166.  
Control weaknesses might increase the risk of fraud.

#### **Recommendation**

Effective procedures and policies should be implemented to ensure that the Internal Audit Committee is established to carry out the function as envisaged by the legislation. This will ensure that business risk is maintained at an acceptable level and can be monitored accurately and timely, and will also ensure compliance with the legislation.

Outsourcing the Internal Audit function or forming a shared Internal Audit department with some of the local municipalities' within the Chris Hani District Municipality.

#### **Management response**

We agree.

*Name:* Mr. M.S. Tantsi

*Date:* 13/11/2008

**Auditor's response**

Finding transferred to the management matter.

## **8. Performance information : Non compliance to section 45 of the Municipal Systems Act**

### **Audit finding**

Whilst performing the audit for the Municipality it was identified that the Internal Audit does not have an annual plan in place and there is no evidence that the Information Systems of the Municipality was audited by the internal audit

This is in contravention to section 45 (1) (a) of the Municipal Systems Act which stipulates that the results of the performance measurement of the Municipality must be audited annually as part of the Municipality's internal auditing process.

### **Root cause**

The control environment, procedures, techniques and mechanisms have not been adequately implemented

### **Risk**

Non compliance to the legislation.

### **Recommendation**

Policies and procedures should be put in place to ensure that internal audit function and the Audit committee complies with the legislation

### **Management response**

With the establishment of the shared audit committee this section will be complied with.

*Name:* Mr. M.S. Tantsi

*Date:* 12/11/2008

### **Auditor's response**

The finding is transferred to the Management report.

## **9. Performance information: No performance audit committee in place**

### **Audit finding**

During the performance of our audit, it was noted that during the period under review, the Municipality did not have an Audit committee in place to review the performance management system of the Municipality as required by legislation.

This in contravention to section 14.2(a) of the Municipal systems act 32 of 2000 which states that the Municipality must annually appoint and budget for a performance audit committee consisting of at least three members, the majority of which may not be involved in the Municipality as a councillor or an employee. The audit committee must review the quarterly report submitted to it and monitor and review the Municipality performance management system and make recommendations in this regard to the council of the Municipality.

### **Root cause**

All elements of the control environment have not been developed and documented.

### **Risk**

Non compliance

### **Recommendation**

Municipality should appoint a performance audit committee as required by legislation and submit on a quarterly basis the key performance indicators report for reviews and recommendations. This will ensure managers performance is maintained and can be monitored accurately and timely, and will also ensure compliance with the legislation.

### **Management response**

We agree.

Name: Mr. M.S. Tantsi

Date: 14 November 2008

### **Auditor's response**

The finding is transferred to the management matter.

## **PROPERTY, PLANT & EQUIPMENT**

### **10. Fixed Assets - Opening balance**

#### **Audit finding**

We were unable to satisfy ourselves, with regard to the accuracy and valuation of the opening amount of the fixed assets, because the prior year opening balance had been qualified. Accordingly we are unable to express any opinion with regard to the opening balance carrying value of fixed assets amounting to R 179 642 399.77.

This is in contravention of section 62 of the Municipal Finance Management Act No 56 of 2003 which states that the Accounting Officer of a Municipality must take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

#### **Root cause**

All elements or the control activities have not been developed and documented.

#### **Risk**

Fixed assets could be incorrectly valued on the annual financial statements.

#### **Recommendation**

Management should hire an independent valuer for all their assets so that qualification will not be perennial on a yearly basis, or update actual costs on asset register.

#### **Management response**

We agree.

Name: C. Crouse

Date: 14 November 2008

#### **Auditor's response**

The finding has been transferred to the management letter.

## RECEIVABLES

### 11. Receivable: Debtor's recoverability not certain

#### Audit finding

Whilst performing our audit test on consumer debtors, the following errors were noted:

no.	Accounts no.	Names	Amount (R)	Comment
1	60-0001-00-7	COETZEE A M	3,868.47	Through follow up, it was discovered that these debtors have been outstanding since 2002 when the Municipality converted from M-Data to R-Data system. Management confirmed that these are old accounts that were generated when the Municipality converted from M-Data system to R-Data system, they appear as inactive accounts under consumer code 80, meanwhile there are not, therefore, management should provide for those debtors.
2	60-0195-00-3	VAN ROOYEN Z	2,473.30	
3	60-0067-00-3	WILKEN M	2,239.46	
4	60-0193-00-3	NAKI H	2,174.42	
5	60-0192-00-1	PRESENT N	2,116.56	
6	60-0192-00-2	PRINS S	1,959.46	
7	60-0067-00-4	NIEMAND J	2,568.07	
8	66-1853-00-0	N. MAGODA	6,231.95	
9	61-2688-00-0	BLOUISE RESTAURA	50,410.34	
10	60-2734-00-0	STANDER M	3,413.97	
11	66-1872-00-0	BEZUIDENHOUT D	240.12	
12	66-1878-00-0	HOFMEYR MUNISIPA	1,126.53	
13	66-1882-00-0	OLIVER BROERS	10,918.43	
14	60-2732-00-1	BOUWER C B	3,361.62	
15	66-1986-00-0	BARNARD VERVOER	16,506.15	
16	66-1989-00-0	H MLOTOI	5,451.08	
17	66-1996-00-0	CHRISTIE'S SUP.	22,634.55	
18	66-2000-00-0	KRIEK D	5,629.48	
19	NOTHATALA A	60-2757-00-3	2,466.54	No proof that this debtor exist as no payment has been received since 2004
20	60-0190-00-1	VAN ROOYEN J F	1,564.50	No proof that this amount will be recovered as this debtor died long-time ago
			147,355.00	

Likely unrecoverable debtors projected amounted to R 32 085 453.

#### Root cause

All elements of the control environment have not been developed and documented.

#### Risk

Potential overstatement over debtors and annual financial statements.  
Non-compliance with Section 62 (c) (i) of the MFMA 56 of 2003.

#### Recommendation

The management should comply with the MFMA and ensure that full and accurate records of financial affairs in accordance with the norms and standards are kept;

All code 80 consumer debtors (old accounts) including long outstanding debtor accounts should be identified, written off and deleted from debtor's list system.  
The R-Data system should be reviewed and updated to ensure that it contains accurate and valid data.

**Management response**

We agree that that this accounts should be written off with Council's approval.

*Name: J Krapohl*

*Date: 14 November 2008*

**Auditor's response**

The issue has not been cleared and therefore will be transferred to the management letter.

## **REVENUE**

### **12. Valuation Role - Incorrect rates being applied**

#### **Audit finding**

The last valuation roll for the Municipality was prepared in 2002 and no other supplementary valuations were done subsequent to that. Rates being applied are inaccurate and invalid.

This is in contravention section 32 (1)(b) of the Local Government; Municipal Property Rates Act, which states that the valuation roll remains valid for that financial year or for one or more subsequent year financial years as the Municipality may decide, but in total not for more than four financial year.

#### **Root cause**

All elements of the control environment have not been developed and documented.

#### **Risk**

Non adherence to the section 69(1) of the Local Government: Municipal Property Act, 2004.

#### **Recommendation**

Management should ensure that the valuation roll is updated regularly in line with the Property Rates Act sec 32(1)(b) that is at least every two years and not more than four financial years, so that correct rates and taxes can be applied.

#### **Management response**

We are busy with the property valuation. This valuation will be implemented on 1 July 2009. A full property register will be available after implementation.

Name: J. Krapohl

Date: 14 November 2008

#### **Auditor's response**

We noted the management's response. However it is also evident that incorrect rates are being applied, therefore the finding is transferred to the Management report.

## INFRASTRUCTURE PROJECTS

### 13. Infrastructure Projects: No supporting documentation for expenditure incurred

#### Audit finding

Whilst performing procedures on infrastructure projects, it was noted that the following information regarding the under mentioned infrastructure projects could not be obtained for audit purposes.

1. Contract details
2. Payment details.
3. Project reports
4. Expenditure details and suppliers statement.

629423866000  
629384359000

No	Project	Department	Location / Description	Source of Funding	Project Amount
1	Cradock Spa - Capacity Development	LED	Cradock	EU Grant	R 70,000.00
	Electricity	Tech	Lingelihle & Lusaka Street Lighting		R 510,000.00
TOTAL					R 580,000.00

This is in contravention with section 62(1)(c)(i) of the MFMA which states that the Accounting Officer must ensure that the Municipality has and maintains effective, efficient and transparent systems of financial, risk management and internal control.

#### Root cause

All elements of the control activities have not been developed and documented.

#### Risk

Limitation of scope

#### Recommendation

The Accounting Officer should design and implement policies regarding all necessary documents regarding the Infrastructure Projects are safely kept and are made readily available when requested.

#### Management response

We agree. The above mentioned project's supporting documentation is not available.

Name: J. Krapohl

Date: 20 November 2008

#### Auditor's response

Management has not commented, therefore The finding is transferred to the Management report.

**OTHER IMPORTANT MATTERS****APPROPRIATED FUNDS****1. Funds, Reserves and Provisions; Insufficient Concomitant Assets****Audit finding**

Insufficient controls are in place to ensure that the amounts recorded in the Trust Funds are adequately backed by concomitant assets at all times throughout the year as shown in the table below

<b>Trust Funds (R)</b>	<b>Concomitant Assets (R)</b>	<b>Variance (R)</b>	<b>Amount Required to back trust funds. (R)</b>
11,256,647	(3,155,789)	14,412,436	14,412,436

This is in contravention with section 62(c) (i) of the Municipal Finance Management Act 56 of 2003 (MFMA) which states that the Accounting Officer is responsible for managing the financial administration of the Municipality and should take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal controls.

**Root cause**

All elements of the control environment have not been developed and documented.

**Risk**

Trust funds are not backed by cash and cash equivalents and investments.

**Recommendation**

The Accounting Officer must design and implement the policies and procedures regarding the management of trust funds held by the Municipality.

Also a monthly reconciliation must be performed for the Trust Funds, to ensure that the Trust Funds are fully cash backed at all times during the year. This reconciliation should be reviewed by an independent person to ensure its accuracy.

**Management response**

Due to cash flow problems we are unable to invest and amount of R9 773 949-97. This problem will be addressed during the conversion to GAMAP/GRAP.

Name: Mrs. E. Crouse

Date: 14 November 2008

**Auditor's response**

The finding is transferred to the Management report.

## **2. Funds, Reserves and Provisions: Overspent on conditional grants.**

### **Audit finding**

During the audit we noted that actual expenditure for the year ended exceeded budgeted amount for the projects selected below.

<b>EXPENDITURE</b>	<b>Actual (R)</b>	<b>Budget (R)</b>	<b>Over expenditure (R)</b>
Vusubuntu Cultural Village	179 821	103 000	76 821
Transformation	179 853	182 493	2 640
<b>Total</b>			<b>79 461</b>

This is in contravention with section 69(1)(a) and (b) of the Municipal Finance Management Act, Act 56 of 2003 (MFMA) which states that the Accounting Officer of a Municipality is responsible for implementing the Municipality's approved budget, including taking all reasonable steps to ensure that the spending of funds is in accordance with the budget and is reduced as necessary when funds are anticipated to be received and that funds and expenditure are properly monitored.

### **Root cause**

All elements of the control environment have not been developed and documented.

### **Risk**

Unauthorized expenditure may be incurred by the Municipality.

### **Recommendation**

The Accounting Officer must design and implement a policy ensuring that expenditure not provided for in the budget should be appropriated in an adjustments budget. Expenditure not provided for in the budget should be authorized in an adjustment budget within 60 days after the expenditure were incurred.

### **Management response**

The over expenditure will be tabled before council in order for us to obtain approval to write off the relevant amounts.

Name: J. Krapohl

Date: 14 November 2008

### **Auditor's response**

The finding is transferred to the Management report.

## **CASH AND CASH EQUIVALENTS**

### **3. Bank and cash: Controls over reviews of the bank reconciliations.**

#### **Audit finding**

During the audit we noted that there are no controls over preparation and review of bank reconciliations and these may result in fraudulent activities in the entity not being detected timeously. Bank reconciliations for the following months were not initialled as evidence of having been reviewed by an independent senior official;

#### **FNB Acc 51980028125:**

August 2007  
December 2007  
May 2008  
June 2008

#### **FNB Acc 5198135195:**

July 2007  
April 2008  
May 2008  
June 2008

This is in contravention with section 62(c) (i) of the Municipal Finance Management Act 56 of 2003 (MFMA) which states that the Accounting Officer is responsible for managing the financial administration of the Municipality and should take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal controls.

#### **Root cause**

All elements of the control environment have not been developed and documented.

#### **Risk**

Errors will not be identified and addressed immediately.

#### **Recommendation**

The Accounting Officer must design and implement policies and procedures to ensure that the bank reconciliations prepared should be reviewed by an independent official.

#### **Management response**

Currently the relevant department is under staffed but measures will be put in place to rectify this problem. The bank reconciliations will be reviewed by a senior.

Name: Mrs. E. Crouse

Date: 13/11/2008

#### **Auditor's response**

Audit finding be transferred management letter.

**4. Bank and cash : Bank reconciliation not prepared not time.**

**Audit finding**

During the audit we noted that the following bank reconciliations were not prepared on time;

FNB Acc no 51980028125	
Month	Date prepared
July 2007	09/10/07
August 2007	02/11/07
September 2007	14/11/07
October 2007	15/01/08
November 2007	31/01/08
December 2007	29/02/08
January 2008	25/03/08
May 2008	15/07/08
June 2008	26/08/08

FNB Acc no 51981035195	
Month	Date prepared
July 2007	11/09/07
August 2007	11/10/07
November 2007	15/01/08
December 2007	15/02/08
January 2007	12/03/08
February 2008	12/05/08
March 2008	13/05/08
April 2008	26/05/08
May 2008	07/07/08
June 2008	06/08/08

This is in contravention with section 62(c) (i) of the Municipal Finance Management Act 56 of 2003 (MFMA) which states that the Accounting Officer is responsible for managing the financial administration of the Municipality and should take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal controls.

**Root cause**

All elements or the control activities have not been developed and documented.

**Risk**

Errors will not be identified and addressed immediately.

**Recommendation**

The Accounting Officer must design and implement policies and procedures to ensure that the bank reconciliations should be prepared and reviewed on time by an independent official.

**Management response**

Currently the relevant department is under staffed but measures will be put in place to rectify this problem.

Name: Mrs. E. Crouse

Date: 13/11/2008

**Auditor's response**

Audit finding will be transferred management letter.

## **5. Bank and cash : Controls over journals**

### **Audit finding**

There are no controls over the posting and review of journals which may result in fraud within the Municipality.

This is in contravention with section 13(2) of the MFMA which states that a Municipality must establish an appropriate and effective cash management and investment policy.

### **Root cause**

All elements of the control activities have not been developed and documented

### **Risk**

Unauthorised journal entries could be passed and the financial statements could be misstated.

### **Recommendation**

The journal entries should be authorised by the Chief Finance Officer and all journals passed during the year must be followed up on and inspected for authorisation.

### **Management response**

Your recommendation will be implemented. It is not always possible for the CFO to authorize all journals but arrangements will be made with other senior officials as well.

Name: J. Kraphol

Date: 14 November 2008

### **Auditor's response**

Audit finding is transferred to management letter.

**6. Bank and cash: Cheques to be written back to payables.**

**Audit finding**

It was noted that cheques to the value of R 6 803.40 on the outstanding cheque list have become stale, subsequent to year end.

Name	Date	Cheque Number	Amount (R)
JDJ Erasmus	06/03/2007	41535	131.04
C White	31/05/2007	42052	59.74
Waltons Stationery	24/10/2007	43082	3,453.42
Michausdal Primary	31/10/2007	43124	59.40
IC Brouwn	12/11/2007	43220	50.00
GJ Chantler	12/11/2007	43221	39.01
Hw Potgieter	12/11/2007	43226	22.38
J Grobler	12/11/2007	43227	148.08
C Watermeyer	12/11/2007	43230	250
L Gcawana	12/11/2007	43232	250
V Rasmene	12/11/2007	43233	250
A Baleni	12/11/2007	43234	500
Metcalf & Co	04/12/2007	43381	1,590.33
<b>TOTAL</b>			<b>6,803.40</b>

This in contravention with section 65 of the Municipal Finance Management Act, Act 56 of 2003 which state that the Accounting Officer of a Municipality must take all reasonable steps to ensure that the Municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorization, withdrawal and payment of funds.

**Root cause**

All elements of monitoring have not been developed and documented.

**Risk**

The impact is that liabilities and bank and cash are understated.

**Recommendation**

It is recommended that in future, cheques that have become stale should be immediately written back to creditors, in order to accurately classify them.

**Management response**

This will be implemented.

Comment: Mr. D.v.H. Meyer

Responsible Official: Mrs. N. Beja

Date: 13/11/2008

**Auditor's response**

Audit finding will be transferred to management letter.

**7. Bank and cash : Balance per General Ledger not agreeing with cash book balance.**

**Audit finding**

During the audit we noted that the balance per the cash book did not agree to the balance recorded in the general ledger.

Balance per Cash book	R 206,893.44
Balance per Cash book in the General Ledger	<u>R 208,423.44</u>
Difference	<u>R 1,530.00</u>

This is in contravention with section 62(c) (i) of the Municipal Finance Management Act 56 of 2003 (MFMA) which states that the Accounting Officer is responsible for managing the financial administration of the Municipality and should take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal controls.

**Root cause**

All elements of control activities have not been developed and documented.

**Risk**

Cash and Bank could be misstated in the financial statements.

**Recommendation**

The Accounting Officer must design and implement the policies and procedures to ensure that general ledger and Cash book are reconciled on a monthly basis to ensure accuracy of accounting records and any variances should be investigated and cleared on time.

**Management response**

The difference have been communicated to our service provider to assist us in resolving the amount of R 1 530. This will be taken up with R-Data.

Name: Mrs. E. Crouse

Date: 14/11/2008

**Auditor's response**

Audit finding will be transferred management letter.

**8. Bank and cash: Petty cash register not being maintained.**

**Audit finding**

During the audit we noted that the petty cash vouchers and requisition are filed in the same files for cheque payments to suppliers instead of filed separately and recorded in a petty cash register.

This is in contravention with section 62(c) (i) of the Municipal Finance Management Act 56 of 2003 (MFMA) which states that the Accounting Officer is responsible for managing the financial administration of the Municipality and should take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal controls.

**Root cause**

All elements of the control environment have not been developed and documented.

**Risk**

The lack of management of petty cash vouchers and requisition could result in shortages or surplus of petty cash going undetected due to intentional and unintentional fraudulent activities.

**Recommendation**

The Accounting Officer must design and implement policies and procedures to ensure that a petty cash register is maintained and reviewed on a monthly basis

**Management response**

Note is taken. This will be implemented.

Name: Mr. J. Krapohl

Date: 14/11/2008

**Auditor's response**

Audit finding will be transferred management letter.

## **9. Bank and cash : Bank account details**

### **Audit finding**

During the audit no evidence could be obtained of the submission of bank account details to provincial treasury.

This is in contradiction to Section 9 (b) of the Municipal Finance Management Act 56 of 2003 which states that the Accounting Officer of the Municipality must submit to the relevant provincial treasury and the Auditor General, in writing annually before the start of the financial year, the name of each bank where the Municipality holds a bank account, the type of the account and the account number.

### **Root cause**

All elements or the control activities have not been developed and documented.

### **Risk**

No compliance to section 9 (b) of the MFMA.

### **Recommendation**

The Accounting Officer must design and implement effective procedures to ensure that section 9 (b) of the MFMA is complied with and documents submitted to provincial treasuries and the Auditor General should be safe.

### **Management response**

Note is taken of your finding. This will be implemented with immediate effect.

Name: Mrs. E. Crouse

Date: 14/11/2008

### **Auditor's response**

The finding is transferred to the management report.

## **COMPLIANCE WITH LEGISLATION (NON-AFS)**

### **10. Expenditure & Compliance: List of Accredited Prospective Providers**

#### **Audit finding**

During the review we noted that the Municipality does not maintain a list of accredited prospective suppliers.

This In contravention with Sec14(1) of Supply Chain Management of which state that Accounting Officer must keep a list of accredited prospective providers of goods and services that must be used for the procurement requirements through written or verbal quotations and formal written price quotations.

#### **Root cause**

All elements of the control environment have not been developed and documented

#### **Risk**

The Municipality might be making business with the suppliers that are prohibited from doing business with the public sector.

There could be possible fraudulent activities.

#### **Recommendation**

The Municipality should ensure compliance with the supply chain management policy as this will enable the management not to do any business with uncompetitive and disqualified suppliers.

#### **Management response**

A list was provided. (Hardcopy) This is also available in electronic format.

Name: J Krapohl

Date: 14 November 2008

#### **Auditor's response**

The list provided by management is a creditors list and not the list of Accredited Prospective Providers. The finding is transferred to the management report.

## **11. Compliance -There is no permit for the waste disposal sites**

### **Audit finding**

During the performance of our audit it was noted that the Municipality did not have the permits for two landfill site.

This in contravention with section 20 (1) of National Conversation Environmental Act 73 of 1989 which states that no person may establish, provide or operate a disposal site without a permit issued by the minister in terms of subsection (1) to (9).

### **Root cause**

All elements of risk assessment have not been developed and documented.

### **Risk**

Non compliance to national environmental conversation Act 73 of 1989.

### **Recommendation**

Policies and procedures should be implemented to ensure that the Municipality adhere to the national environmental conversation Act 73 of 1989.

### **Management response**

We are currently busy applying for the permit of the two landfill sites

Name: M. Tantsi

Date: 14 November 2008

### **Auditor's response**

The finding is transferred to the management letter.

**12. MFMA; Short term debt agreement not available.**

**Audit Finding**

No short term agreement between FNB and the municipality could be found, for the temporary extension of overdraft limit amounting to R 900 000.

This is in contravention with section 45(1)-(4) of the Municipal Finance Management Act, Act 56 of 2003 which requires that a short term agreement be in place.

**Root Cause**

All elements of the control environment have not been developed and documented.

**Risk**

Non compliance with section 45 of the MFMA, as there is no evidence available that an agreement was signed between FNB and the municipality.

**Recommendation**

A council short term agreement should be obtained from the bank and signed by appropriate officials. This must be filed as evidence that the resolution has taken place.

**Management Comment:**

Note is taken of your finding. The temporary overdraft was granted by the bank and was ended on receipt of the equitable share.

Name: Mrs. E. Crouse

Date: 19 November 2008

**Audit Response**

Management could not provide us with the agreement. The finding is transferred to the management report.

### **13. Compliance-Municipality does not have a rehabilitation plan**

#### **Audit finding**

During the course of the audit we noted that the Municipality does not have a rehabilitation plan in place to address land restoration at landfill sites.

This is in contravention of Section 28 of National Environmental Management which states that every person who causes, has caused or may cause significant pollution or degradation of the environment must take reasonable measures to prevent such pollution or degradation from occurring, continuing or recurring, or, in so far as such harm to the environment is authorised by law or cannot reasonably be avoided or stopped, to minimise and rectify such pollution or degradation of the environment

#### **Root cause**

All elements of the control environment have not been developed and documented.

#### **Risk**

Non Compliance to Section 28 of the National Environmental Management Act NO 107 of 1998.

#### **Recommendation**

Management should ensure that all requirements of National Environmental Management Act NO 107 of 1998 are adhered to.

#### **Management response**

This issue will be taken up with the relevant department.

Name: J Krapohl

Date: 14 November 2008

#### **Auditor's response**

The finding is transferred to the Management report.

**14. Compliance: No business declaration made by the Councillors.**

**Audit finding**

During the performance audit it was noted that the Councillors of the Municipality did not disclose or declare their business interest to the Council or Municipality.

This is in contravention with section 62(c) (i) of the MFMA which states that the Accounting Officer is responsible for managing the financial administration of the Municipality and should take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal controls.

**Root cause**

All elements of risk assessment have not been developed and documented.

**Risk**

Non compliance to Municipal System Act No 32 of 2000 schedule 1 S (5)

**Recommendation**

Policies and procedures should be implemented to ensure that all the employees and councillors declare their business interest to the council.

**Management response**

This will be communicated to the MM when he is back.

Name: J. Krapohl

Date: 14 November 2008

**Auditor's response**

The finding has been transferred to the management report.

## **15. Compliance: No official website for the Municipality.**

### **Audit finding**

It was noted the Municipality did not have its own official website for the whole financial period under review. Furthermore management did not make use of the organised local website sponsored or facilitated by the National Treasury as they did not provide information required to be displayed on this website.

This is contrary to section 21B of the Municipal Systems Act 32 of 2000 which states that each Municipality must place on its own official web site information required to be made public as per section 75 of the Municipal Finance Management Act, if the Municipality does not have its own website, it must provide information required to be displayed on an organised local website sponsored or facilitated by the National Treasury.

### **Root cause**

All elements of the control environment have not been developed and documented.

### **Risk**

Non compliance to Municipal Systems Act 32 of 2000

### **Recommendation**

The Accounting Officer should design and implement policies and procedures to ensure that all the important information and documents of the Municipality as per section 75 of the MFMA Act are displayed on the Municipality website.

### **Management response**

We agree.

Name: R. Crouse

Date: 14 November 2008

### **Auditor's response**

The finding is transferred to the Management report.

## **16. Planning: Lack of Fraud prevention and Risk management policy**

### **Audit finding**

It was established that the Municipality does not have a Fraud Prevention plan in place. This is contrary to Section 62(1) (c) of the Municipal Finance Management Act (no. 56 of 2003), which requires the establishment of an effective, efficient and transparent system of financial and risk management and internal control.

### **Root cause**

All elements of risk assessment have not been developed and documented.

### **Risk**

Control weaknesses might increase the risk of fraud.  
Non-compliance to Section 62(1)-(c) of the MFMA 56 of 2003

### **Recommendation**

Effective procedures and policies should be implemented to ensure that an effective Fraud Prevention Plan is established to enable an early warning system for any potential fraud that could arise at the Municipality. Effective procedures and policies should be implemented to ensure that section 62(1) (c) of the Municipal Finance Management Act (no. 56 of 2003) is been complied with.

### **Management response**

Policies are in place from end of July 2008.

Name: Mr. J Krapohl

Date: 12/11/2008

### **Auditor's response**

The finding is transferred to the Management report.



**17. Planning: No policy on skills retention and monitoring of staff competency.**

**Audit finding**

When performing the audit procedures, it was noted that the Municipality does not have a policy on skills retention and monitoring of staff competency to ensure that skilled and competent staff members are retained.

This is in contravention with section 62(c) (i) of the Municipal Finance Management Act 56 of 2003 (MFMA) which states that the Accounting Officer is responsible for managing the financial administration of the Municipality and should take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal controls.

**Root cause**

The monitoring policies, procedures, techniques and mechanisms have not been adequately implemented

**Risk**

The following risks are identified:

- Loss of competent and skilled employees.
- Breakdown in the management of the department.

**Recommendation**

All the policies regarding human resources should be maintained, approved and incorporated within the human resources policies to ensure that risks as identified are minimised.

**Management response**

Corporate services are currently busy compiling a list of existing policies to enable us to identify where the gaps are.

Name: Mr. Sigenu

Date: 13/11/2008

**Auditor's response**

The finding is transferred to the Management report.

## **18. Planning: Non completion of the financial disclosure forms**

### **Audit finding**

Whilst performing the audit of the related parties the following section 57 managers did not have, completed Financial Disclosure forms, filed in their personal files.

- Mr M S Tantsi
- Mr J Krapohl
- Mr L Jojiyasi
- Mr B T Sigenu

A CIPRO search also revealed that the following have undisclosed interests;

Manager	Company	Relationship
Tantsi M S	Cradock Masizame	Director

This is in contravention with section 62(c) (I) of the Municipal Finance Management Act 56 of 2003 (MFMA) which states that the Accounting Officer is responsible for managing the financial administration of the Municipality and should take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal controls.

### **Root cause**

All elements of the control environment have not been developed and documented.

### **Risk**

Undisclosed interests could result in conflict of interest.

### **Recommendation**

All Section 57 managers must submit declaration of financial interest forms every year.

### **Management response**

We agree

Name: Mr J Krapohl

Date: 13/11/2008

### **Auditor's response**

The finding is transferred to the Management report.

## 19. Planning: Internal audit charter

### Audit finding

During the audit we noted internal audit function was not fully functional, and the following issues were identified.

- (i) The Internal Audit department only has one official (employee).
- (ii) The following items were not clearly defined on the Internal Audit Charter:
  - The authority to have free and unrestricted access to the Audit Committee and the External Auditors;
  - The requirement for the Head of Internal Audit to attend all Audit Committee Meetings;
  - The responsibility to comply with the Standards for the Professional Practice of Internal Auditing (standards) as prescribed by the Institute of Internal Auditors (standards);
  - The responsibility to conduct the Internal Audit department that would encompass the evaluation of risk management, internal controls, performance management and loss controls. Compliance with applicable laws and regulations and governance systems and contribute to the improvements thereof;
  - The responsibility of Internal Audit function to report directly to the Accounting Officer administratively and to the Audit Committee functionally;
  - The responsibility to develop, implement and report on risk-based Internal Audit plans
  - The responsibility to maintain a professional Internal Audit staff with sufficient skills, knowledge, experience and qualifications.
- (iii) The Internal Audit approach and methodology are not documented and these should include the following
  - Policies and procedures to ensure that the audit approach and methodology comply with the IIA standards;
  - Audit manuals, work programmes and working papers that have been developed.
- (iv) Training and development
  - There is no Internal Audit training and development programme developed to facilitate continuous education of the staff.
- (v) There is no documented Internal Audit annual plan and this should include the following:
  - All planned audits and scope of the audit were indicated on the annual plan
  - The plan should be based on the Municipality's approved risk management strategy
  - The plan should reflected all the material risk areas that should be subjected to an audit, including the control and governance systems evaluations
  - The plan should includes an evaluation of accounting procedures and practices
  - The annual plan should be approved by the audit committee
  - The internal audit annual plan should identify planned internal audit work that would be relevant to the auditing of financial statements
- (vi) There is no report by the internal auditor to the audit committee.  
The Internal Auditor should submit to the audit committee detailing the internal audit performance against annual plans

The above are in contravention with sections 165 of the Municipal Finance Management Act 56 of 2003 which stipulates that each Municipality and municipal entity must have an Internal Audit unit that prepares a risk based plan and an Internal Audit plan for each financial year.

An Internal Audit unit must advise the Accounting Officer and report to the audit committee on the implementation of the internal audit plan and matters relating to:

- Internal audit,
- Internal Controls,
- Accounting procedures and practices
- Risk and risk management,
- Performance management,
- Loss control; and
- Compliance with this Act, the annual Divisional of Revenue Act and any applicable legislation.

Furthermore the Internal Audit unit must perform other duties as assigned to it by the Accounting Officer.

### Root cause

All elements of the control environment have not been developed and documented.

**Risk**

Control weaknesses might increase the risk of fraud.

Weaknesses and other risk areas identified might give rise to inherent risks.

Productivity and service delivery of the Municipality might be diversely affected.

No compliance to section 165 of the Municipal Finance Management Act (No. 56 of 2003).

**Recommendation**

Procedures and policies should be implemented to ensure that the Municipality complies with the Municipal Finance Management Act.

**Management response**

The comments are noted and discussions are in place with an auditing firm to solicit its services and capacitate the unit.

Name: Mr. M.S. Tantsi

Date: 13/11/2008

**Auditor's response**

The finding is transferred to the Management report.

## **20. Planning: Financial accounting policies and procedures not documented**

### **Audit finding**

Whilst performing our audit procedures, we established that plans, standard working procedures, practices and policies (e.g. ordering system and receiving of goods and services, and their settlement, revenue due and receipts) which enhance internal control and the achievement of objectives and other intended results are not formalised and documented. As a consequence, management is not in a position to use key statistics, relationships or other information to control or evaluate the effectiveness and efficiency of conducting business of the Municipality in achieving its objectives.

This is in contravention with section 62(c) (i) of the Municipal Finance Management Act 56 of 2003 (MFMA) which states that the Accounting Officer is responsible for managing the financial administration of the Municipality and should take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal controls.

### **Root cause**

All elements or the control activities have not been developed and documented.

### **Risk**

Fraud and error risk will be high, as management does not have a structure in place for the proper financial management and oversight role in validating the transactions involved in carrying on the business of the Municipality, and subsequently reporting on those transactions.

In addition, management is not in a position to control or evaluate the effectiveness and efficiency of the business of the Municipality. No compliance with the related legislation.

Staff could override internal controls without detection

### **Recommendation**

Procedures and policies should be implemented, formalised and documented to ensure that effective and efficient financial management can be established to carry out the function as envisaged by the legislation. This will ensure that risk is maintained at an acceptable level and all financial transactions can be monitored accurately and timely, as this will enhance internal control and the achievement of objectives. It will also ensure compliance with the legislation.

### **Management response**

Note is taken of your finding.

Name: Mr. J. Krapohl

Date: 14/11/2008

### **Auditor's response**

The finding is transferred to the Management report.

## **EMPLOYEE COSTS**

### **21. Employee costs: Incorrect classification and interpretation of information**

#### **Audit finding**

During the audit we requested a list of all employees whose contracts were terminated. We obtained from management a list that included an employee whose services were terminated due to abscondment from work. We requested and obtained a personnel file of Mr. E.K. Alexander, inspected it and noted that Mr. E.K. Alexander's service was not terminated due to abscondment from works as indicated by management but resigned from the Municipality subsequent to year end. We also noted an internal memorandum with the recommendation that Mr. E.K. Alexander's resignation should be accepted. There is however no formal document that terminates Mr. E.K. Alexander's contract.

This is in contravention with section 62(c) (i) of the Municipal Finance Management Act 56 of 2003 (MFMA) which states that the Accounting Officer is responsible for managing the financial administration of the Municipality and should take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal controls.

#### **Root cause**

All elements or the control activities have not been developed and documented.

#### **Risk**

Information could be incorrectly classified and therefore it will be interpreted incorrectly.

Non compliance section 62(c) (i) of the Municipal Finance Management Act 56 of 2003 (MFMA)

#### **Recommendation**

Effective policies and procedures should be implemented to ensure that proper and accurate information is kept and classified correctly.

#### **Management response**

This error will be looked into and rectified.

Name: Mr. Sigenu

Date: 14/11/2008

#### **Auditor's response**

The finding is transferred to the management letter.

## **22. Employee Costs : Not maintaining consistent information between departments**

### **Audit finding**

During the audit we obtained a list of employees whose contracts were terminated due to death from HR department. It has been noted that Mr S. Zondela services were terminated due to death. However according to the salary department it was noted that the employee was removed from the payroll for medical reasons.

This is in contravention with section 62(c)(i) of the Municipal Finance Management Act 56 of 2003 (MFMA) which states that the Accounting Officer is responsible for managing the financial administration of the Municipality and should take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal controls.

### **Root cause**

All elements of the control activities have not been developed and documented.

### **Risk**

Inconsistent information could be kept.

### **Recommendation**

Effective policies and procedures should be in place to ensure accurate records are kept by all the departments of the Municipality.

### **Management response**

We are also coordinating a system where departments of the Municipality must cooperate instead of working in silos.

Comment: Mr. Sigenu

Date: 12/11/2008

### **Auditor's response**

The finding is transferred to management letter.

**23. Employee Cost - The Municipality does not have a wage register.**

**Audit finding**

During the audit we noted that the Municipality does not have a wage register. Furthermore we noted that the Municipality does not keep record of uncollected wages. We could not confirm that the waged employees do receive their wages as there is no register were they individually sign for the receipt thereof.

This is contrary to Section 62(1) (b) of the MFMA 56 of 2003 which states that the Accounting Officer of a Municipality is responsible for managing the financial administration of the Municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the Municipality are kept in accordance with any prescribed norms and standards.

**Root cause**

All elements of the control activities have not been developed and documented.

**Risk**

Wages could be paid to wrong personnel.

Waged employees may not receive their wages or wages could be paid to non existing employees.

**Recommendation**

The Accounting Officer must design and implement effective policies and procedures to ensure that there is a wage register and that it is used correctly.

**Management response**

Note is taken of your finding. There is a register for uncollected wages which was nor used because all the wages was collected. However we agree that there is no wage register for the collected wages.

Name: J. Krapohl

Responsible officials: Mrs. Muller and all supervisors

Responsible Official: J. Krapohl.

Date: 14 November 2008

**Auditor's response**

The finding is transferred to the management letter.

## 24. Employee Costs - No approval of overtime before it is worked

### Audit finding

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

Section 2 of the Inxuba Yethemba Municipality's overtime policy states that in the an employee working overtime, the Employee shall remunerate such employee at 1.5 times the employee's determine hourly wage for overtime worked, determine in accordance with the prescribed formula in respect of the hours worked. Provided that where possible such work shall be subject to the prior approval of the employer.

During the audit we noted that in August 2007 the following employee's worked overtime without obtaining prior approval of the employer.

Employee Name	Employee No	Amount Paid
Toto Dastile	22117	R 516.45
H.J. Goosen	10469	R 70.88
R Ntloko	10473	R 308.81
G Ratcliff	22010	R 2 408.33
T Magayiyana	22056	R 683.24
NA Jeremiah	22069	R 418.13
CHJ Erasmus	22073	R 3 259.26
F Joubert	10453	R 1 845.15
N Gomo	22105	R 910.98
S.M Duda	22106	R 826.32

### Root cause

The control environment, procedures, techniques and mechanisms have not been adequately implemented

### Risk

Overtime could be worked without considering the available budget

### Recommendation

Effective Procedures should be in place to ensure that overtime is pre approved before it is been worked.

### Management response

The current Manager was not here at the time. We will put in place a mechanism to ensure that these errors are not repeated.

Name: Mr. Sigenu:

Date: 14 November 2008

### Auditor's response

The finding is transferred to the management letter.

## **25. Employee Cost - Overtime constitutes more than 30% of the employee's monthly salary**

### **Audit finding**

During the audit we noted that Mr. CHJ Erasmus worked 51 hours of overtime during the August 2007 month. This worked out to an average of 12.45 hours a week. As a result the monthly compensation for overtime constituted more than 30% of the employee's monthly salary.

Employee Name	Monthly Salary	Overtime Paid	Percentage	Amount Over Paid
CHJ Erasmus	R 6 217	R 3 259	52 %	R 1 393.90

This is contrary to Section 2(10)(b) of the Basic Conditions of the Employment Act 75 of 1997 which states that an employer may not require or permit an employee to work more than ten hours' overtime a week.

### **Root cause**

All elements of the control activities have not been developed and documented.

### **Risk**

No compliance to the Basic Conditions of the Employment Act.

### **Recommendation**

The Accounting Officer should design and implement the effective policies and procedures to ensure that workers are not required or permitted to work more than ten hours overtime a week.

### **Management response**

We will advise line managers as to what is stipulated in the legislation so that they can comply.

Name: Mr. Sigenu

Date: 14 November 2008

### **Auditor's response**

The finding is transferred to the management letter.

## **26. Employee Costs - No policy for the Telephone Allowance**

### **Audit finding**

During the audit we noted that following allowances are been paid by the Municipality. However we noted that there are no policies regarding the payment these allowances and therefore we could obtain an approved copy.

1. Allowance - Other
2. Allowances - Telephone
3. Allowances - Uniform

This is in contravention with section 62(c) (i) of the Municipal Finance Management Act 56 of 2003 (MFMA) which states that the Accounting Officer is responsible for managing the financial administration of the Municipality and should take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal controls.

### **Root cause**

All elements of the control environment have not been developed and documented.

### **Risk**

Fraudulent activities could occur.

### **Recommendation**

The Accounting Officer must design and implement the policies and procedures regarding all the allowances paid by the Municipality.

### **Management response**

The said policies will be addressed when we look into the outstanding policies.

Name: Mr. Sigenu

Date: 14 November 2008

### **Auditor's response**

The telephone allowance policy has not been obtained from management although management indicates that it does exist.

The only telephone related policy obtained was the Municipal Telephone usage policy.  
The finding is transferred to the management report.

## 27. Employee Costs - No personnel files for Waged workers

### Audit finding

The following could not be performed on the employees mentioned below:

- a) During the audit we requested the personnel files waged workers. However no personnel files were obtained.
- b) We could not physically verify the employees as no employees were presented on request from management. Management confirmed that they do not have contact details of these employees.
- c) Furthermore it has been noted that there are no appointment letters for the following employees. No identity documents could be obtained for the employees as well.

Employee Name	Employee Name
ZJ Dyanti	Zolile Jonga
M. Maki	Willem Louw
S. Moshokane	Calvin Minaar
N.A. Watermeyer	Sam Minaar
P.M. Distin	Blom Seth
M.J. Mpike	Duda Themba
S. Moshokane	GweGwe Andrew
D.D. Arnolds	Mabele Elman
E.V. Gomo	Mahashe Ngulile
M.W. Ndamane	Nkululeko Mpegu
K.E. Olifant	Paulse Jam
P.V. September	Sixolo Abeneso
Xolani Booysen	Tumana Nonto

This in contravention with section 62 (1) of the MFMA which states that the Accounting Officer of a Municipality is responsible for managing the financial administration of the Municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the Municipality are kept in accordance with any prescribed norms and standards.

### Root cause

All elements of the control environment have not been developed and documented.

### Risk

Wages could be paid to non existing workers.

### Recommendation

Effective procedures should be in place to ensure that all the employees of the municipalities have personnel file and that they obtain letters of appointments before they start working.

### Management response

This may be caused by the fact that some temporal employees only enter their hours in time sheets, which then means they do not have files. We will look into this matter.

Name: Mr. Sigenu

Date: 14 November 2008

**Auditor's response**

The finding is transferred to the management report.

## **28. Employee Costs : No Curriculum Vitae (cv ) in the personnel files**

### **Audit finding**

We could not determine whether the following appointed employees qualified for the positions they filled, as their Curriculum Vitae's were not included in the files.

Employee	Position
R. Minners	Plumber
S.M. Mbuzwa	General Worker Civil Section
B. Ntshinana	General Worker Sewerage Works

This is in contravention with section 67 (a) of the Municipal Systems Act 32 of 2000 which states that a Municipality, in accordance with applicable law and subject to any applicable collective agreement, must develop and adopt appropriate systems and procedures to ensure fair, efficient, effective and transparent personnel administration, including the recruitment, selection and appointment of persons as staff members.

### **Root cause**

All elements of the control activities have not been developed and documented.

### **Risk**

Employees without the necessary qualifications could be appointed.

### **Recommendation**

Effective policies and procedures should be in place to ensure that employees with the necessary qualifications are appointed and all files have the employees CV.

### **Management response**

It could be that in most cases, employees at these levels do not necessarily need to avail CV's.

Name: J Krapohl

Date: 12/11/2008

### **Auditor's response**

The finding is transferred to the management report.

## 29. Employee Costs - No printed short list of suitable candidates

### Audit finding

During the audit we requested a printed short list of suitable candidates. However we did not obtain any proof that the following new appointees were included on the initial printed short list of suitable candidates for the filled positions. Therefore we also cannot confirm whether or not they were not added on at a later stage as we were not provided with the list of the short listed candidates for the positions shown below.

Employee No	Employee Name	Position	Appointment Date
30009	Mr L. Jojiyazi	LED Manager	01/05/2008
10586	T.K. Gxonono	Cashier Receptionist	01/02/2008
10589	R. Minners	Plumber	01/06/2008
10585	S. Mentoer	Electrician	01/01/2008
10588	S.M. Mbuzwa	General Worker Civil Section	01/04/2008
10587	B. Ntshinana	General Worker Sewerage Works	01/03/2008

This is in contravention with section 67 (a) of the Municipal Systems Act 32 of 2000 which states that a Municipality, in accordance with applicable law and subject to any applicable collective agreement, must develop and adopt appropriate systems and procedures to ensure fair, efficient, effective and transparent personnel administration, including the recruitment, selection and appointment of persons as staff members.

Furthermore paragraph 5.5.1 of the recruitment and selection policy of Inxuba Yethemba Municipality states that as soon as the applications are delivered at the relevant department, the chief clerk of Human Resource shall ensure that the process of screening of forms begins (short listing) to ensure that the applications are complete.

### Root cause

All elements of the control activities have not been developed and documented.

### Risk

The recruitment, selection and appointment of persons as staff members may not be fair, efficient, and effective.

Transparent personnel administration may not exist.

### Recommendation

Management must design and implement effective policies and procedures to ensure that the recruitment, selection and appointment of persons as staff members is fair, efficient, and effective and that personnel administration is transparent.

### Management response

The way the system has been working will be rectified as we have noted the errors.  
Name: Mr. Sigenu

Date: 14 November 2008

### Auditor's response

The audit finding has been transferred to the management letter.

### **30. Employee Costs - No supporting documentation to agree to the payslips**

#### **Audit finding**

During the audit we inspected the personnel files and requested from management, the contracts, letters of employment or the letters of increases to support the payslips. However no documents could be obtained to support the payslips of the following employees:

Crouse Emmerantia  
Saayman Cornelia  
Jacoba  
Cortzer Daniel Jacobus  
Zenzile Boniswa Eunice  
Bezuidenhout Katie  
Lottering Brenda  
Kersop George Jacobus  
De Reuck Millicent  
Sunita  
Muller Anita Lucille  
Maart David  
De Jager Jacomina  
Fredrika  
Appel Hendrick Koos  
Johnson Lena  
Kula Zwelinzima  
Ntlanganiso Bonisile  
William  
Mheshe Stompie Sophy  
Jam Jam Wilson  
Maqegu Dinisile Joseph  
Mackwena Jors  
Dyantyi Wisani Willie  
Makwena Jantjie  
Makwena Morrison  
Klaas Don Johannes  
Mokoena Sipho Charles  
Kima Mzimkhulu Elias  
Xabenidlini Simon  
Speelman Farki  
Nkole David Zolile  
Nteta Mzwandile Alfred  
Kitchen Petrus  
Cornelius

This is in contravention with section 62 (1) of the MFMA which states that the Accounting Officer of a Municipality is responsible for managing the financial administration of the Municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the Municipality are kept in accordance with any prescribed norms and standards.

#### **Root cause**

All elements of the control activities have not been developed and documented.

**Risk**

Limitation of scope.

Employees could be paid remuneration that has not been approved by management.

**Recommendation**

Effective policies and procedures should be in place to ensure that the salary increase letters and other records of the financial affairs of the department are kept.

**Management response**

Note is taken. In future the necessary arrangements will be made to put copies on the files

Name: Mrs. L. Reeders

Date: 14 November 2008

**Auditor's response**

The finding is transferred to the management report.

### 31. Employee Costs - Non compliance with sec 7(4) SALBC

#### Audit finding

During the audit we noted that the following employees exceeded the allowed number of accrued leave:

Employee No	Employee Name	No of Leave Days Accrued
10308	N.M. Adams	66
10024	S. Davids	57
22064	E.E. Duka	58
22073	C.J. Erasmus	53
10287	K. Farao	50
10239	W. Fleurs	66

No days exceeding the allowed 48 days have been forfeited or paid out.

This in contravention with section 7(4) of SALBC agreement which states that leave accumulated subsequent to 1 January 2004 may be accumulated to a maximum of forty-eight (48) days inclusive of those days referred to in clause 7.3.3.

Section 7(5) of SALBC agreement states that any leave in excess of forty-eight (48) days may be encased should the employee be unable to take such leave as a result of operational requirements. If, despite, being afforded an opportunity to take leave, an employee fails refuses or neglects to take the remaining leave due to him during this period, such remaining leave shall fall away.

#### Root cause

All elements of the control activities have not been developed and documented.

#### Risk

Non compliance to rules and regulations

#### Recommendation

Effective procedures should be in place to ensure that all the relevant acts and regulations are been complied with.

The balance of leave should be paid out within a period of 2 years starting from 1/1/2004 and that the leave pay-outs should determined on the rate of pay as at 31 December 2003.

#### Management response

As this is a relatively new agreement, management is trying to manage leave effectively, in our management meetings we emphasize the 48 day perk and that managers are responsible for seeing to it that leave is managed properly as per the agreement.

Name: Mr. Sigenu

Date: 14 November 2008

#### Auditor's response

The finding is transferred to the management report.

### 32. Employee Costs - No communication of the remaining leave days

#### Audit finding

During the audit we requested proof that employees were told the number of annual leave days accrued to them. Furthermore we inspected the following employee's personnel files for any documentation informing the employees of their remaining leave days accrued to them; however no documentation was found or obtained from management.

Employee No	Employee Name
10284	H. Adams
10272	L. Alexander
10454	E. Arnolds
10528	E.J. Bishop
10512	S. De Maar
10179	L.E.T Jacobs
22098	E. Klass
10166	P.A. Khetwa
10583	M.E. Kima
10273	D.J. Klass

This is in contravention with section 62 (c) (i) of the Municipal Finance Management Act 56 of 2003 (MFMA) which states that the Accounting Officer is responsible for managing the financial administration of the Municipality and should take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal controls.

#### Root cause

All elements of the control environment have not been developed and documented.

#### Risk

Annual leave days may be forfeited without the knowledge of the employees.

#### Recommendation

The Accounting Officer must design effective policies and procedures should be in place to ensure that employees are communicated on the regular basis, the number of annual leave days accrued to them. Annual leave days could be printed on the payslips.

#### Management response

We are starting a process of producing a monthly printout with leave balance for each department, so that, manager should circulate to staff in the relevant departments.

Name: Mr. Sigenu

Date: 14 November 2008

#### Auditor's response

The finding is transferred to the management report.

**33. Employee Costs - No contract could be obtained or any other supporting documentation to confirm that the employee is entitled to allowances**

**Audit finding**

During the audit we requested the contracts or any other supporting documentation confirming that the following employees are entitled to the transport/ essential user allowance. However we could not obtain any contracts or supporting documentation that confirmed that the following employees are entitled to the essential user allowance (transport allowance):

Employee Name	Employee No	Allowance	Period	Amount
G. Leroux	10093	Essential User (Transport)	October 2007	3283.29
Gerber BHJ	10255	Essential User (Transport)	October 2007	3297.03
Crouse E	10003	Essential User (Transport)	October 2007	2127.12
De Jager	10053	Essential User (Transport)	October 2007	2106.48
Kersop GJ	10026	Essential User (Transport)	October 2007	3283.29
GF Hening	22021	Essential User (Transport)	October 2007	3256.18
Shoeman SJ	10385	Essential User (Transport)	October 2007	4506.82
Serfonten D	22018	Essential User (Transport)	October 2007	2490.02
Fleurs W	10239	Essential User (Transport)	October 2007	453.04
Ntwala SH	10501	Essential User (Transport)	October 2007	2287.18
Z. Deyzel	10008	Housing Allowance	April 2008	566.00
DJ Coetzer	10001	Housing Allowance	April 2008	485.00

This is in contravention with section 62(c) (i) of the Municipal Finance Management Act 56 of 2003 (MFMA) which states that the Accounting Officer is responsible for managing the financial administration of the Municipality and should take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal controls.

**Root cause**

All elements of the control environment have not been developed and documented.

**Risk**

Employees could receive allowances which they are not entitled.

**Recommendation**

The Accounting Officer must design and implement policies and procedures to ensure that only employees who are entitled to essential user and the housing allowance receive these allowances. Furthermore the Accounting Officer must design and implement policies and procedures to ensure that all the allowances and benefits the employees are entitled to be included on their contracts.

**Management response**

The Municipality will begin to put letters into files indicating what allowances employees are entitled to.

Name: Mr. Sigenu

Date: 14 November 2008

**Auditor's response**

The finding is transferred to the management report.

### **34. Employee Costs - Over payment**

#### **Audit finding**

During the audit we noted that Mr PP Holster resigned and his services were terminated on the 24/01/2008. However it has also been noted that Mr Holster had been over paid an amount of R 2 501. As at 02/10/2008 Mr PP Holster owed the Municipality an amount of R 2 178, thus the amount had not been recovered.

This is in contravention with section 67 (a) of the Municipal Systems Act 32 of 2000 which states that a Municipality, in accordance with applicable law and subject to any applicable collective agreement, must develop and adopt appropriate systems and procedures to ensure fair, efficient, effective and transparent personnel administration, including the recruitment, selection and appointment of persons as staff members.

#### **Root cause**

All elements of the control activities have not been developed and documented.

#### **Risk**

Staff debts and over payments may not be recovered.

#### **Recommendation**

Effective procedures should be in place to ensure that staff debts are recovered

#### **Management response**

Note is taken of your finding. This issue will be forwarded to the income department for billing on the relevant official's name.

Name: Mrs. L. Reeders

Responsible Official: Mrs. F. de Jager

Date: 14 November 2008

#### **Auditor's response**

The finding is transferred to the Management report.

### 35. Employee Costs - Leave register does not agree to the System

#### Audit finding

During the audit we noted that the leave records on the leave register and the leave records on the system did not agree. Management used the leave records on the system to provide to the leave pay. We compared the leave records on the system and the leave records on the leave register and the personnel files for the following employees:

Employee no	Balance According to the Leave register	Leave Days on the System	Difference
10284	32	34	2
10272	33	31	2
10454	53	63	10
10528	32	36	4
10512	17	24	7
10179	12	29	17
22098	14	20	6
10166	12	15	3
10583	39	5	34
10273	34	31	3

This is in contravention with section 62 (c) (i) of the Municipal Finance Management Act 56 of 2003 (MFMA) which states that the Accounting Officer is responsible for managing the financial administration of the Municipality and should take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal controls.

#### Root cause

All elements of the control environment have not been developed and documented.

#### Risk

The Provision for Leave Pay could be misstated.

#### Recommendation

The accounting officer must design and implement policies and procedures to ensure that leave records on the system agrees to the leave records on the manual leave register.

#### Management response

The problem is there, it has emanated from using a manual system and moving to an electronic system. We are busy reconciling leave as we acknowledge that there are discrepancies

Name: Mr. Sigenu.

Date: 14 November 2008

#### Auditor's response

The finding is transferred to the Management report.

## PROVISIONS

### 36. Provisions: Leave pay amount different to amount provided for.

#### Audit finding

During the performance of our audit it was noted that the actual payment that was made pertaining to leave was more than the amount that was actually provided for. The following is the schedule on how the payment with regard to leave was made.

Employee Code	Employee Name	As Per Provision Schedule	Actual Leave Paid Out	Gross Rate per day	Amount Provided	Actual Payment	Amount (Over Paid)
22012	Goosen HJ	47	50	241.32	11,342.04	12,066.00	(723.96)
10026	Kersop GJ	71	90	366.21	26,000.91	32,958.90	(6,957.99)
22019	Rademeyer RA	1	11	338.37	338.37	3,722.07	(3,383.70)
10035	Reeders GM	124	131	366.21	45,410.04	47,973.51	(2,563.47)
22009	Williams DA	51	52	446.6	22,776.60	23,223.20	(446.60)
10049	Dreyer TFJ	13	19	331.73	4,312.49	6,302.87	(1,990.38)

Likely overpaid leave pay amounted to R 143 438.

This in contravention with section 62 (1) of Municipal Finance Management Act 53 of 2003 (MFMA) states that the Accounting Officer of a Municipality is responsible for managing the financial administration of the Municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the Municipality are kept in accordance with any prescribed norms and standards.

#### Root cause

All elements of the control activities have not been developed and documented.

#### Risk

Possible overstatement of liabilities in the income statement.

Possible fruitless and wasteful expenditure may be incurred with regard to overpayment being made to employees.

#### Recommendation

Management should implement mechanism to ensure that the leave credit available as at year end as per leave provision schedule is used to determine the actual leave pay out, the actual leave used to determine the leave pay out should not be more than the leave that was provided for. Furthermore reconciliation should be performed on a regular basis in order to check as to whether the leave days that have been paid out are in line with the leaves that have been provided and any discrepancies that were identified should be corrected timeously by the management. The management should also ensure that they are formal written procedures with regard to how provision for leave is determined or calculated and the management should approve these written procedures thereof.

#### Management response

Note is taken of your finding. This will be investigated.

Name: J. Krapohl

Date: 14 November 2008

**Auditor's response**

Audit finding is transferred to management letter.

## **INVESTMENTS**

### **37. Investments: Investment policy not including withdrawal procedures.**

#### **Audit finding**

In accordance to the MFMA 62 (1), the Accounting Officer of a Municipality is responsible for managing the financial administration of the Municipality, and must for this purpose take all reasonable steps to ensure—

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

During the review of investment withdrawals, we noted that the Municipality's cash management and investment policy does not include the procedure for withdrawing investments.

#### **Root cause**

The control environment, procedures, techniques and mechanisms have not been adequately implemented.

#### **Risk**

Ineffective design of policies.

Non compliance with MFMA sec 62 (1) and (2).

#### **Recommendation**

Management should ensure that the cash management and investment policy is complete by including the procedures for withdrawing investments.

#### **Management response**

Note is taken of your finding. The investment policy will be looked at and be revised if necessary.

Responsible official: CFO

Name: Mrs. E. Crouse

Date: 14 November 2008

#### **Auditor's response**

The finding is transferred to the management report.

## **LEASES**

### **38. Fixed Assets - Policies - Leases**

#### **Audit finding**

While performing the audit we noted that Municipality does not have the policy for leases.

This in contravention with section 62(1) of MFMA 56 of 2003 which state the Accounting Officer of a Municipality is responsible for managing the financial administration of the Municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the Municipality are kept in accordance with any prescribed norms and standards;

#### **Root cause**

All elements of the control environment have not been developed and documented.

#### **Risk**

Non compliance with MFMA 62(1).

#### **Recommendation**

Management should implement a policy for leases.

#### **Management response**

Note is taken of your finding. A policy for leases will be implemented.

Name: J. Krapohl

Responsible Official: J. Krapohl.

Date: 14 November 2008

#### **Auditor's response**

Audit finding is transferred to management letter.

### 39. Leases - Contracts

#### Audit finding

While performing the audit we identified the following leases that were not classified as finance or operating leases in the annual financial statements.

Description	Serial No	Lease Period
Konica Minolta B210	20737145	3 Years
Minolta Copier EP 1080	2111725	3 Years
Sharp AR - 121 Copier	15700057	3 Years

This in contravention with section 62.(1)(b) of Municipal Finance Management Act 56 of 2003 (MFMA) which state that the Accounting Officer of a Municipality is responsible for managing the financial administration of the Municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the Municipality are kept in accordance with any prescribed norms and standards.

#### Root cause

All elements of the control activities have not been developed and documented.

#### Risk

Non compliance with the MFMA 62(1).

#### Recommendation

Management should ensure that leases are properly classified and disclosed in the annual financial statements.

#### Management response

Note is taken of your finding. We are in the process of collecting all information regarding all contracts in order for us to compile a lease asset register.

Name: Mrs. E. Crouse

Responsible Official : Miss Z Kali

Date: 14 November 2008

#### Auditor's response

Audit finding is transferred to management letter.

#### 40. Leases - Completeness

##### Audit finding

The Municipality did not keep a register for leased assets showing the list of all assets that are leased by the Municipality. The following leased machines, which were all bar-coded, were not classified as leases and also not reflected in the asset register of the Municipality.

Description	Company	Serial #	Bar Code
Brother Copier	Brother	E63380L5J52755779	3376
Canon Copier	Canon	F122200	3379
Brother Printer	Brother	E63260J8J680475	3375
Sharp AR - 121E	Sharp	15700057	LED Dept

This is in contravention with section 62(c)(i) of the Municipal Finance Management Act 56 of 2003 (MFMA) which states that the Accounting Officer is responsible for managing the financial administration of the Municipality and should take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal controls.

##### Root cause

All elements of the control activities have not been developed and documented.

##### Risk

Non compliance with the MFMA 62(1).

##### Recommendation

Management must ensure that leases transferred to PPE are recorded in the asset register.

##### Management response

Note is taken of your finding. A policy will be drafted during the conversion to GAMAP/GRAP in 2008/2009.

Responsible Official: J. Krapohl.

Date: 14 November 2008

##### Auditor's response

Audit finding is transferred to the management report.

#### **41. Long term liabilities**

##### **Long Term Liability classified as Trade Creditor.**

##### **Audit finding**

During the audit for the period under review, we noted that an amount of R 20 706,861 which related to cash owed to Chris Hani District Municipality, has been incorrectly classified as current liability.

This is in contravention with IAS 1 paragraph 60, which state that a liability shall be classified as current when it satisfies any of the following criteria:

- (a) it is expected to be settled in the entity's normal operating cycle;
- (b) it is held primarily for the purpose of being traded;
- (c) it is due to be settled within twelve months after the balance sheet date; or
- (d) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date".

##### **Root cause**

All elements of the control environment have not been developed and documented.

##### **Risk**

The financial statements are unclear to users of the financial statements as to determine the value between long-term and short-term liabilities.

##### **Recommendation**

The Accounting Officer should design and implement the policies and procedures that ensures that the financial information is disclosed accordingly in the financial statements.

##### **Management response**

We agree.

Name: C. Crouse

Date: 14 November 2008

##### **Auditor's response**

The finding is transferred to the management letter.

## OPERATING EXPENDITURE

### 42. Expenditure: No Invoice attached to the payment vouchers

#### Audit finding

During the audit, the following payments were made without valid invoices and paid against quotations:

Period	Ref	Description	Amount
200806	44646	03/06/08 INTERGRATED WEED CONTROL SERVI	5,492.31
200806	44690	06/06/08 HIDROSTAL SA (PTY) LTD	4,810.00

This is in contravention with section 62(c) (i) of the Municipal Finance Management Act 56 of 2003 (MFMA) which states that the Accounting Officer is responsible for managing the financial administration of the Municipality and should take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal controls.

#### Root cause

All elements or the control activities have not been developed and documented.

#### Risk

Non compliance to SCM.

#### Recommendation

The Accounting Officer should implement the procedures to ensure that the Supply Chain Management policy is been adhered to.

#### Management response

Note is taken of your finding. In some instances the invoices are received after payment has been made. We will however try to prevent similar situations.

Name: Mrs. E. Crouse

Date: 14/11/2008

#### Auditor's response

Audit finding is transferred to management letter.

### 43. Expenditure : Inadequate Quotations Obtained

#### Audit finding

During the review of grant expenditure, we noted that only one quotation was obtained for the transactions mentioned below:

Ref	DATE	DESCRIPTION	Amount
44778	23/06/08	LOU JEWELLERS	5,205.26
42827	17/09/07	RAM ELECTRICAL	5,692.98
43718	06/02/08	IDEAL VALVE & ENGINEERING	15,713.14
44631	31/05/08	LEDOUX LUBRICANTS	6,349.80
44624	31/05/08	COMPUTER MAGIC	12,000.00
44613	29/05/08	TASSLELANE	3,120.35
43729	07/02/08	BAYPAC	2,405.98
			<b>R50,487.51</b>

This is in contravention with the Supply Chain Management policy which states that at least two written quotations should be obtained for expenditure of R500; and with MFMA 112 (1) which states that the Supply Chain Management Policy of a Municipality or municipal entity must be fair, equitable, transparent, competitive and cost-effective and comply with a prescribed regulatory framework for municipal supply chain management, which must cover at least the following:  
(a) The range of supply chain management processes that municipalities and municipal entities may use, including tenders, quotations, auctions and other types of competitive bidding.

#### Root cause

All elements of the control activities have not been developed and documented.

#### Risk

Non compliance with Supply Chain Management policy.

#### Recommendation

The Accounting Officer should implement the procedures to ensure that the Supply Chain Management policy is been adhered to.

#### Management response

Note is taken of your finding. It is not always possible to obtain two quotations because some suppliers don't want to do business with the Municipality and some are sole suppliers.

Comment : Mr. D.v.H. Meyer

Date : 12/11/2008

#### Auditor's response

Audit finding is transferred to management letter.

#### 44. Expenditure : SARS tax Clearance

##### Audit finding

During the review of the expenses, we noted that no tax clearances were obtained from South African Revenue Service for the following Suppliers to ensure that the provider's tax matters are in order and whether he or she is in the service of the state, has been in the service of the state in the previous twelve months, this before being awarded any contracts/services by the Municipality.

REF	DATE	DESCRIPTION	Amount
44093	27/03/08	SWITCHTECH FIELD SERVICES	25,000.00
44778	23/06/08	LOU JEWELLERS	5,205.26
42827	17/09/08	RAM ELECTRICAL	5,692.98
43718	06/02/08	IDEAL VALVE & ENGINEERING	15,713.14
44631	31/05/08	LEDOUX LUBRICANTS	6,349.80
44624	31/05/08	COMPUTER MAGIC	12,000.00
44613	29/05/08	TASSLELANE	3,120.35
43684	05/02/08	COLAS	18,924.00
43729	07/02/08	BAYPAC	2,405.98
44612	29/05/08	GRASSIES STAAL	1,130.92
44408	30/04/08	WINWIN SOLUTIONS	29,100.00
44394	30/04/08	DP GONIWE	1,700.00
44167	07/04/08	CHEM-SYS c.c	3,696.13
			<b>R130,038.56</b>

This in contravention with Section 13 of the Supply Chain Management of Inxuba Yethemba Municipality which states that:

A written quotation or bid may not be considered unless the provider who submitted the quotation or bid –

(b) has authorised the Municipality of Inxuba Yethemba to obtain a tax clearance from the South African Revenue Services that the provider's tax matters are in order; and

(c) Has indicated –

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

##### Root cause

The control activities, procedures, techniques and mechanisms have not been adequately implemented.

##### Risk

Non compliance with Section 13 of the Supply Chain Management Policy.

##### Recommendation

Management should ensure compliance with the Supply Chain Management policy.

**Management response**

Note is taken of your finding. This matter will be investigated.

Name: Mrs. E. Crouse

Date: 13/11/2008

**Auditor's response**

Audit finding is transferred to management letter.

#### 45. Expenditure: No separate bank accounts for grants received

##### Audit finding

During the review of grants, we noted that no separate bank accounts were opened for the grants mentioned below:

Description	Unspent Bal as at 30/06/08
Service Informal Housing	33,232.00
Structure Plan Middelburg	51,462.00
Life Project	13,707.00
Vusubuntu DSRAC	41,078.00
IT Ph3	22,635.00
MMP Capacity	18,391.00
Squatters Development Grants	163,282.00
Survey in Michausdal	70,490.00
Csk Recycling Project	17,698.00
Establishment Ward Committees	4,226.00
NER Electricity	112,991.00
	<u>549,192.00</u>

This is in contravention to section 12 (2) of the MFMA 56 of 2003 which states that a Municipality may in terms of section 7 open a separate bank account in the name of the Municipality for the purpose of a relief, charitable, trust or other fund.

Furthermore section 12 (3) of the MFMA 56 of 2003 states that money received by the Municipality for the purpose of a relief, charitable, trust or other fund must be paid into a bank account of the Municipality, or if a separate bank account has been opened in terms of subsection (2), into that account.

##### Root cause

All elements of the control environment have not been developed and documented

##### Risk

Non compliance with MFMA 12 (2) and (3).

##### Recommendation

The Accounting Officer should design policies and procedures to ensure compliance with section 12 (2) and (3) of the MFMA.

##### Management response

Note is taken of your finding. There are existing investments for Life Project, Vusubuntu DSRAC and IT ph3. For the remaining grants, there are no investments and we are not in a position to make the necessary investments. Most of these grants are from the early 90's. With the implementation of GAMAP/GRAP most of these amounts will be written off.

Name: Mrs. E. Crouse

Date: 14 November 2008

##### Auditor's response

The finding is transferred to management letter.

## PAYABLES

### 46. Accounts payable : Journals not authorised

#### Audit finding

During the audit it was noted that general journals were prepared, captured by a single official (the preparer- Ms E Crouse) and were neither reviewed nor approved.

PERIOD	REF	SRC	BATCH	DATE DESCRIPTION	CREDIT BAL
200806	jnl839	GL	839	30/06/08 Reall Eskom payment	-1,946,791.60
200806	jnl845	GL	845	28/07/08 Water research Levy	-112,775.24
200806	jnl851	LR	851	30/06/08 Sundry Creditors	-90,011.27
200806	jnl858	GL	858	30/06/08 Payment wrong period	-40,435.28
200806	jnl841	GL	841	30/06/08 Sundry Creditors Dep	-92,382.95
200806	jnl845	GL	845	28/07/08 Reall CHDM - SARS	-20,706,861.04
					<u>-22,989,257.38</u>

This is in contravention with section 62(c) (i) of the MFMA 56 of 2003 which states that the Accounting Officer is responsible for managing the financial administration of the Municipality and should take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal controls.

#### Root cause

All elements or the control activities have not been developed and documented.

#### Risk

invalid and unauthorised journals could be recorded which could result in material misstatement of financial statements.

Fictitious journal entries could be processed to conceal financial irregularities.

#### Recommendation

The Accounting Officer must design and implement the effective policies and procedure to ensure that duties are segregated to different officials with regards to preparing, authorizing and recording journal entries.

#### Management response

The recommendation from the auditors will be accepted and implemented.

Name: Mrs. E. Crouse.

Date: 17/11/2008

#### Auditor's response

The finding is transferred management letter.

#### **47. Accounts payable : Creditors Reconciliation not performed**

##### **Audit finding**

During the conduct of the audit it was identified that no creditor's reconciliation were performed during the course of the financial period.

This is in contravention with section 62(c) (i) of the Municipal Finance Management Act 56 of 2003 (MFMA) which states that the Accounting Officer is responsible for managing the financial administration of the Municipality and should take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal controls.

##### **Root cause**

All elements of the control activities have not been developed and documented.

##### **Risk**

Payments could be made to suppliers for goods and services that were never received by the Municipality. Duplicate invoices on the supplier's statement might not be noticed by the Municipality resulting in overpayment/ double payment.  
Possible misstatement in the financial statements.

##### **Recommendation**

The Accounting Officer should design and implement effective policies and procedures to ensure that creditor's reconciliations are prepared and reviewed by an independent person on a monthly basis.

##### **Management response**

Note is taken of your explanation that the creditor statements have to be reconciled to the creditors control vote. The practical implementation will be looked into.

Responsible officials : Mr. H. Leonie, Mrs. R.A. Rademeyr

Date:

##### **Auditor's response**

The finding is transferred management letter.

## **PROPERTY, PLANT & EQUIPMENT**

### **48. Fixed Assets - Fixed asset register**

#### **Audit finding**

While inspecting the asset register we noticed that there were no columns for the following sections:

- (i) Details of write downs.
- (ii) Disposal date.
- (iii) Amount received for disposal of fixed assets.
- (iv) Physical condition of the asset.
- (v) Purchase date column is there but the dates recorded are for the future e.g. an asset purchased 12/09/2013.

This in contravention with section 62(1) of MFMA 56 of 2003 which state the Accounting Officer of a Municipality is responsible for managing the financial administration of the Municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the Municipality are kept in accordance with any prescribed norms and standards;

#### **Root cause**

Procedures, techniques and mechanisms have not been adequately implemented.

#### **Risk**

Non compliance with the MFMA 62(1).

#### **Recommendation**

Management should ensure compliance with MFMA 62(1).

#### **Management response**

Deloitte was appointed to assist us with the conversion to GAMAP/GRAP. These shortfalls will be taken up with them as well as the services provider – R-Data.

Name: Mr J Krapohl

Date: 13/11/2008

#### **Auditor's response**

Audit finding is transferred to management letter.

#### 49. Fixed Assets - Physical verification and asset condition

##### Audit finding

While physically verifying the assets of the Municipality the following was noted;

Asset #	Bar - code	Asset Description	Location	Comment
2327	2525	Fridge	Middleburg Clinic- room 327	Could not be located. The fridge in room 327 is bar coded 2289
4106	3074	Foot scale	Middleburg Clinic- room 327	Could not be located
1220	1220	Nissan Truck –CJL 604 EC	Technical Department	Asset not working properly
2653	2653	Bulldozer- BZG 624 EC	Technical Department	Asset not working

This in contravention with section 62(1) of MFMA 56 of 2003 which state the Accounting Officer of a Municipality is responsible for managing the financial administration of the Municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the Municipality are kept in accordance with any prescribed norms and standards;

##### Root cause

The control environment, procedures, techniques and mechanisms have not been adequately implemented.

##### Risk

- Possible overstatement of the asset in the annual financial statements.
- Loss of assets due to inadequate monitoring

##### Recommendation

Policies and procedures should be implemented to ensure that all the assets are recorded in the fixed asset and are correctly located.

##### Management response

The bar coded fridge 2525 was removed to Kwanonzame new clinic. It appears under R0362 and it was counted on the cycle 200801. The foot scale 3074 appears under missing assets. Reasons could be, the asset is broken and kept in a safe of the asset was removed to another office. Once again this will be taken up with R-Data and Deloitte.

Name: J. Krapohl

Date: 14 November 2008

##### Auditor's response

Audit finding is transferred to management letter.

## 50. Fixed Assets - Physical Verification - Asset count

### Audit finding

While performing the audit at the Municipality we discovered discrepancies between the asset count records and the asset register and according to the asset clerk it seems the asset count is adequate but the method used is not effective i.e. the scanner does not produce accurate figures

Total assets per asset register	Total assets per asset count	Difference
4967	1261	3706

This in contravention with section 62(1) of MFMA 56 of 2003 which state the Accounting Officer of a Municipality is responsible for managing the financial administration of the Municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the Municipality are kept in accordance with any prescribed norms and standards;

### Root cause

Procedures, techniques and mechanisms have not been adequately implemented.

### Risk

Non compliance with the MFMA 62(1).

### Recommendation

Management must ensure that the asset count and asset register information reconciles as soon as discrepancies are identified.

### Management response

Note is taken of your finding. Policies and procedures will be put in place.

Responsible Official: R Krapohl.

Name: J. Krapohl

Date: 14 November 2008

### Auditor's response

Audit finding is transferred to management letter.

## **51. Fixed Assets - Physical Verification - Asset count reports**

### **Audit finding**

While performing the audit, we noted and observed that no asset count reports were prepared and sent to the Council.

This in contravention with section 62(1) of MFMA 56 of 2003 which state the Accounting Officer of a Municipality is responsible for managing the financial administration of the Municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the Municipality are kept in accordance with any prescribed norms and standards.

### **Root cause**

Procedures, techniques and mechanisms have not been adequately implemented.

### **Risk**

Non compliance with the MFMA 62(1).

### **Recommendation**

Management must ensure that after every asset count, a report is prepared and sent to the council.

### **Management response**

Due to the absence of an asset clerk for nearly a year there was a backlog of work during the year end stock take. Attention will be given to your recommendation.

Responsible Official :Z. Kali

Name: Mrs. E. Crouse

Date: 14 November 2008

### **Auditor's response**

Audit finding is transferred to management letter.

## 52. Fixed Assets - Physical Verification - Write off

### Audit finding

While physically verifying assets and tracing them to the fixed asset register we came across a Rotary Broom which is worn out and does not work but on tracing it to the asset register we noticed that it was valued at R 10 000 instead of having been written down to nil.

Description	Barcode	Rag no	Value in Fixed Asset Register
Rotary Broom	1744	CBW 019 EC	R10 000.00

This in contravention with section 62.(1) with Municipal Finance Management Act which state that the Accounting Officer of a Municipality is responsible for managing the financial administration of the Municipality, and must for this purpose take all reasonable steps to ensure—  
(a) that the resources of the Municipality are used effectively, efficiently and economically;  
(b) that full and proper records of the financial affairs of the Municipality are kept in accordance with any prescribed norms and standards;

### Root cause

All elements of the control activities have not been developed and documented.

### Risk

Non compliance with the MFMA 62(1).

### Recommendation

Management must identify all items that are not in good working order and these should be auctioned if possible and the asset register must be updated.

### Management response

Note is taken of your finding. During the conversion a proper asset count will be performed to identify all assets not in good working order. However this will be done with each and every asset count.

Comment : Mrs. E. Crouse

Responsible Official : Miss. Z. Kali

14 November 2008

### Auditor's response

Audit finding is transferred to management letter.

**53. Property Register: The Municipality does not maintain a property register.**

**Audit finding**

We requested a property register from management. However management confirmed Municipality does not have an updated property register in place.

This in contravention with section 23(1)) of Municipal Finance Management Act which state that the Municipality should have a property register that consists of two parts. Part A should consist of the current valuation roll of the Municipality including supplementary valuations. Part B must specify properties that is subject to exemptions, rebates, phasing in of rates or exclusions referred to in section 17 (1) (a), (e), (g), (h) and (i) of the Act.

**Root cause**

All elements of the control activities have not been developed and documented.

**Risk**

**Recommendation**

The Municipality should ensure that it has an updated property register in place in terms of section 23 of the Act.

**Management response**

We are busy with the property valuation. This valuation will be implemented on 1 July 2009. A full property register will be available after implementation.

Name: J. Kraphol

Date: 14 November 2008

**Auditor's response**

The finding is transferred to the management letter.

#### 54. Fixed Assets - Leases - No contract

##### Audit finding

While physically verifying assets we came across a photocopier which was not bar-coded and on enquiry from the asset clerk we were told that this was a leased asset but however we did not get the lease contract/ cost per copy maintenance agreement.

Description	Lesser	Serial #	Location
Minolta Copier CSPRO EP 1080	Konica Minolta Karoo	2111725	Salaries

This is in contravention with section 62(1)(c)(i) of the MFMA which states that the Accounting Officer must ensure that the Municipality has and maintains effective, efficient and transparent systems of financial, risk management and internal control.

##### Root cause

All elements of the control activities have not been developed and documented.

##### Risk

The financial statements may be misstated.

##### Recommendation

Management must ensure that all assets of the Municipality have the necessary documentation whether owned or leased.

##### Management response

Note is taken of your finding. We are in the process of collecting all information regarding all contracts in order for us to compile a lease asset register.

Name: Mrs. E. Crouse

Responsible Official: Miss Z Kali

Date: 14 November 2008

##### Auditor's response

The finding is transferred to the management report.

## 55. Fixed Assets - Journals - Authorisation

### Audit finding

During the audit we noted that the following journals which were not authorised.

Date	Description	Journal No	Vote Number	Amount as per GL
28/07/2008	Land sales	jnl845	629848846303	150,543.53
30/06/2008	Capital Assets Purchased	jnl863	629525805200	278,697.34
30/06/2008	Capital Assets Purchased	jnl863	629525204800	194,463.63
30/06/2008	Write off of Uno	jnl863	629525800200	29,758.88
30/06/2008	Assets Duplicated	jnl856	629525800200	40,000.00

This in contravention with section 62(1) of MFMA 56 of 2003 which state the Accounting Officer of a Municipality is responsible for managing the financial administration of the Municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the Municipality are kept in accordance with any prescribed norms and standards;

### Root cause

All elements of the control environment have not been developed and documented.

### Risk

Unauthorised journals may be processed.

### Recommendation

Effective mechanisms and policies must be in place to ensure that all journals are authorised and approved.

### Management response

Measures will be put in place to authorize all journals.

Responsible Official: R Krapohl.

Date: 14 November 2008

### Auditor's response

The finding is transferred to the Management report.

## 56. Fixed Assets - Contracts Register not updated

### Audit finding

We inspected the contract register and noted that this register was not updated with the following contracts.

Reference	Description	Contractor	Amount
EC0689/CL/06/08	Lusaka Street light Project	Abuti CC	220 419
R/EC/1244/07/09	Gravel Street lights in Mingelihle	LRC Civils	2 356 627
R/EC/2110/07/09	Upgrade of Grootfonteinweg	S.C Contractors	1 427 473

This is in contravention with section 62 of the MFMA 56 of 2003 which state the Accounting Officer of a Municipality is responsible for managing the financial administration of the Municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the Municipality are kept in accordance with any prescribed norms and standards.

### Root cause

All elements of the control environment have not been developed and documented.

### Risk

Contract register may be incomplete.

### Recommendation

Management must ensure that all the contract register is updated with all material contracts.

### Management response

Note is taken of your finding. This will be communicated to the registry department.

Responsible person: Mrs. Deysel

Comment: Mrs. E. Crouse

14 November 2008

### Auditor's response

The finding is transferred to the Management report.

## 57. Fixed Assets - Additions - Missing

### Audit finding

While physically verifying additions we could not locate the following printer.

Description	Invoice #	Supplier	Location	Amount
Laserjet Printer	012055	XTT	Municipal Manager's Office	R 3 000

This is in contravention with section 62(c)(i) of the Municipal Finance Management Act 56 of 2003 (MFMA) which states that the Accounting Officer is responsible for managing the financial administration of the Municipality and should take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal controls.

### Root cause

All elements of the control activities have not been developed and documented.

### Risk

Non compliance with the MFMA 62(1).

### Recommendation

The Accounting Officer must design and implement the policies and procedures to ensure that all assets in the Municipality's records physically exist and can be located easily.

### Management response

Note is taken of your finding. This matter will be investigated and strict measures will be put in place to eliminate occurring incidents.

Responsible Official: R Krapohl

Date: 14 November 2008

### Auditor's response

Audit finding is transferred to management letter.

**58. Fixed Assets:** Supporting documentation could be obtained for the following Fixed Assets additions.

**Audit finding**

During the audit no supporting documentation could be obtained for the following Fixed Assets additions some of which have NIL balance:

Description	Cheque #	Supplier	Date	Amount (R)
Printer Hp1020		XTT	30/08/2007	1 009
UPS Direct		XTT	31/03/2008	211
ADSL modem		XTT	31/03/2008	
Mini route modem		XTT	31/03/2008	1 886
Printer server D-Link		XTT	09/05/2008	66
Flat screen monitor		Nii	Nil	Nil
Printer HP Laserjet CP1515		Nii	Nil	Nil
Flat screen monitor		Nii	Nil	Nil
Scanner HP430		Nii	Nil	Nil
CPU		Nii	Nil	Nil
Monitor flat screen		Nii	Nil	Nil

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

**Root cause**

All elements of the control environment have not been developed and documented.

**Risk**

Limitation of scope.

**Recommendation**

The Accounting Officer should design and implement policies and procedures to ensure that all the necessary documentation is safely guarded.

**Management response**

Note is taken of your finding. Measures will be put in place to prevent this from happening again.

Responsible Official: R Kraphoi

Date: 14 November 2008

**Auditor's response**

The finding is transferred to the Management report.

## **RECEIVABLES**

### **59. Receivable: Increase in debtor's collection period**

#### **Audit finding**

We calculated the average debtor collection days and noted that the days have increased from 377 days to 425 days from prior year to the current financial period, which suggest that the Municipality has poor debtor collection policy.

This in contravention with section 96 of the Municipal Systems Act 32 of 2000, which state that the Municipality must collect all money that is due and payable to it, and must adopt, maintain and implement a credit control and debt collection policy which is consistent with its rates and tariff policies.

#### **Root cause**

The control environment, procedures, techniques and mechanisms have not been adequately implemented.

#### **Risk**

Money owed to Municipality may not be recovered on time

#### **Recommendation**

Management should take reasonable steps to ensure that moneys owed to the Municipality are collected within reasonable timeframe and

Ensure that all debtors outstanding for more than 90 days are handed over to the attorney for collection.

#### **Management response**

Note is taken of your finding.

Name: Mr. Krapohl

Date: 14 November 2008

#### **Auditor's response**

The finding is transferred to the management letter.

## **RESERVES**

**60. Funds, Reserves and provisions; Municipality do not have a policy for bad debt reserve.**

### **Audit finding**

Whilst performing audit procedures for the year under review we noted that the Municipality does not have a formal, authorised and distributed written policy for bad debts reserves.

This is in contravention with section 62(c)(i) of the Municipal Finance Management Act, Act 56 of 2003 (MFMA), which state that the Accounting Officer of a Municipality must take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

### **Root cause**

All elements of the control environment have not been developed and documented.

### **Risk**

Bad debts provision could be misstated in the financial statements.

### **Recommendation**

The Accounting Officer must design and implement the policies and procedures regarding all the bad debts paid by the Municipality.

### **Management response**

Note is taken of your finding. The will be investigated and implemented.

Name: Mrs. E. Crouse

Responsible Official : CFO

Date: 14 November 2008

### **Auditor's response**

The finding is transferred to the management letter.

**61. Funds, Reserves and Provisions; No council policy regarding allocation of interest to statutory funds in place.**

**Audit finding**

During the audit for the period under review, it was noted that there is no formal council policy regarding the allocation of interest to statutory funds at the Municipality.

This is in contravention with section 62(c)(i) of the Municipal Finance Management Act, Act 56 of 2003 (MFMA), which state that the Accounting Officer of a Municipality must take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

**Root cause**

All elements of the control environment have not been developed and documented.

**Risk**

Possible fraudulent activities may take place.  
Interest may be account for incorrectly in the accounting records.

**Recommendation**

A policy should be drawn up and approved by the council and audit committee.

**Management response**

Note is taken of your finding.

The allocation of interest will fall away:

- a) After the conversion all trust funds will be treated as creditors.
- b) All interest earned are going to be allocated to the operating budget.

Name: J. Krapohl

Date: 14 November 2008

**Auditor's response**

The finding is transferred to the management letter.

**62. Statutory Funds: Insufficient Concomitant assets to support the existence of statutory funds.**

**Audit finding**

During the audit of Funds and Reserves it was noted that the Municipality does not have sufficient concomitant assets [Cash and Investments] to support their funds and reserves. This issue was also reported on in the prior year.

Statutory Funds	Total ( Concomitant Assets)	Variance
R 25,048,005.00	(R 3 155 789)	R 28 203 794

In contravention with section 62(1)(b) of Municipal Finance Management Act 56 of 2003 (MFMA) which state that the Accounting Officer of a Municipality is responsible for managing the financial administration of the Municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the Municipality are kept in accordance with any prescribed norms and standards;

**Root cause**

All elements of the control environment have not been developed and documented.

**Risk**

Possible going concern problem.

**Recommendation**

Management should implement mechanisms to ensure that there are sufficient concomitant assets to support the existence of statutory funds

**Management response**

Due to cash flow problems we are unable to invest and amount of R 9 773 949-97. This problem will be addressed during the conversion to GAMAP/GRAP.

Name: Mrs. E. Crouse

Date: 14 November 2008

**Auditor's response**

The finding is transferred to the Management report.

**63. Funds, Reserves and Provisions; Reserves for bad debts not authorised by council.**

**Audit finding**

During the audit for the period under review, it was noted that the contribution to bad debts had not been budgeted and also not been authorized by council.

RESERVE	Actual (R)	Budget (R)	Variance (R)
Bad debts	8,000,000	0	8,000,000

This is in contravention with section 62(c)(i) of the Municipal Finance Management Act, Act 56 of 2003 (MFMA), which state that the Accounting Officer of a Municipality must take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

**Root cause**

The control environment, procedures, techniques and mechanisms have not been developed.

**Risk**

The entity may be exposed to Risk that it is not even aware of and the financial statements may be misstated.

**Recommendation**

Council approval should be obtained, before transferring funds to reserves and the provision should have been budgeted for.

**Management response**

No provision was made due to budget constraints. The idea was to make provision out of the appropriation account. This was done due to the fact that all surpluses for prior years were taken to the appropriation account.

*Name:* J. Krapohl

*Date:* 14 November 2008

**Auditor's response**

Management response has been noted. However the reserves for bad debts still needed to be authorised by council. The finding is transferred to the Management report.

## REVENUE

### 64. Service Contracts-Application for Municipal Services

#### Audit finding

During the review of meter readings, we noted that the applications forms for the following consumers could not be provided:

	Account Number	Name
1	602668000	J.P. Jooste
2	600139002	A.J. Van Der Walt

In contravention with section 62(1) of Municipal Finance Management Act 56 of 2003 (MFMA) which state that the Accounting Officer of a Municipality is responsible for managing the financial administration of the Municipality, and must for this purpose take all reasonable steps to ensure—

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

#### Root cause

All elements of the control activities have not been developed and documented.

#### Risk

Non compliance with MFMA 62 (2).

#### Recommendation

Management should ensure that all the processed application forms are kept in the consumer file for future references

#### Management response

Note is taken of your finding. Not all documentation is available. I cannot get hold of Mr P Coetzee and Mr J P Jooste's application forms, because they stay in that houses before the flood in 1974 and I don't know what happened here during this flood because I started working here during 1983.

Name: Mrs. F. de Jager

Date: 14 November 2008

#### Auditor's response

The finding is transferred to the management letter.

## 65. Revenue : Amounts recorded incorrectly

### Audit finding

During the audit we noted that following transactions was recorded incorrectly:

Ref	Account Number	Date	Reference	Description	Amount
1	144008212762	08/11/2007	RC13068	Subs Dmun - CHDM Environ Health	R 303,700.00
2	144008212762	30/11/2007	JNL 64	30/11/07 BTW REGSTELLINGSS	R 37 296.49

1. The amount should have been recorded at full amount of R 346,218 as no VAT is payable on grants however the amount was recorded at R 303,700 (R 346,218 less VAT of R 42,518).
2. In addition an incorrect VAT adjustment journal was recorded for R 37,296 (14% of R 303,700).

This is in contravention with section 62(c) (i) of the Municipal Finance Management Act 56 of 2003 (MFMA) which states that the Accounting Officer is responsible for managing the financial administration of the Municipality and should take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal controls.

### Root cause

All elements of the control activities have not been developed and documented.

### Risk

Misstatement of revenue in the Financial Statements.

### Recommendation

The Accounting Officer must design and implement policies and procedures to ensure that all transactions are recorded correctly, and that VAT is claimed /paid on VATable transactions only.

### Management response

This matter will be communicated to the Receiver of revenue.

Name: Mrs. E. Crouse

Date: 12/11/2008

### Auditor's response

Audit finding is transferred to overs and unders.

## **66. investment : Investment Register - interest**

### **Audit finding**

While performing the audit on investments it was noted that interest earned on funds invested is not recorded on a monthly basis. Only one journal was passed on 30 June 2008 to record interest earned for the financial year ended on that day.

This in contravention with section 62(1) of MFMA 56 of 2003 which state the Accounting Officer of a Municipality is responsible for managing the financial administration of the Municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the Municipality are kept in accordance with any prescribed norms and standards;

### **Root cause**

All elements of the control environment have not been developed and documented.

### **Risk**

The financial recorded are not updated timeously resulting in them not showing the correct financial position of the Municipality at any given point in time.

### **Recommendation**

Interest should be recorded on a monthly basis.

### **Management response**

Investments are reconciled to the projects on a monthly basis. The capitalization of the interest is only done at year end. 99% of our investments are for projects

The investment policy will be reviewed to make provision for the capitalisation of interest on year end.

*Name: J. Krapohl*

*Date: 14 November 2008*

### **Auditor's response**

Management's comment has been noted. However the fact that the interest is only recorded at the end of the year shows that the reconciliations are either not accurate or they are not performed at all between the bank statements (Investments) and the general ledger. Audit finding is transferred to the management letter.

## TAXES

### 67. VAT: VAT returns not timeously submitted to SARS.

#### Audit finding

Whilst performing the review of the VAT, it was noted that for the following months VAT returns were not submitted to SARS on time.

Tax period	Date of payments	Total VAT amount payable	Interest
Dec-07	29/01/2008	R 182,246.56	R 1,929.07
Jan-08	26/02/2008	R 122,428.66	R 1,163.30
Feb-08	26/03/2008	R 79,584.23	R 584.24
		<u>R 384,259.45</u>	<u>R 3,676.61</u>

This is in contravention with section 28(b) of the VAT Act 89 of 1991 which states that: Returns and payment of tax - Every vendor shall within the period ending on the twenty-fifth day of the first month commencing after the end of a tax period, calculate the amounts of such tax in accordance with the said section and pay the tax payable to the Commissioner

#### Root cause

All elements of the control activities have not been developed and documented.

#### Risk

Non-compliance with the VAT Act.

Late submission of VAT returns attract Interest and Penalties which result in Fruitless and Wasteful expenditure being incurred.

#### Recommendation

Management should implement a system to ensure that all payments due to the South African Revenue Services are paid on or before the stipulated due date.

#### Management response

Note is taken of your finding. This will be taken up with the relevant official and more emphasis will be placed on submitting the VAT returns on time.

Name: Mrs. E.Crouse

Responsible Official: Mr. D.v.H. Meyer

14 November 2008

Name:

Date:

#### Auditor's response

Audit finding is transferred to management letter.

**68. VAT: Municipality's VAT registration number not on the supplier's invoice.**

**Audit finding**

Whilst performing procedures on VAT it was noted that the following supplier's invoices do not contain the VAT registration number of the Municipality.

No	Description	Ref Number	Date	Amount	VAT	Amount Inclusive of VAT
1	S.C. Contractors CC	44633	26-May-08	R 123,786.69	R 17,330.14	R 141,116.83
2	L.G. Harris & Co	44315	04-Mar-08	R 597.50	R 83.65	R 681.15
TOTAL				R 124,384.19	R 17,413.79	R 141,797.98

This in contravention with Section 20(4)(c) of the VAT Act: Tax invoices, which state that except as the Commissioner may otherwise allow, and subject to this section, a tax invoice (full tax invoice) shall be in the currency of the Republic and shall contain the following particulars: the name, address and, where the recipient is a registered vendor, the VAT registration number of the recipient; an individual serialized number and the date upon which the tax invoice is issued;"

**Root cause**

All elements of the control activities have not been developed and documented.

**Risk**

Non compliance with section 20(4)(c) of the VAT Act.

**Recommendation**

Management should implement mechanism to ensure that there is full compliance with the VAT Act.

**Management response**

Note is taken of your finding. Measures will be put in place to make sure all VAT numbers appears on the invoices.

*Name: J. Krapohl*

*Date: 20 November 2008*

**Auditor's response**

Audit finding is transferred to management letter.

## 65. VAT: Unexplained variances in the VAT output and VAT input disclosed.

### Audit finding

During the audit of VAT, the following unexplained variances were noted.

1. Revenue disclosed in the Financial Statements differ to Revenue disclosed as per VAT 201.

Revenue disclosed in the Financial Statement	Less Exempt Income	Total VATable	Output VAT	Net Income (a)	Amount disclosed as per VAT 201 (b)	Variance (a-b)
R 80,220,500	R 13,430,558	R 66,789,942	R 9,350,591	R 58,587,668	R 51,241,929	R 7,345,738

2. Output VAT as per Revenue disclosed in the financial statement differ to output VAT as per VAT 201.

Revenue disclosed in the Financial Statement	Less Exempt Income	Total VATable	Output VAT (a)	Output VAT per VAT 201 (b)	Variance (a-b)
R 80,220,500	R 13,430,558	R 66,789,942	R 9,350,591	R 6,292,868	R 3,057,723

3. Input VAT as per Expenditure disclosed in the financial statement differ to input VAT as per VAT 201.

Expenditure for the period	Total VATable	Input VAT (a)	Net Expenditure	Input VAT per VAT 201 (b)	Variance (a-b)
R 26,370,249.00	R 26,370,249.00	R 3,691,834.86	R 23,131,797.37	R 3,523,391.53	R 168,443.33

This in contravention with section 62(1) MFMA which state that the Accounting Officer of a Municipality is responsible for managing the financial administration of the Municipality, and must for this purpose take all reasonable steps to ensure

(a) that the resources of the Municipality are used effectively, efficiently and economically;

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

### Root cause

All elements of the control activities have not been developed and documented.

### Risk

This matter should attract interest and penalties and thus resulting in the Municipality incurring fruitless and wasteful expenditure.

Non compliance with VAT Act with regards to incorrect VAT calculations.

### Recommendation

The above matter should be investigated by management and the necessary adjustment be effected on the financial statements.

### Management response

We do agree.

Name: J. Krapohl

Date: 14 November 2008.

**Auditor's response**

We inspected the reconciliation however we are not satisfied that identified differences were reconciled accordingly. The finding is transferred to the Management report.

## PAYABLES

### 66. Creditors payment

#### Audit finding

During the audit of creditors the following suppliers were not paid within 30 days of receiving the invoice:

PERIOD	REF	SRC	BATCH	DATE DESCRIPTION	Amount (R)
200806	CRD030N	CR	7267	06/06/08 CRD030N GENERATED PAYMENTS	292,506.90
200806	CRD030N	CR	7260	17/06/08 CRD030N GENERATED PAYMENTS	444,600.00
200806	CRD030N	CR	7253	19/06/08 CRD030N GENERATED PAYMENTS	10,118.79
200805	CRD030N	CR	7237	29/05/08 CRD030N GENERATED PAYMENTS	9,874.29
200805	CRD030N	CR	7113	19/05/08 CRD030N GENERATED PAYMENTS	1,234.90
200805	CRD030N	CR	7110	19/05/08 CRD030N GENERATED PAYMENTS	15,614.79
200805	CRD030N	CR	7207	14/05/08 CRD030N GENERATED PAYMENTS	24,056.90
200804	CRD030N	CR	7069	18/04/08 CRD030N GENERATED PAYMENTS	13,660.00
200804	CRD030N	CR	7021	21/04/08 CRD030N GENERATED PAYMENTS	5,208.85
200804	CRD030N	CR	7032	16/04/08 CRD030N GENERATED PAYMENTS	2,402.50
200803	CRD030N	CR	7013	26/03/08 CRD030N GENERATED PAYMENTS	69,565.54
200803	CRD030N	CR	7058	27/03/08 CRD030N GENERATED PAYMENTS	4,001.47
200803	CRD030N	CR	7066	27/03/08 CRD030N GENERATED PAYMENTS	1,795.50
200803	CRD030N	CR	4985	07/03/08 CRD030N GENERATED PAYMENTS	2,327.25
200803	CRD030N	CR	7065	07/03/08 CRD030N GENERATED PAYMENTS	3,641.40
200802	CRD030N	CR	7012	29/02/08 CRD030N GENERATED PAYMENTS	4,390.84
200802	CRD030N	CR	4970	06/02/08 CRD030N GENERATED PAYMENTS	4,640.40
200802	CRD030N	CR	4926	06/02/08 CRD030N GENERATED PAYMENTS	8,331.35
200802	CRD030N	CR	4971	06/02/08 CRD030N GENERATED PAYMENTS	40,190.37
200712	CRD030N	CR	4843	11/12/07 CRD030N GENERATED PAYMENTS	2,204.29
200710	CRD030N	CR	4619	31/10/07 CRD030N GENERATED PAYMENTS	32,613.24
				<b>Total</b>	<b>992,979.57</b>

This is in contravention to section 65 (2) (e) of the MFMA 56 of 2003 which states that the Accounting Officer must for the purpose of subsection (1) take all reasonable steps to ensure that all money owing by the Municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.

#### Root cause

All elements of the control activities have not been developed and documented.

#### Risk

The Municipality could incur interest on overdue accounts which will lead to fruitless and wasteful expenses.

#### Recommendation

The Accounting Officer must design policies and procedures to ensure that payment to creditors is made within 30 days of receipt of invoice.

#### Management response

We agree. Due to cash flow problems invoices were not paid on time.

Name: J. Krapohl

Date: 14 June 2008

**Auditor's response**

The finding is transferred to the Management report.

## HIGH LEVEL REVIEW

### 67. Planning: Discrepancies in the Financial statements

#### Audit finding

During the review of the financial statements the following errors where identified;

- 1) Rates and general services page 6: The actual 2007 loss R8, 548,949 differs from R8, 550,783 shown on page 25.
- 2) Electricity services page 6: The actual 2007 surplus of R5, 951,210 differs to the R5, 493,120 shown on page 25.
- 3) Capital expenses page 7: The amount disclosed as capital expenses for the year of R473, 160.97 differs from the R378, 163 disclosed on page 14
- 4) Consumer deposits services page 10: Differences exists in the amount disclosed in both years as follows,

	2008	2007
Amount disclosed on page 10	R1,659,345	R1,512,579
Amount disclosed on page 11	R1,670,042	R1,523,276
Differences	(R10,697)	(R10,697)

Further to the above difference, the figures for Tenders deposits and Services CPA of R2, 600 and R8,097 respectively on page 11, could not be traced back to the trial balance.

- 5) Note 37: The balance of the FNB cheque – Eskom account does not agree to the amount on the bank statement.
- 6) Note 35 is incorrect. The correct amounts should be:
  - a) SARS payment for interest charged on late submission: R 8 322 and
  - b) Compensation commission amount for interest and penalties: R 44 254.
- 7) On note 25 the Contributions to SALGA (R 169 681) and PAYE and UIF (R 9 765 099 - 2007 only) amounts do not cast.
- 8) Not 25 the wording on VAT under MFMA disclosure is incorrect as VAT returns were **not** submitted on time.
- 9) Note 18 there is inconsistency in the working capital note with the increase and decreases. For example a decrease in debtors is cash inflow so the amount has to be positive and not negative as shown. Short term debtors (R 9 194 103) and creditors (R 17 665 836) amounts in the working capital note cannot be reconciled to their notes.
- 10) Investments made on the external cash investment note (note 20) cannot be traced, and the interest on the investment should be reclassified to from external cash investments to cash utilized from operating activities in the cash flow statement as investment income.
- 11) The debtors note (Note 9) does not cast. The provision for bad debts (R 60 072 081) is supposed to be deducted from the balance of debtors and not added.
- 12) Prior year working capital (increase)/decrease in working capital amount does not agree to the amount on the note.
- 13) Bankers includes Old Mutual, but there is no mention of Old mutual in the notes

- 14) Deferred charges must be removed from the balance sheet and the note as they have a zero balance
- 15) Cash flow statement page 12
- The 2007 external interest is indicated as R801, 807 and this is different from the external interest paid of R 831 383 on page 16 resulting in a difference of the R 29 576
- 16) Appendix D page 24
- The 2007 actual income in page 25 is disclosed as R81 224 944 and income per page 11 is R81, 361,334 resulting in a difference of R 136 390
  - The 2007 actual expenses in page 25 is disclosed as R 72 790 529 on page 24 and R 75 448 072 on page 11 resulting in a difference of R 2 657 543
  - The 2008 actual expenses is disclosed as R 71,182 005 on page 24 and R 73 777 366 on page 11 resulting in a difference of R 2 595 361
- 17) Appendix F does not disclose distribution losses for electricity for the current year.

17) Chief Finance Officer's (CFO) Report

- The CFO report does not include the following notes: Investments, Cash and Funds and Reserves.
- The comparative amounts included in the CFO's report regarding Capital expenses: infrastructure (pg 7) does not agree with the signed prior year financial statements.
- The actual 2007 figures in the Rates and General Services schedule do not cast by an amount of R1834.
- The actual 2007 figures in the Electricity Services do not cast by R8090.

18) Accounting Policies

- There is no accounting policy for Leased Assets.
- There is no accounting policy for Deferred Charges.
- There is no accounting policy for Consolidated Loan Fund.

19) Notes to the Financial Statements

- There is no note disclosed for Reserves.
- There is no note disclosing Prior Year Adjustments.
- There is no note disclosing Capital Commitments.
- There is no note disclosing Capital Development Fund.

This is in contravention with section 62(c)(i) of the Municipal Finance Management Act 56 of 2003 (MFMA) which states that the Accounting Officer is responsible for managing the financial administration of the Municipality and should take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal controls.

**Root cause**

The control activities, procedures, techniques and mechanisms have not been adequately implemented.

**Risk**

Errors in the financial statements could result in misstatements in the AFS.

**Recommendation**

Management should ensure that control checks are put in place and the financial statements should be reviewed by an independent person to ensure that they are free from errors.

**Management response**

Note is taken of your finding. Corrections will be made were applicable.

Name: Mr J Krapohl

Date : 14/11/2008

**Auditor's response**

Audit finding is transferred to management letter.

**68. Infrastructure Projects:** No evidence obtained that the Tender was advertised on the Construction Industrial Development Board (CIDB) website.

#### **Audit Finding**

Whilst performing procedures on infrastructure projects, no evidence was obtained that the following tender was advertised on the CIDB website.

Furthermore, no evidence obtained that the following contractor or tender is registered with CIDB.

<b>Project description and contract number</b>	<b>Contractor</b>	<b>Project Amount</b>
Roads and Stormwater - MIG01/2008	LRC Civics CC	R 2,590,650.00
<b>TOTAL</b>		<b><u>R 2,590,650.00</u></b>

This is in contravention with section 62(1)(c)(i) of the MFMA which states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial, risk management and internal control.

#### **Root Cause**

All elements of the control activities have not been developed and documented.

#### **Risk**

Proper tender processes might not have been followed properly.

#### **Recommendation**

The accounting officer must design and implement policies to ensure that the proper tender processes are followed.

#### **Management Comment**

The relevant officials are not available and this matter will be taken up with them.

Comment: Mrs. E. Crouse

#### **Auditors Response**

The finding is transferred to the management letter.

**ADMINISTRATIVE MATTERS****BANK AND CASH**

1. **Bank and cash: Returned paid cheques are not appropriately managed in accordance with recommended procedures.**

**Audit finding**

During audit we noted that the cheques are received and maintained together in a box, instead of been filed and recorded in a register. Procedures around management of returned paid cheques are inadequately performed.

This is in contravention with section 65 (2) (c) of the MFMA 56 of 2003 which states that the Accounting Officer of a Municipality must take all reasonable steps to ensure that the Municipality has and maintains a system of internal controls in respect of payments.

**Root cause**

The control environment, procedures, techniques and mechanism have not been adequately implemented.

**Risk**

This lack of management could result in invalid cheque payments going undetected.

**Recommendation**

Cheques returned from the bank, should be scrutinised for invalid endorsements, and filed appropriately. In addition the following detail should be recorded in a returned cheque register:

- The date on which the cheque was debited by the bank;
- The name of the drawer;
- The amount of the cheque;
- The drawer's debtor account number;
- Details of fresh cheque / cash in respect of R/D cheques.

**Management response**

A register is kept by Mrs. Muller and is available for inspection. Provision will be made for the drawer's account number during the 2008/2009 financial year.

Name: J. Krapohl

Date: 14 November 2008

**Auditor's response**

The register kept by Mrs Muller is not a returned paid cheque register. The finding is transferred to the management report.

## **EMPLOYEE COSTS**

### **2. Employee costs : No dismissal notice**

#### **Audit finding**

During the audit we noted that Mr. ME Nontyi, employee number 10568, was dismissed on the 6th May 2008. Although we noted the letter of the appeal ruling from Blue Crane Route Municipality, and the letter that confirmed that Mr. Nontyi lost his appeal, we could not obtain the original dismissal letter. Furthermore it has been noted that there is no verdict on the charge sheet as to effective date of Mr. ME Nontyi's dismissal.

This is contrary to section 37(c) (i) of the Basic Conditions of Employment Act 75 of 1997 which states that subject to section 38, a contract of employment terminable at the instance of a party to the contract may be terminated only on notice of not less than four weeks, if the employee has been employed for one year or more.

#### **Root cause**

All elements of the control activities have not been developed and documented.

#### **Risk**

Employees could be dismissed without notice period of termination of the contract of employment is given by the employer in accordance with prescripts.

#### **Recommendation**

Effective procedures should be in place to ensure that notice period of termination of the contract of employment is given by the employer in accordance with prescripts

#### **Management response**

Seeing that the current incumbent is new, we are going to address these issues.

Name: Mr. Sigenu

Date: 14/11/2008

#### **Auditor's response**

The finding is transferred to the management letter.

### **3. Employee costs : Retirement before the age of 65**

#### **Audit finding**

During the audit Ms V.S. Mphakalazi (ID 4709250193085) employee no 10334 went into retirement at the age of 60. Although we could not obtain the original letter requesting the Municipality to extend her retirement dates in her file, we noted that the Municipality wrote issued an internal memorandum regretting that they cannot extend her retirement dates.

This is in contravention with section 62(c) (i) of the Municipal Finance Management Act 56 of 2003 (MFMA) which states that the Accounting Officer is responsible for managing the financial administration of the Municipality and should take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal controls.

#### **Root cause**

All elements or the control activities have not been developed and documented.

#### **Risk**

Employees could be forced to retire before the age of 60.

#### **Recommendation**

Effective control policies and procedures should be in place to ensure that the employees who retire compulsorily are asked to retire at the right age.

#### **Management response**

We agree with the obserVATion, however we are not in a position to explain how it happened as the past Manager has left.

Name: Mr. Sigenu

Date: 14/11/2008

#### **Auditor's response**

The finding is transferred to the management letter.

#### **4. Employee Costs :Overpayment of Remuneration**

##### **Audit finding**

During the audit it has been noted that S. Maseti passed away on the 12th April 2008. According to our calculations S. Maseti was erroneously remunerated for the remaining 12 days in the month as he had already passed away.

This is in contravention with section 62(c)(i) of the Municipal Finance Management Act 56 of 2003 (MFMA) which states that the Accounting Officer is responsible for managing the financial administration of the Municipality and should take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal controls.

##### **Root cause**

All elements of the control activities have not been developed and documented.

##### **Risk**

Employee costs could be overstated due to payments for days not worked.

##### **Recommendation**

Effective policies and procedures should be in place to ensure that over payments are not made to deceased employees and these should be checked by an independent person before payment is made.

##### **Management response**

We do agree. This will be forwarded to the Income section for investigation in order to bill the family and if not possible to bill this will be forwarded to Council to obtain a Council resolution to write it off.

Name: Mrs. L. Reeders

Responsible Official: Mrs. F. de Jager

Date: 14/11/2008

##### **Auditor's response**

The finding is transferred to management letter.

## **5. Employee Costs : Candidate did not have the required qualifications**

### **Audit finding**

During the audit we noted that the Municipal notice 3/2008 listed that a candidate must have an appropriate degree/ diploma as one the requirements for the Manager Local Economic Development Services post. However the preferred candidate, Mr L. Jojiyasi did not have and diploma or degree. We inspected Mr L. Jojiyasi's CV and noted his highest qualifications as follows:

1. Certificate in HR Management (Unisa)
2. Certificate in Programme in Project Management (University of Stellenbosch)
3. Certificate in Local Economic Development. (SMME)

This is in contravention with section 67 (a) of the Municipal Systems Act 32 of 2000 which states that a Municipality, in accordance with applicable law and subject to any applicable collective agreement, must develop and adopt appropriate systems and procedures to ensure fair, efficient, effective and transparent personnel administration, including the recruitment, selection and appointment of persons as staff members.

### **Root cause**

All elements of the control activities have not been developed and documented.

### **Risk**

Staff without the necessary skills, competence and knowledge could be employed.

### **Recommendation**

Effective policies and procedures should be in place to ensure that only staff with the necessary skills, competence and knowledge could be employed.

### **Management response**

The Corporate Manager was responsible to ensure effective procedures are in place in particular verification and authentication that requirements are met. This matter is currently receiving attention as the incumbent is attending competency levels as prescribed by National Treasury with Wits Business School.

Name: Mr. M.S. Tantsi

Date: 12/11/2008

### **Auditor's response**

Audit finding is transferred to management letter.

## **6. Employee Costs - No application forms for leave.**

### **Audit finding**

During the audit we noted the leave register indicated that Mr W. Blaaw took leave from the 1st December 2007 to the 9th December 2007 (days). We obtained his personnel file however we could not obtain his application form for this particular leave taken.

Furthermore we noted that the leave register indicated that Mr W Blaaw had earlier taken leave from the 5th November 2007 to the 7th December 2007 (25 days). The fact that Mr W. Blaaw is also registered as having taken leave for the period from the 1st December 2007 to the 9th December 2007 did not make sense since the period from the 1st to the 7th falls within both periods of which the leave was taken.

This is in contravention with section 62 (c) (i) of the Municipal Finance Management Act 56 of 2003 (MFMA) which states that the Accounting Officer is responsible for managing the financial administration of the Municipality and should take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal controls.

### **Root cause**

All elements of the control activities have not been developed and documented.

### **Risk**

Limitation of scope.

Employees could be paid for been absent from work.

### **Recommendation**

Effective policies and procedures should be in place to ensure that all leave application forms are completed accurately and approved before leave is taken.

Effective policies and procedures should be in place to ensure that all application forms for leave are filled in the employee's personnel files.

### **Management response**

We are putting in place proper mechanisms of management of leave to eliminate these queries.

Name: Mr. Sigenu

Date: 14 November 2008

### **Auditor's response**

The finding is transferred to the management letter.

## **7. Employee Costs - Staff Establishment outdated**

### **Audit finding**

During the audit we noted that the staff establishment was not approved. Furthermore we noted that the staff establishment last updated on the 31 August 2005.

This is in contradiction to section 66(1) of the Municipal Systems Act which states that a municipal manager, within a policy framework determined by the municipal council and subject to any applicable legislation, must:

- (a) Approve a staff establishment for the Municipality;
- (b) Provide a job description for each post on the staff establishment;
- (c) Attach to those posts the remuneration and other conditions of service as may be determined in accordance with any applicable labour legislation; and
- (d) Establish a process or mechanism to regularly evaluate the staff establishment and, if necessary, review the staff establishment and the remuneration and conditions of service.

### **Root cause**

All elements of the control activities have not been developed and documented.

### **Risk**

Non compliance with the Municipal Systems Act.

### **Recommendation**

Effect procedures should be put in place to ensure that Municipal Systems Act and other relevant acts are complied with.

### **Management response**

We are in process of reviewing the staff establishment.

Name: Mr. Sigenu

Date: 14 November 2008

### **Auditor's response**

Audit finding is transferred to management letter.

## 8. Employee Cost : No advertisements for the filled positions

### Audit finding

During the audit we could not obtain the copies of the job advertisements for the new appointees:

Employee No	Employee Name	Position	Appointment Date
10588	S.M. Mbuzwa	General Worker Civil Section	01/04/2008
10587	B. Ntshinana	General Worker Sewerage Works	01/03/2008

This is contrary to section 5.3.1 of the recruitment policy states that from post level 0-1 national and regional newspapers may be used but Inxuba Yethemba Municipality will not be bound and may also use local newspapers if clearly motivated.

### Root cause

The control activities, procedures, techniques and mechanisms have not been adequately implemented

### Risk

Transparent personnel administration may not exist with regards to the selection and appointment of persons as staff members.

### Recommendation

The Accounting Officer must design effective policies and procedure should be put in place to ensure that transparent personnel administration exists with regards to the selection and appointment of persons as staff members.

### Management response

We agree with the recommendation, such that we have started to open a file for all advertisements.

Name: Mr. Sigenu

Date: 14 November 2008

### Auditor's response

The finding is transferred to the management letter.

## **9. Employee Costs - Leave register has loose pages**

### **Audit finding**

During the audit we noted that the manual leave register has loose pages. It has come to our attention that the Municipality purchased a Pro Num software to be used for purposes of leave records capturing. However we noted that the Municipality does not use this software.

Furthermore we noted that the leave register was not correctly recorded for leave taken by Mr L. Mkanto (employee number 10583). The register indicated that Mr L Mkanto took leave from the 24th December 2007 to the 11 January 2007.

This is in contravention with section 62(c)(i) of the Municipal Finance Management Act 56 of 2003 (MFMA) which states that the Accounting Officer is responsible for managing the financial administration of the Municipality and should take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal controls.

### **Root cause**

All elements of the control environment have not been developed and documented.

### **Risk**

The leave register may not be complete.

Fruitless and wasteful expenditure may be incurred as the software purchased is not used for the intended purpose.

Inaccurate information may be captured on the leave register.

### **Recommendation**

The Accounting Officer should ensure that proper policies are designed and implemented regarding the capturing and maintenance of leave records in the leave register.

The Accounting Officer should ensure effective policies and procedures must be in place to ensure that the Municipality utilises acquired assets effectively and accordingly.

The Accounting Officer should ensure that proper policies and procedures must be in place to ensure that the Municipality adequate and efficient training is provided to the employees to enable them to utilise the software and the hardware accordingly.

The Accounting Officer should ensure that proper policies and procedures must be in place to ensure that information is captured accurately on the leave register.

### **Management response**

It is true that pages are loose. That is why we are expecting movement to the electronic system namely, PROMUN.

Name: Mr. Sigenu

Date: 14 November 2008

### **Auditor's response**

Audit finding transferred to the management letter

## 10. Employee Costs - No notice for termination of services (retirement)

### Audit finding

During the audit we noted that the following employees' services were terminated due to retirement. However having inspected their personnel files we noted that there was no notice for termination of their services.

Employee name	Employee no	Date of Retirement
CJ van Zyl	22005	30/04/2008
V.S. Mphakalazi	10334	30/09/2007
N.J. Mpenyana	10458	30/06/2008

This is in contravention to Section 37(c) (i) of the Basic Conditions of Employment Act 75 of 1997 which states that subject to section 38, a contract of employment terminable at the instance of a party to the contract may be terminated only on notice of not less than four weeks, if the employee has been employed for one year or more.

### Root cause

All elements of the control environment have not been developed and documented.

### Risk

Non compliance to the Basic Conditions of Employment Act 75 of 1997.  
Limitation of scope.

### Recommendation

Effective policies and procedures should be in place to ensure that the Basic Conditions of Employment Act 75 of 1997 is been complied with.

### Management response

We will look into the matter and rectify it.

Name: Mr. Sigenu

Date: 14 November 2008

### Auditor's response

Audit finding is transferred to management letter.

## **11. Employee Costs - Leave form not approved**

### **Audit finding**

During the audit we noted that Ms Leah Alexander (Personnel no 22060) took sick leave from the 19th May 2008 to the 21st May 2008. However we noted that her leave form was not approved.

This is in contravention with section 62(c)(i) of the Municipal Finance Management Act 56 of 2003 (MFMA) which states that the Accounting Officer is responsible for managing the financial administration of the Municipality and should take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal controls.

### **Root cause**

All elements of the control environment have not been developed and documented.

### **Risk**

Employees could take leave without the necessary approval from the senior in charge.

### **Recommendation**

Effective policies and procedures should be in place to ensure that for every day that the employee is sick, an accurate, completed and approved leave form exists.

### **Management response**

The current Manager was not here at the time. We will put in place a mechanism to ensure that these errors are not repeated.

Name: Mr. Sigenu

Date: 14 November 2008

### **Auditor's response**

The finding is transferred to the management letter.

## **12. Employee Cost - Doctors Certificate on the Municipality's Letter head**

### **Audit finding**

During the audit we noted that E. Bishop (Employee no 10130) took sick leave from 2 June 2008 to 4 June 2008. However we noted that the doctor's certificate has been prepared on the Municipality's letter head. We therefore could not confirm that the certificate was prepared by the doctor as there was no doctor's stamp on the certificate.

This is in contravention with section 62(c)(i) of the MFMA which states that the Accounting Officer is responsible for managing the financial administration of the Municipality and should take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal controls.

### **Root cause**

All elements of the control activities have not been developed and documented.

### **Risk**

Employees could submit fictitious certificates.

### **Recommendation**

The Accounting Officer must design effective policies procedures to ensure that on doctor's certificates prepared on the doctor's letter head or with the doctor's stamp are obtained.

The Accounting Officer must design effective policies and procedures to ensure that valid doctor's certificates are obtained. If not, leave records must be adjusted to reflect that the employee to unpaid or normal leave were applicable.

### **Management response**

Note is taken of your recommendation. This will be communicated to the various departments.

Name: Mr. Sigenu

Date: 14 November 2008

### **Auditor's response**

The finding is transferred to the management letter.

### **13. Employee costs : No personnel files were obtained**

#### **Audit finding**

During the audit we the following requested employee file could not be availed for audit purposes.

This is in contravention with section 62 (b) of the Municipal Finance Management Act 56 of 2003 (MFMA) which states that the Accounting Officer is responsible for managing the financial administration of the Municipality and should take all reasonable steps to ensure that full and proper records of the financial affairs of the Municipality are kept in accordance with any prescribed norms and standards;

Employee Name	Type of Termination
TD Morcus	Retired

#### **Root cause**

All elements of the control environment have not been developed and documented.

#### **Risk**

Important documentation could be misplaced or lost.  
Limitation of scope.

#### **Recommendation**

Effective policies and procedures should be on place to ensure that all the important documents are made available when requested and that they are safeguarded.

#### **Management response**

We agree.

Name: Mr. Sigenu

Date: 14/11/2008

#### **Auditor's response**

The finding is transferred to the management letter.

#### 14. Employee Costs - No authorisation could be obtained for the approval of deductions

##### Audit finding

During the audit we requested from management proof that deductions made from salaries agree with authorisations signed by employees.

We could not obtain any proof that the following employees approved the deductions made from their salaries.

Employee no	Deduction	Amount
10003	Imatu	51.00
10007	FNB	470.00
10001	Old Mutual Group Scheme	566.10
10013	STD Bank	1,035.00
10022	Municipal Charges	283.94
10023	SAMWU	214.03
10026	Pension	1,002.51
10028	HOSMED	670.80
10039	BEST FUNERAL	115.00
10045	Municipal Charges	447.09
10053	Absa	976.00
10059	SAMWU	176.00
10064	Municipal Charges	239.70
10074	SAMWU	180.00
10078	BEST FUNERAL	33.00
10111	Municipal Charges	177.96
10117	Avbob	100.80

This is in contravention with section 62(c) (i) of the Municipal Finance Management Act 56 of 2003 (MFMA) which states that the Accounting Officer is responsible for managing the financial administration of the Municipality and should take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal controls.

##### Root cause

All elements of the control environment have not been developed and documented.

##### Risk

Deductions may be made without the employee's approval.  
Fraudulent activities could occur.

**Recommendation**

The Accounting Officer must design and implement the policies and procedures to ensure that only approved deductions are effected on the employee's payslips.

**Management response**

Unfortunately, some of these deductions are governed by the companies where the affected employees enter into contract such that we only receive a schedule from that company. We will look into the matter.

Name: Mr. Sigenu

Responsible official: Mr. Sigenu

Date: 14 November 2008

**Auditor's response**

The finding is transferred to the Management report.

## PROPERTY, PLANT AND EQUIPMENT

### 15. Fixed Assets - Additions - Bar Code.

#### Audit finding

While physically verifying additions we came across the following item which was not bar-coded and we could not trace it to the asset register.

Description	Invoice #	Supplier	Location	Amount
One tone Hydraulic Jack	4465	Adendorf Machinery	Technical (B.Haw)	1995

This is in contravention with section 62(c)(i) of the Municipal Finance Management Act 56 of 2003 (MFMA) which states that the Accounting Officer is responsible for managing the financial administration of the Municipality and should take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal controls.

#### Root cause

All elements of the control environment have not been developed and documented

#### Risk

Non compliance with the MFMA 62(c)(i).  
Assets could be stolen or go missing without been noticed in time.

#### Recommendation

The Accounting Officer must design and implement policies and procedures to ensure that all new assets purchased are bar-coded for easier identity and location.

#### Management response

This machine is new and it was not yet bar-coded. This will be rectified and measures will be put in place to eliminate occurring incidents.

Responsible official : Z. Kali

Comment: Miss. Z. Kali

Date: 14 November 2008

#### Auditor's response

Audit finding is transferred to management letter.

## **RESERVES**

### **16. Funds, Provisions and Reserves; No accounting policy.**

#### **Audit finding**

The Municipality does not have a formal, authorised and distributed written accounting policy for provisions and reserves.

This is in contravention of section 62(c)(i) of the Municipal Finance Management Act, which states that the Accounting Officer of a Municipality must take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and Risk management and internal control.

#### **Root cause**

All elements of the control environment have not been developed and documented.

#### **Risk**

Without the written document the reserves and provisions may not be adequately provided for and monitored by management. As a result, there is a risk that reserves may be misstated.

#### **Recommendation**

The Accounting Officer must design and implement provision and reserve policy. The policy formally approved and updated on a regular basis in order to formalise guidelines for compliance by management.

#### **Management response**

Note is taken of your finding. This will be investigated.

Name: J. Krapohl

Date: 20 November 2008

#### **Auditor's response**

The finding is transferred to the management letter.

**17. Accumulated Surplus/Deficit; Amount paid on quotation instead of invoice.**

**Audit finding**

Whilst performing audit procedures we noted that the Municipality for the following supplier that the amount was paid on quotation instead of invoice.

Supplier Name	Cheque Number	Date	Quotation Number	Amount (R)
Hydrostal (Pty) Ltd	42 886	25/09/2007	HCS-0266	22 578

This is in contravention with section 62(c)(i) of the Municipal Finance Management Act, Act 56 of 2003 (MFMA), which state that the Accounting Officer of a Municipality must take all reasonable steps to ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

**Root cause**

All elements of the control environment have not been developed and documented.

**Risk**

Expenses could be misstated in the income statement.

**Recommendation**

The Accounting Officer must design and implement the policies and procedures to ensure that all the expenses are paid based on the invoice instead of the quotation.

**Management response**

Note is taken of your finding. This will be looked into and rectified.

Responsible Official : Mrs. N. Beja

Date: 20 November 2008

**Auditor's response**

Management have not commented and therefore The finding is transferred to the Management report.