

**REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE  
AND THE COUNCIL ON THE GROUP FINANCIAL STATEMENTS AND PERFORMANCE  
INFORMATION OF THE CITY OF TSHWANE METROPOLITAN MUNICIPALITY FOR THE  
YEAR ENDED 30 JUNE 2009**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the accompanying group financial statements of the City of Tshwane Metropolitan Municipality (CoT) which comprise the consolidated and separate statement of financial position as at 30 June 2009, and the consolidated and separate statement of financial performance, the consolidated and separate statement of changes in net assets and the consolidated and separate 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].

**The accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the Standards of Generally Recognised Accounting Practices (GRAP) and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**The Auditor-General's responsibility**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126 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 read with *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 about 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1, *Presentation of Financial Statements* requires that financial reporting by

entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the CoT in this respect will be limited to reporting on non-compliance with this disclosure requirement.

7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Basis for qualified opinion**

#### **Property rates and consumer debtors**

8. I could not satisfy myself as to the occurrence, completeness and cut off of the amounts (current and corresponding figures) disclosed as property rates of R2, 299 billion (2008: R2, 185 billion) in the statements of financial performance and as to the correct valuation and allocation of consumer debtors of R2, 667 billion (2008: R2, 393 billion) in the statement of financial position, as sufficient and appropriate information could not be provided for audit purposes in respect of the correcting journals processed during the year as well as after year-end, for the correct allocation of revenue to the current and prior financial years.

#### **Qualified opinion**

9. In my opinion, except for the effects of the matter described in the Basis for qualified opinion paragraph, these financial statements present fairly, in all material respects, the consolidated and separate financial position of the City of Tshwane Metropolitan Municipality as at 30 June 2009 and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended, in accordance with GRAP and in the manner required by the MFMA.

#### **Emphasis of matters**

I draw attention to the following matters on which I do not express a qualified opinion:

#### **Going concern/Financial sustainability**

10. While the municipality has prepared financial statements on a going concern basis, there are a number of indicators that its financial sustainability is under threat, as indicated in paragraph 8.4 of the chief financial officer's report. These indicators related to the world economic recession as well as the slow repayment of debtors and a substantial increase in the consumer debtors and creditors amounts from the prior year. Subsequent to year-end the municipality has substantially increased its overdraft facility. Furthermore, the CoT required more funds to ensure that the capital replacement reserve and housing development fund had sufficient cash backing as per its accounting policies.
11. One of the CoT's municipal entities, Housing Company Tshwane's rental income has decreased during the year under review, its debtors payments have deteriorated and key senior management personnel have resigned subsequent to year-end. Furthermore, the accounting officer's report of the entity indicated uncertainty with respect to the future cash flows of the entity. These conditions cast significant doubt on the entity's ability to continue as a going concern and the entity has not yet finalised a plan to ensure its future sustainability.

The cash flow and other problems of the Housing Company Tshwane, including the unavailability of information and documentation required for audit purposes, led to a disclaimer of the audit opinion on its financial statements.

12. Civirelo Water, a municipal entity of the CoT, incurred a net loss of R17, 6 million during the year ended 30 June 2009 and as at that date the entity's total liabilities exceeded its total assets by R29, 2 million. These conditions, along with other matters set out in the director's report indicate the existence of a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern.

#### **Unauthorised expenditure and deviations from supply chain management procedures**

13. As disclosed in note 45.1 to the annual financial statements an amount of R75 million of unauthorised expenditure was still awaiting authorisation from the council, as required by section 32(2) of the MFMA.
14. The municipality incurred unauthorised expenditure of R477 million in respect of the late approval of the deviation report (not approved before 31 August) as disclosed in note 45.4 to the annual financial statements.
15. Deviations from the official procurement process during the financial year were approved in terms of the delegations as stipulated in the supply chain management policy and amounted to approximately R351 million as disclosed in note 47 to the annual financial statements.

#### **Other matters**

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

#### **Unaudited supplementary schedules**

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

#### **Non-compliance with applicable legislation**

##### **Municipal Finance Management Act**

18. As previously reported, the then council of the CoT in 2001 resolved to provide an official residence to the mayor of the CoT. This provision of an official residence to a mayor does not fall within the framework of the Remuneration of Public Office-Bearers Act, 1998 (Act No. 20 of 1998), which, in turn, results in the transgression of section 167 of the MFMA, which came into effect in 2004 and states that the municipality may remunerate its members of the political structure only within the framework of the Remuneration of Public Office-Bearers Act, 1998. If it falls outside this, it must be classified as irregular expenditure and the municipality must take appropriate steps as required.
19. The CoT failed to submit electronic and signed returns on their conditional grants spending for the period ended 30 June 2009 in terms of section 74(1) of the MFMA. Furthermore, the CoT also did not sign the section 71 report for the period ended 30 June 2009, as evidence of verification.
20. Invoices were not paid within 30 days of receiving the relevant invoice as required by section 65(e) of the MFMA.

21. Section 64(2)(h) of the MFMA requires that appropriate reconciliations be done at least on a weekly basis for revenue received by the municipality, including revenue received by any collecting agents on its behalf. However, collections by agents/municipality were not appropriately reconciled at least on a weekly basis for transport income, prepaid electricity and licences.
22. No financial statements were received for auditing in terms of section 126(2) of the MFMA for Tshwane Economic Development Agency and Tshwane Centre for Business Information and Support, being municipal entities of the CoT. As such we could not confirm whether these entities had any assets and liabilities that had to be included in the consolidated annual financial statements of the CoT.

### **Municipal Systems Act**

23. Various reconciling differences were identified in the property values on the valuation systems (ProV) and the billing system (SAP), resulting in individual accounts not being billed timeously and accurately. This resulted in non-compliance with section 95(e) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA), which states that the municipality must ensure that persons liable for payments receive regular and accurate accounts that indicate the basis for calculating the amounts due.
24. Section 95(e) – (h) of the MSA – Customer Care and Management, requires that the "municipality provide a mechanism to monitor the response time and efficiently in complying with dealing with complaints," as notifications were not always timeously cleared, work was not always performed on notifications created and work orders were closed before actual work was performed.

### **Governance framework**

25. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the internal control deficiencies and key governance responsibilities addressed below:

### **Internal control deficiencies**

26. 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 deficiencies 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. The number listed per component can be followed with the legend below the table. In some instances deficiencies exist in more than one internal control component.

<b>Par. no.</b>	<b>Basis for qualified opinion</b>	<b>CE</b>	<b>RA</b>	<b>CA</b>	<b>IC</b>	<b>M</b>
8	Property rates and consumer debtors	6				1

### **Conclusion on the governance framework**

27. The above was mainly due to the following:

- Insufficient monitoring controls and oversight by senior management over the preparation and completion of financial statements, with specific reference to the reviewing and evaluation of supporting documentation and figures.
- Insufficient guidance/procedures provided to staff regarding the preparation of financial statements.

<b>Legend</b>	
<b>CE = Control environment</b>	
The organisational structure does not address areas of responsibility and lines of reporting to support effective control over financial reporting.	1
Management and staff are not assigned appropriate levels of authority and responsibility to facilitate control over financial reporting.	2
Human resource policies do not facilitate effective recruitment and training, disciplining and supervision of personnel.	3
Integrity and ethical values have not been developed and are not understood to set the standard for financial reporting.	4
The accounting officer/accounting authority does not exercise oversight responsibility over financial reporting and internal control.	5
Management's philosophy and operating style do not promote effective control over financial reporting.	6
The entity does not have individuals competent in financial reporting and related matters.	7
<b>RA = Risk assessment</b>	
Management has not specified financial reporting objectives to enable the identification of risks to reliable financial reporting.	1
The entity does not identify risks to the achievement of financial reporting objectives.	2
The entity does not analyse the likelihood and impact of the risks identified.	3
The entity does not determine a risk strategy/action plan to manage identified risks.	4
The potential for material misstatement due to fraud is not considered.	5
<b>CA = Control activities</b>	
There is inadequate segregation of duties to prevent fraudulent data and asset misappropriation.	1
General information technology controls have not been designed to maintain the integrity of the information system and the security of the data.	2
Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.	3
Actions are not taken to address risks to the achievement of financial reporting objectives.	4
Control activities are not selected and developed to mitigate risks over financial reporting.	5
Policies and procedures related to financial reporting are not established and communicated.	6
Realistic targets are not set for financial performance measures, which are in turn not linked to an effective reward system.	7
<b>IC = Information and communication</b>	
Pertinent information is not identified and captured in a form and time frame to support financial reporting.	1
Information required to implement internal control is not available to personnel to enable internal control responsibilities.	2
Communications do not enable and support the understanding and execution of internal control processes and responsibilities by personnel.	3
<b>M = Monitoring</b>	
Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.	1
Neither reviews by internal audit or the audit committee nor self -assessments are evident.	2

Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.	3
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### Key governance responsibilities

28. 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 key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
<b>Clear trail of supporting documentation that is easily available and provided in a timely manner</b>			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.		✓
<b>Quality of financial statements and related management information</b>			
2.	The financial statements were not subject to any material amendments resulting from the audit.		✓
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	✓	
<b>Timeliness of financial statements and management information</b>			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines in section 126 of the MFMA.	✓	
<b>Availability of key officials during audit</b>			
5.	Key officials were available throughout the audit process.	✓	
<b>Development and compliance with risk management, effective internal control and governance practices</b>			
6.	Audit committee		
	<ul style="list-style-type: none"> <li>The municipality had an audit committee in operation throughout the financial year.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>The audit committee operates in accordance with approved, written terms of reference.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.</li> </ul>	✓	
7.	Internal audit		
	<ul style="list-style-type: none"> <li>The municipality had an internal audit function in operation throughout the financial year.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>The internal audit function operates in terms of an approved internal audit plan.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.</li> </ul>		✓
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		✓
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and		✓

No.	Matter	Y	N
	regulations.		
10.	The information systems were appropriate to facilitate the preparation of the financial statements.		✓
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(c) (i) of the MFMA.		✓
12.	Delegations of responsibility are in place, as set out in 106 of the MFMA.	✓	
<b>Follow-up of audit findings</b>			
13.	The prior year audit findings have been substantially addressed.	✓	
14.	SCOPA/Oversight resolutions have been substantially implemented.	<b>N/A</b>	
<b>Issues relating to the reporting of performance information</b>			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.		✓
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		✓
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Municipality against its mandate, predetermined objectives, outputs, indicators and targets (section 68 of the MFMA).	✓	
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	✓	

### Overall reflection on governance framework

29. The municipality has all the required governance structures in place. For deficiencies in this regard, refer to paragraph 27 above.

### Investigations

30. Thirty-two cases were received by the forensic audit section of the CoT's internal audit unit for the current financial year, 11 of which were finalised. The nature of cases covered a wide spectrum of activities, including bribery, theft, financial corruption, RDP houses misallocation and tender irregularities.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### Report on performance information

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

### **The accounting officer's responsibility for the performance information**

32. 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 MSA.

### **The Auditor-General's responsibility**

33. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.
34. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
35. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the review findings reported below.

### **Audit findings (performance information)**

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

##### **No mid-year budget and performance assessment**

36. No evidence was submitted to verify that the accounting officer of the CoT submitted the monthly budget statements to the mayor of the CoT within 10 working days after the end of each month in terms of section 71(1) of the MFMA.
37. No evidence was submitted to verify that the accounting officer of both Civirelo Water and Sandspruit Works Association (municipal entities of the CoT) submitted to the accounting officer of the CoT the information in respect of the entity's budget in terms of section 87(11) of the MFMA within seven days after the end of each month.
38. No evidence was provided to verify that the accounting officer of Housing Company Tshwane complied with the provisions of both sections 87(11) and 88 of the MFMA in respect of monthly budget statements, mid-year budget and performance assessment.
39. No evidence could be provided to verify that the Housing Company Tshwane complied with the provisions of section 121(4)(d) of the MFMA in respect of performance information.

#### **Usefulness and reliability of reported performance information**

40. The following criteria were used to assess the usefulness and reliability of the information on the municipality's performance with respect to the objectives in its integrated development plan:
- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan?
  - Relevance: Is the performance information as reflected in the indicators and targets clearly linked to the predetermined objectives and mandate. Is this specific and measurable, and is the time period or deadline for delivery specified?
  - Reliability: Can the reported performance information be traced back to the source data or documentation and is the reported performance information accurate and complete in relation to the source data or documentation?



The following audit findings relate to the above criteria:

**Reported performance information not relevant**

41. The indicator with regard to public transport was not specific in clearly identifying the nature and the required level of performance, as the method used to measure the performance of public transport did not necessarily give an indication of how the municipality has increased the accessibility to public buses. As bus tickets sold was used to determine the number of passengers using buses, this could result in the same passengers being included more than once in the calculation. This resulted in an incorrect indication of the improvement of bus usage as required by the key performance indicator (KPI).

**Reported performance information not reliable**

**Lack of source documentation**

42. Sufficient appropriate audit evidence in relation to the reported performance information for the KPI on housing could not be provided for audit purposes.

**Source information not accurate and complete**

43. The source information or evidence provided to support the reported performance information with regard to various KPI's did not adequately support the accuracy and completeness of facts. Examples included the following:

- Reported information on crime levels was only for eight months and did not cover the entire period, thus information was incomplete.
- Sufficient appropriate audit evidence with regard to the reported information in respect of the KPIs on roads and storm water could not be obtained as the system used was not appropriate to facilitate the preparation of accurate and complete actual performance information.
- Evidence received in respect of solid waste removal, public transport, water, sanitation and households registered as indigents differed from amounts/percentages reported.
- Evidence submitted in respect of the disaster risk management plan differed from the actual achievement percentage as reported.

## APPRECIATION

44. The assistance rendered by the staff of the City of Tshwane during the audit is sincerely appreciated.

Pretoria

21 December 2009



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

The City Manager  
City of Tshwane Metropolitan Municipality  
PO Box 6338  
Pretoria  
0001

11 December 2009

Reference: 60020REG08/09

Dear Sir

**MANAGEMENT REPORT ON THE REGULARITY AUDIT AND THE AUDIT OF PERFORMANCE INFORMATION OF THE CITY OF TSHWANE METROPOLITAN MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009**

**INTRODUCTION**

1. This management report is provided to the accounting officer of the City of Tshwane Metropolitan Municipality (COT) in connection with our audit of the group financial statements and the review of the performance information for the year ended 30 June 2009.
2. The report contains the following main subsections:
  - The Auditor-General's responsibilities
  - The accounting officer's responsibilities
  - Significant findings from our audit of the financial statements
    - Financial matters
    - Governance matters
  - Significant findings from our review of the performance information
  - Information on audits conducted other than on the financial statements
    - Investigations
    - Performance audits
    - Special audits
  - Ratings of the audit findings

- Summary of detailed audit findings
3. Annexure A, B, and C contain information on the detailed audit findings. The detailed findings were communicated during the course of the audit and include management's responses thereto.

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

4. Our responsibility is to express an opinion on the group financial statements and to report on findings related to our review of performance information. Our engagement letter sets out our responsibilities in detail. These include the following:
- Planning and performing the audit to obtain reasonable assurance about whether the group financial statements are free from material misstatements, whether caused by fraud or error.
  - Performing procedures to obtain audit evidence about the amounts and disclosures in the group financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the group financial statements.
  - Considering internal controls relevant to the entity's preparation and fair presentation of the financial statements.
  - Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management.
  - Evaluating the overall presentation of the financial statements.
  - Expressing an opinion on the group financial statements based on the audit in accordance with the International Standards on Auditing (ISAs).
  - Evaluating non-compliance with applicable legislation relating to financial matters, financial management and other related matters.
  - Evaluating the appropriateness of controls, systems and processes to ensure the accuracy and completeness of reported performance information.
  - Reading other information in documents containing the audited group financial statements.
5. Because of the test nature and other inherent limitations of an audit, we do not guarantee the completeness and accuracy of the group financial statements or performance information, or compliance with all applicable legislation.
6. Having formed an opinion on the financial statements we may draw the user's attention, when in our opinion it is necessary to do so, by way of additional communication in the auditor's report to:
- a matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is fundamental to user's understanding of the financial statements or
  - as appropriate, any other matter that is relevant to the user's understanding of the auditor's responsibilities or the auditor's report.
- These items are normally included under the headings 'emphasis of matter' and 'other matters' respectively in the auditor's report and include an indication that they do not affect the auditor's opinion.

**THE ACCOUNTING OFFICER’S RESPONSIBILITIES**

7. The accounting officer’s responsibilities are set out in detail in the engagement letter. These include the following:
- The preparation and fair presentation of the group financial statements in accordance with the Standards of Generally Recognised Accounting Practices (GRAP).
  - Designing, implementing and maintaining internal controls relevant to the preparation of the group financial statements.
  - Selecting and applying appropriate accounting policies, and making accounting estimates that are appropriate in the circumstances.
  - Disclosing known instances of non-compliance or suspected non-compliance with laws and regulations, of which the effects should be considered when preparing financial statements.
  - Monitoring and reporting on performance against predetermined objectives.
  - Providing access to all information that is relevant to the preparation of the financial statements and performance information, such as records, documents and other matters.
  - Disclosing all matters concerning any risk, allegation or instances of fraud.
  - Accounting for and disclosing related party relationships and transactions.

**SIGNIFICANT FINDINGS FROM OUR AUDIT OF THE FINANCIAL STATEMENTS**

**FINANCIAL MATTERS**

**Material misstatements not corrected at the date of this report**

8. The following represents the material misstatement that arose from a difference between the amount, classification or presentation of a reported financial statement item and the amount, classification or presentation that is required for the item to be in accordance with the applicable financial reporting framework. These misstatements were identified during the audit and had not been corrected by management at the date of this report. The misstatements were not prevented or detected by the municipalities system of internal control. We urge management to implement improved controls over the matters reflected as the root cause for the misstatements.

Financial statement line item	Reason for misstatement	Dr	Cr	Root causes (as per table below)
		R	R	
Property rates	Journals processed in respect of the current yearend as subsequent journals after financial yearend that impact the current as well as prior financial years could not be verified as findings were made in respect of the split of journals between the	Unknown amount	Unknown amount	CE 6, M1,
Consumer debtors		Unknown amount	Unknown amount	

	current and prior years as well as the completeness of the journal split.			
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### Overall conclusion of the governance framework based on internal control deficiencies

9. The above were mainly due to the following:

- Insufficient monitoring controls and oversight by senior management over the preparation and completion of financial statements, with specific reference to the reviewing and evaluation of supporting documentation and figures.
- Insufficient guidance/procedures provided to staff regarding the preparation of financial statements.

### Material misstatements corrected during the audit

10. The following represents the material misstatements arising from a difference between the amount, classification or presentation of a reported financial statement item and the amount, classification or presentation that is required for the item to be in accordance with the applicable financial reporting framework. These misstatements were identified during the audit and were corrected by management. These misstatements were not prevented or detected by the municipality's system of internal control. We urge management to implement improved controls over the matters reflected as the root cause for the misstatements.

Financial statement line item	Reason for misstatement	Dr	Cr	Root causes (as per table below)
		R	R	
Creditors & General expenses	All creditors not accrued for	R 38 834 373.04	R 38 834 373.04	CA5, IC1
Unspent conditional grants – expenditure	Grant funds were not ring-fenced. Furthermore, internal controls are not in place to ensure that grants are correctly accounted for.	R69 453 930.25	R69 453 930.25	CA6, IC1, M1
Employee Benefits	Accounting for employee benefits in terms of IAS 19	R 838 893 000.00	R 838 893 000.00	CA5
Accumulated surplus	Assets shown with Zero NBV (Ex 160)	95,557,137.37		CA2, CA3
Transfers from CGD			7,513,355.25	
GL41929 Reserve		78,751,488.09		
Depreciation (416406)		20,241,629.63		

Depreciation (419200)			62,952,945.48	
Assets depreciation purification (18021)			141,347,463	
Capital grants and donations 74250			71,278,714.11	
Assets 15001		3,720,450.00		
Reserves 74100			3,547,173.10	
PPE 10321		55,477,614.39		
PPE 10021		6,789,571.82		
PPE 12021		90,388.04		
PPE 18021		25,773,482.51		
PPE 15021		128,338.29		
PPE 14021		109,552.82		
EFF 68500		116,905,973.46		
EFF 6800			116,905,973.46	
Other debtors	Rezoning debtors not recorded in the financial statements	87 826 151.00		RA1, M1
Public contributions			87 826 151.00	
Unclaimed monies (Revenue)	Unclaimed monies incorrectly recorded to revenue.	38 041 972.29		M1
Unclaimed monies suspense account			38 041 972.29	
Consumer Debtors	Property rate adjustment in respect of properties without contract accounts on SAP (Ex 149)	32 716 981.95		M1
Property rates			32 716 981.95	
Forgone income	Property rate adjustment in respect of properties without contract accounts on SAP (Ex 149) (Foregone income adjustment)	8 651 677.51		M1
Consumer Debtors			8 651 677.51	

11. The following represents the material misstatements arising from a difference between the disclosures in the financial statement item and the disclosures required by the financial reporting framework. These misstatements were identified during the audit and were corrected by management. These misstatements were not prevented or detected by the municipality's system of internal control. We urge management to implement improved controls over the matters reflected as the root cause for the misstatements.

Financial statement line item	Reason for misstatement	Amount (R)	Root causes (as per table below)
Note 17: Other debtors	Government grant debtors separately disclosed in other debtors.	178 420 545.00	M1
Note 47 : Deviations from supply chain management	Internal controls were not in place to ensure that the correct amount is provided for the inclusion in the annual financial statements	197 607 963.00	CA5, M3
Note 16: Consumer debtors: Bad debts council approval not provided	Bad debts incorrectly disclosed in the financial statements stating that council approval was obtained; however, the council did not approve the relevant amounts to be written off but the policy.	187 730 810.00	M1

<b>Legend</b>	
<b>CE = Control environment (ISA 315.14(b) and A69-A75)</b>	
The organisational structure does not address areas of responsibility and lines of reporting to support effective control over financial reporting.	1
Management and staff are not assigned appropriate levels of authority and responsibility to facilitate control over financial reporting.	2
Human resource policies do not facilitate effective recruitment and training, disciplining and supervision of personnel.	3
Integrity and ethical values have not been developed and are not understood to set the standard for financial reporting.	4
The accounting officer/authority does not exercise oversight responsibility over financial reporting and internal control.	5
Management's philosophy and operating style do not promote effective control over financial reporting.	6
The entity does not have individuals competent in financial reporting and related matters.	7
<b>RA = Risk assessment</b>	
Management has not specified financial reporting objectives to enable the identification of	1



risks to reliable financial reporting.	
The entity does not identify risks to the achievement of financial reporting objectives.	2
The entity does not analyse the likelihood and impact of the risks identified.	3
The entity does not determine a risk strategy/action plan to manage identified risks.	4
The potential for material misstatement due to fraud is not considered.	5
<b>CA = Control activities</b>	
There is inadequate segregation of duties to prevent fraudulent data and asset misappropriation.	1
General information technology controls have not been designed to maintain the integrity of the information system and security of the data.	2
Manual or automated controls are not designed to ensure that the transactions occurred, are authorised, and are completely and accurately processed.	3
Actions are not taken to address risks to the achievement of financial reporting objectives.	4
Control activities are not selected and developed to mitigate risks over financial reporting.	5
Policies and procedures related to financial reporting are not established and communicated.	6
Realistic targets are not set for financial performance measures, which are in turn not linked to an effective reward system.	7
<b>IC = Information and communication</b>	
Pertinent information is not identified and captured in a form and time frame to support financial reporting.	1
Information required to implement internal control is not available to personnel to enable internal control responsibilities.	2
Communications do not enable and support the understanding and execution of internal control processes and responsibilities by personnel.	3
<b>M = Monitoring</b>	
Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.	1
Reviews by internal audit, the audit committee or self-assessment are not evident.	2
Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.	3

### Financial sustainability/Going concern

12. While the municipality has prepared financial statements on a going concern basis, there are a number of indicators showing that its financial sustainability is under threat, as indicated in paragraph 8.4 of the CFO's report. These include the following before any audit adjustments were taken into account:
- a. World economic recession – increase in consumable debtors as municipal account is not high on consumers' lists of priority payments.
  - b. Although the average debtors' payment has remained unchanged at 173 days. The recoverable days are still high and this has a negative effect on the municipality's cash flow as it has to pay its creditors within 30 days of invoice.

- c. An increase of R506 million of consumer debtors from the prior year, as well as an increase of R188 million in the provision for doubtful debts for consumable debtors.
- d. An increase of R901 million in respect of creditors compared to the prior year.
- e. The Housing Development Fund (HDF) and the Capital Replacement Reserve (CRR) accounting policies state that these funds should be backed up by cash. Based on cash-back calculations done (surplus cash less external financing fund less cash available from investments), CoT needs a further R44 million for the HDF and R361 million for the CRR. In order to ensure that these funds are sufficiently backed by cash.
- f. During our subsequent events testing it has come to our notice that the municipality has obtained bridging finance in the form of an overdraft facility amounting to R300 million after year end. This has also been confirmed from correspondence received from National Treasury in this regard.
- g. Housing Company Tshwane's, a municipal entity of CoT's, rental income has decreased during the year under review, its debtors payments have deteriorated and key senior management personnel have resigned subsequent to year end. Furthermore, the accounting officer's report of the entity indicated uncertainty with respect to the future cash flows of the entity. These conditions cast significant doubt on the entity's ability to continue as a going concern and the entity has not yet finalised a plan to ensure its sustainability.  
  
Housing Company Tshwane's furniture and equipment was repossessed after year end due to its inability to pay creditors on time. This resulted in non-compliance with section 99(2) (b) of the MFMA which requires creditors to be paid within 30 days. This attachment of furniture and equipment was largely responsible for the information required for audit purposes being unavailable which led to a disclaimer of opinion on Housing Company Tshwane's financial statements.
- h. Civirelo Water incurred a net loss of R17, 6 million (municipal entity) during the year ended 30 June 2009 and, as at that date, the entity's total liabilities exceeded its total assets by R29, 2 million. These conditions, along with other matters set forth in the director's report of the entity indicate existence of a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern.

#### **Qualitative aspects of accounting practices**

- 13. During the 2008-09 financial years the municipality applied IAS 19. This resulted in a change of accounting policy in accordance with GRAP 3.
- 14. The CoT complies with the new GRAP, therefore the accounting policy on property, plant and equipment changed.
- 15. As disclosed in note 43 to the annual financial statements, material adjustments were made to prior year figures, which was a result of the implementation of GRAP which had a retrospective application.

#### **Material losses/impairments**

- 16. None

#### **Unauthorised expenditure and deviations from supply chain management procedures**

- 17. As disclosed in note 45.1 to the annual financial statements an amount of R75 million of unauthorised expenditure is still awaiting authorisation from Council as required by section 32(2) of the MFMA.
- 18. The municipality incurred unauthorised expenditure of R477 million in respect of late approval of deviation report (not approved before 31 August) as disclosed in note 45.4 to the annual financial statements.

19. As disclosed in note 45.5 an amount of R165 million (2008: R838 million) was incurred as a result of expenditure not budgeted for due to the first-time implementation of accounting Standard IAS19: *Employee Benefits*.
20. Deviations from the official procurement process during the financial year was approved in terms of the delegations as stipulated in the Supply Chain Management Policy and amounted to approximately R351 million as disclosed in note 47 of the annual financial statements.

### **Budgetary control**

21. Significant overtime payments were made to employees during the 2008-09 financial year, which resulted in the budget on compensation of employees being overspent by R73, 8 million (57%).
22. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

As the budget reporting standard was not effective for this financial year, I have determined that my audit of any disclosures made by the CoT in this respect will be limited to reporting on non-compliance with this disclosure requirement.

However, the CoT should note that the following risk areas have been identified. When audit findings are addressed the adjustments are not made to the budget, only the financial statements are corrected.

The CoT 2009-10 budgets should comply with GRAP 24 and during the 2009-10 financial year I will audit the budget in terms of this standard, as the budget reporting standard is effective will be 2009-10.

### **Accounting discipline**

23. Section 64(2)(h) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) states that the accounting officer or municipality shall take all reasonable steps to ensure that all revenue by the entity, including the collecting agency on its behalf, is reconciled on a weekly or more regular basis.

However, during the audit of revenue and receivables it came to our attention that the following reconciliations were not done:

- Between the system used at the licensing department in Akasia and the general ledger account on SAP in respect of account number 149012 (dishonoured cheques Akasia licences) valued at R1 021 357,26 for the financial year 2008-09.
- No adequate reconciliations done in respect of the general ledger account number 202015 (licences over-/under-banking suspense), valued at R10 034 168,56 for the financial year 2008-09.
- No adequate reconciliations were performed between the quantity of tickets sold and tickets still in hand compared to the revenue received in respect of transport income.
- Monthly reconciliations were not performed between cash received and revenue recognised on SAP in respect of public contributions: township contribution development: consent use.
- Appropriate reconciliations are not performed between SAP general ledger and PASTEL general ledger for dumping fees and bulk containers.

Various reconciling differences were identified in respect of the property values in valuation systems (ProV) to the billing system (SAP), resulting in individual accounts not timely and accurately billed. This results in a contravention of Section 95(e) of the MSA, which states that the municipality must ensure that persons liable for payments receive regular and accurate accounts that indicate the basis for calculating the amounts due.

### **Financial indicators/ratios**

24. The following are key financial ratios at the municipality. Although there are no norms at municipality level, we recommend that management implement stringent controls to normalise them to ensure the continued effective operation of the entity.
- a. Current asset ratio of 1.01/1 indicates that the realisation of its current assets at short notice to pay its current liabilities is problematic.
  - b. Quick asset ratio of 0.95/1 indicates that there is a problem with the realisation of its current assets, excluding inventory, in order to pay its current liabilities at short notice.
  - c. Although the average debtors payment period has remained unchanged at 173 days. The recoverable days are still high and this has a negative effect on the municipality's cash flow as it has to pay its creditors within 30 days of invoice.

### **Significant uncertainties**

25. None

### **Financial reporting systems**

#### **26. Information systems audits and internal control**

Information systems (IS) controls play a significant role in determining the effectiveness of internal controls. Weak IS controls severely diminish the reliability of other internal controls associated with an application. Without effective IS controls, other controls may be rendered ineffective by override, circumvention or modification.

#### **Controls subject to information systems audits**

Internal controls are the controls established by management to ensure the accuracy, completeness and validity of accounting records. The internal control environment of an entity consists of the following:

- General controls (such as change controls, disaster recovery/business continuity contingency measures, operational controls, service level agreements, IT governance structures, system development and network controls)
- Programmed controls and programmed accounting procedures (controls built into a computer program to prevent or detect irregularities), which have replaced manual operations of an accounting nature
- User controls, i.e. manual user controls implemented by every department to prevent or detect errors or irregularities, which typically comprise manual reviews, analyses, comparisons and reconciliations

#### **General control review**

General controls form the foundation upon which the controls of all application systems in a computerised system environment are based. General controls are designed to ensure that computerised information processing takes place in a reasonably controlled environment.

An information systems (IS) audit was conducted of the general computer controls and business cycle controls review of the information systems and business processes at the City of Tshwane.

#### Authorisations

- High number of users with high-risk transactions

#### Application controls

- Follow-up is not done on a timely basis for meter reading estimation.
- Customer master data creation is not done as per company policy and procedure.
- Unapproved flagging of indigent accounts.
- Inadequate segregation of duties on customer master data and transaction data.

### **Revision of the previously issued financial statements**

27. None

### **Accounting reforms**

28. The following new accounting requirements will become applicable in the next financial year:

- GRAP 23 – Revenue from non-exchange transactions
- GRAP 24 – Presentation of budget information in financial statements

## **GOVERNANCE MATTERS**

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

29. None

### **Internal audit**

30. Internal audit has some staff shortages and as a result their audit plan for the year was not totally executed.

31. Concern is also raised that the internal audit plan for 2009-10 financial year has not yet been finalised up to the date of this report.

### **Audit committee**

#### **Single Audit committee – Municipal entities**

32. The single audit committee for the municipal entities did not meet prior to the submission of the financial statements of the municipal entities for auditing on 31 August to review the adequacy, reliability and accuracy of the financial statements.

### **Management of risk**

33. The CoT did not have an effective risk management policy and framework as required in terms of section 62 and 95 of the MFMA. The risk committee was not established during the

financial year under review. This resulted in adequate measures not being in place to adequately identify, assess and manage these risks to ensure that it is mitigated.

#### **Prior year observations and recommendations addressed**

34. As reported in the prior year, the following matters have not been resolved and are once again reported in this management report:

- **Mayoral residence:** The provision of housing for the mayor does not fall within the framework of the Public Office-Bearers Act and resulted in a transgression of section 167 of the MFMA due to the fact that the residence is occupied by the mayor at no cost or let at less than a market-related rate.
- **Councillors not contributing to the UIF:** Councillors are not contributing to the Unemployment Fund and neither is the Tshwane Municipality contributing to the Unemployment Insurance Fund on their behalf.
- **All invoices not paid within 30 days:** As reported in the prior year, all invoices are not paid within 30 days as required by section 65(e) of the MFMA

#### **Unavailability of key personnel**

35. None

#### **Adequacy and competence of financial reporting personnel**

36. Due to vacancies the CoT had to employ consultants to prepare and update the asset register. During 2007-08 PricewaterhouseCoopers was appointed and this year the CoT appointed Deloitte to prepare and update the asset register.

#### **Unavailability/delays of expected information**

37. As indicated in our engagement letter, we agreed that all information requested for purposes of the audit would be submitted within three working days of the request by the auditors. Despite this agreement, management did not supply the documentation requested within the agreed timeframes, in the following instances:

- **Compensation of employees**

Throughout the audit process, significant delays were experienced in obtaining supporting documentation and report from the Strategic Human Resources Department.

- **Supply chain management**

Tender files and other supporting documentation were requested, but were not supplied within the agreed timeframes

- **Revenue and receivables – Sundry dwellings (account: 810302)**

During the audit of sundry dwellings it came to our attention that the supporting documents for GL810302 with a total value of R14 182 211,78 could not be provided for audit purposes. This could result as a scope limitation in respect of R14 182 211, 78 included in the GL account, as the occurrence of the recorded sundry dwellings could not be tested.

- **Property plant and equipment – Asset register**

The asset register was submitted for audit purposes during September, but various calculations could not be confirmed on the asset register. Additional meetings were held

with the service provider (Deloitte) to obtain this information. Meetings were on going until 17 November 2009.

- **Investment property**

The detail and calculations of how the cost price and net book value of investment property have been calculated could not be submitted to the auditors. The total amount which could not be verified in the financial statements relating to investment property is R7 917 609.00.

- **Operating leases**

The detail of operating leases and how the CoT accounts for these leases could not be provided for audit purposes as the operating leases do not have a separate GL account. Due to this it could not be determined if all payments related to operating leases. The amount that could not be verified in the financial statements relating to operating leases is R5 620 571,00.

- **Revenue and receivables – Fraud investigations**

During the audit a document request was issued on 19 October 2009 for all internal investigations and fraudulent activities reported to Tshwane in respect of revenue and receivables as well as the progress of follow-up as well as the impact of each case on the financial statements. Management did respond, but only a summary for three isolated incidents was provided which is thus not sufficient. Therefore a limitation of scope arises for the documentation requested as supporting documentation and the impact thereof on the financial statements could not be tested. It could also not be verified if all these cases were reported to the relevant delegated sections, such as internal audit and risk management, to ensure that relevant risks associated with these cases are identified and mitigated by implementation of sufficient controls to ensure that the municipality complies with section 95(c) and (f) of the MFMA.

- **R&R: Limitation of scope – Notifications**

During the audit of notifications a document request was issued on 26 October 2009 for work orders created when the relevant strategic unit attends to a notification. Not all these work orders could be provided for audit purposes; however, the notification indicates that work is already complete and as a result could it not be verified if the relevant notifications have been correctly resolved.

### **Late submission of financial statements**

38. The entities Tshwane Centre for Business Information and Support and Tshwane Economic Development Agency have not submitted financial statements for auditing as on 30 September 2009 and therefore the due date of 31 August 2009 has not been complied with, as required by the MFMA. The reason for non-submission was the inability of management to prepare the financial statements and uncertainty around whether the entities have assets or not.

### **Related parties**

39. None

### **Performance rewards**

40. None

### **Non-compliance with applicable legislation**

41. Municipal Finance Management Act

- The CoT failed to submit electronic and signed returns on their conditional grants spending for the period ended 30 June 2009 in terms of section 74(1) of the MFMA. Furthermore, the CoT also did not sign off that they have verified the section 71 report for the period ended 30 June 2009.
- The provision of housing for the mayor does not fall within the framework of the Public Office-Bearers Act and resulted in a transgression of section 167 of the MFMA.
- As reported in the prior year all invoices are not paid within 30 days as required by section 65(e) of the MFMA.
- The CoT did not have an effective risk management policy and framework as required in terms of section 62 and 95 of the MFMA. The risk committee was not established during the financial year under review. This resulted in adequate measures not being in place to adequately identify, assess and manage these risks to ensure that it is mitigated.
- No financials statements have been received for auditing in terms of section 126(2) of the MFMA for the following municipal entities, and therefore we could not confirm whether these entities have any assets and liabilities:
  - Tshwane Economic Development Agency (TEDA) – Active entity
  - Tshwane Centre for Business Information and Support (CENBIS) – Dormant entity
- Section 64(2)(h) of the MFMA states that the accounting officer or municipality shall take all reasonable steps to ensure that all revenue received by the entity, including the collecting agency on its behalf, is reconciled on a weekly or more regular basis, however, not all account on revenue and debtors were reconciled on a weekly basis.

42. Municipal Systems Act, 2000 (Act No.32 of 2000)

- According to section 64(2)(a) of MFMA states that the accounting officer or municipality shall take all reasonable steps to ensure that the municipality have effective revenue management systems consistent with section with section 95 of the Municipal Systems Act. Section 95(e) to ensure that persons liable for payments, receive regular and accurate accounts that indicate the basis for calculating the amounts due as various reconciling differences were identified in respect of variances between the ProV and the SAP billing system resulting in individual accounts not timely and accurately billed.
- Notification were not cleared timorously ,No work performed on notifications created, Work order closed before actual work was performed , based on the audit work performed these resulted in non-compliance with the Municipal Systems Act Section 95 – Customer Care & Management (e, f, g & h).

**SCOPA / Oversight resolutions**

43. None

**Key governance responsibilities**

44. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Many of these have been addressed in detail above. The table below reflects how certain of the financial and governance matters as well as other matters included under the reporting on performance information below, will be reported in the auditor's report.

No.	Matter	Y	N
	<b>Clear trail of supporting documentation that is easily available and provided in</b>		



No.	Matter	Y	N
<b>a timely manner</b>			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.		✓
<b>Quality of financial statements and related management information</b>			
2.	The financial statements were not subject to any material amendments resulting from the audit.		✓
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	✓	
<b>Timeliness of financial statements and management information</b>			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines in section 126 of the MFMA.	✓	
<b>Availability of key officials during audit</b>			
5.	Key officials were available throughout the audit process.	✓	
<b>Development of, and compliance with, risk management, effective internal control and governance practices</b>			
6.	Audit committee		
	The municipality had an audit committee in operation throughout the financial year.	✓	
	The audit committee operates in accordance with approved, written terms of reference.	✓	
	The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.	✓	
7.	Internal audit		
	The municipality had an internal audit function in operation throughout the financial year.	✓	
	The internal audit function operates in terms of an approved internal audit plan.	✓	
	The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.		✓
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		✓
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		✓
10.	The information systems were appropriate to facilitate the preparation of the financial statements.		✓
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(c) (i)/95(c) (i) of the MFMA.		✓
12.	Delegations of responsibility are in place, as set out in section 79/106 of the MFMA.	✓	
<b>Follow-up of audit findings</b>			

No.	Matter	Y	N
13.	The prior year audit findings have been substantially addressed.	✓	
14.	SCOPA resolutions have been substantially implemented - not applicable		
<b>Issues relating to the reporting of performance information</b>			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.		✓
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		✓
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the CoT against its mandate, predetermined objectives, outputs, indicators and targets section 68/87 of the MFMA.	✓	
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	✓	

#### **Achievement of good practice indicators**

The following good practices are the drivers of audit results. We have indicated our assessment of the municipality's achievement of these good practices, based on the matters included elsewhere in this report.

	<b>Good practice</b>	Y	N
1	Clear trail of supporting documentation that is easily available and provided timeously.		✓
2	Quality of financial statements and related management information.		✓
3	Timeliness of financial statements and management information.	✓	
4	Availability of key officials during audits.	✓	
5	Development and compliance with risk management and good internal control and governance practices.		✓
6	Leadership/supervision and monitoring.	✓	

#### **Overall conclusion on the governance framework based on other key governance requirements, as and where applicable**

45. The above were mainly due to the following:

- Insufficient monitoring controls and oversight by senior management over the submission of information, preparation and completion of financial statements, with specific reference to the reviewing and evaluation of supporting documentation and figures.
- Insufficient guidance/procedures provided to staff regarding the preparation of financial statements.

#### **SIGNIFICANT FINDINGS FROM OUR REVIEW OF THE PERFORMANCE INFORMATION**

46. There was overall non-compliance with the legislative requirements pertaining to the planning, monitoring, managing and reporting of performance information as the following exceptions occurred:
- a. No evidence was submitted to verify that the accounting officer submitted the monthly budget statements as stated section 71(1) of the MFMA within the stipulated deadlines.
  - b. No evidence was submitted to verify whether Civirelo Water and Sandspruit Work Association, submitted its budgets within the stipulated deadline in terms of section 87(11) of the MFMA.
  - c. No evidence was obtained to verify whether Housing Company Tshwane complied with both the provisions of section 87(11) and 88 of the MFMA in respect of monthly budget statements, mid-year budget and performance assessment.
  - d. No evidence was obtained to verify whether Housing Company Tshwane complied with the provision of section 121(4)(d) of the MFMA in respect of performance information.
47. Insufficient/incomplete system on backlogs was provided as vital information therein was not described.
48. Systems descriptions were not provided on certain KPI's
49. The source information or evidence provided to support the reported performance information with regards to various key performance indicators did not adequately support the accuracy and completeness of facts. Examples include:
- Reported information on crime levels was only for 8 months and did not cover the entire period, thus information was incomplete.
  - Sufficient appropriate audit evidence with regard to the reported information in respect of the KPI's on roads and storm water could not be obtained as the system used was not appropriate to facilitate the preparation of accurate and complete actual performance information.
  - Evidence received in respect of solid waste removal, public transport, water, sanitation and households registered as indigents differed to amounts/percentages being reported.
  - Evidence submitted in respect of the disaster risk management plan could not substantiate the percentage being reported
50. Sufficient appropriate audit evidence with regard to the reported information in respect of the KPI on housing could not be provided for audit purposes.
51. The targets for certain key performance indicators did not clearly contribute to the realisation of the goals and objectives of the entity. The examples of key performance indicators affected are:
- The target and achievement of roads are not reported in terms of a proportion as per the KPI.
  - The indicators used to measure the performance of public transport do not necessarily give an indication of how the municipality has increased the accessibility of public busses.
  - The registering of indigents does not necessarily reduce the percentage of Tshwane population living below R3000.00 p.a in order to fight poverty.

## **INFORMATION ON AUDITS CONDUCTED OTHER THAN ON THE FINANCIAL STATEMENTS**

### **Investigations**

52. Thirty-two cases were received by the forensic audit section of internal audit for the current financial year, 11 of which were finalised. The nature of cases covered wide spectrum of

activities, e.g. bribery, theft, financial corruption, RDP houses misallocations, tender irregularities and various other issues. These fraudulent activities covered various departments of the CoT and 21 of the cases are still pending as the investigation is still in progress.

### **Performance audits**

53. A performance audit on the infrastructure was performed during the financial year. The audit is currently in its finalisation stage and the team is in the process of setting up meetings with the CoT management to discuss the findings.

### **Special audits**

54. None

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

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

- Matters to be included in the auditor's report.  
*These matters should be addressed as a matter of urgency.*
- Other important matters – 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.*
- Annexure D – Computer systems audit findings
  - D1 – SAP basis review report
  - D2 – SAP application controls report
  - D3 – General control review
- Annexure E – Addendum to exception 200 and 201 in respect of audit report qualification paragraphs

56. 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**

57. We would like to express our appreciation for the courtesy extended and assistance rendered by the staff during the audit.

Yours faithfully

Barry Wheeler  
Corporate Executive: National C

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**Distribution:**

CEO

CFO

Audit committee chair

Head of internal audit

**SUMMARY OF AUDIT FINDINGS**

Page. no.	Finding with exception number in brackets	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				2007-08	2006-07	2005-06

**ANNEXURE A: MATTER AFFECTING THE AUDITOR'S REPORT**

**Revenue A2A**

29	R&R: Property rates – Subsequent journal (EX 201)	Financial	Monitoring of controls	✓						No			
36	R&R: Property rates – Revenue recorded in the incorrect period (Ex 200)	Financial	Monitoring of controls	✓						Yes	✓		
42	R&R: Property rates – No contract account on SAP for 12 869 properties (EX 149)	Financial	Monitoring of controls			✓				No			
46	R& R: Water and Electricity Non Compliance (EX 219)	Non-Compliance	Monitoring of controls			✓							

**Receivables**

48	R&R monthly reconciliations not compiled (Ex 113)	Financial	Monitoring of controls			✓				No			
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**Performance information**

51	Non-compliance with section 72(1) of MFMA (Ex68)	Performance Information					✓			No			
53	Non-compliance with laws and regulations (municipal entities) (Ex 69)	Performance Information					✓			No			

55	Insufficient system descriptions (Ex 106,109,110,111,112 & 153)	Performance Information					✓			No			
58	System descriptions not received by the auditors (EX 114,127,128,129,148,&151)	Performance Information					✓			No			
60	Indicators/achievements not verifiable ( Ex 170)	Performance Information					✓			Yes	✓		
79	Performance Information: Targets achieved not addressing the related key performance indicator (Ex 95)	Performance Information					✓			No			
<b>Employee cost</b>													
87	Mayoral remuneration – Official residence of the mayor (Ex 33)	Compliance	Control environment				✓			Yes	✓		
<b>Purchases and payables</b>													
88	Non-compliance to section 74 of the MFMA (Ex 99)	Compliance	Control Activities				✓			No			
89	Invoices not paid within 30 days (Ex 72)	Compliance	Control Activities				✓			Yes	✓		
<b>Compliance, consolidation and entities</b>													
91	Entities submission of annual financial statements (Ex 4)	Compliance (Non-AFS)	Control environment					✓		No			
<b>ANNEXURE B: OTHER IMPORTANT MATTERS</b>													
<b>Irregular, Fruitless and Wasteful expenditure</b>													
93	Irregular Fruitless and Wasteful expenditure (Ex 213, 214)	Financial	Control Activities	✓						Yes	✓		

<b>Employee cost</b>													
95	Employee benefits (Ex 92)	Financial	Control Activities					✓		No			
98	Qualification not verified (Ex 124)	Financial	Control Activities					✓		No			
100	Employee cost understated (Ex 105)	Financial	Control Activities					✓		No			
102	Information requested not provided (Ex 38)	Financial	Control Activities					✓		No			
104	Leave and provision for leave (Ex 103)	Financial	Control Activities					✓		No			
105	Contributions to UIF – Councillors (Ex 32)	Compliance	Control environment					✓		Yes	✓		
107	Excessive overtime payments (Ex 146)	Compliance	Control Activities					✓		No			
<b>Purchases and payables</b>													
110	Note 47 – Deviations from the supply chain management process (Ex 225)	Compliance	Control Activities					✓		No			
112	Creditors – all creditors not accrued for (Ex 182)	Financial	Control Activities					✓		Yes	✓		
114	Invoices not accounted for in the correct financial year (Ex 184)	Financial	Control Activities					✓		No			
116	Unusual transactions identified (Ex 184)	Financial	Control Activities					✓		No			
118	Creditors and consumer deposits (Ex 190)	Financial	Control Activities					✓		No			
119	Unspent conditional grants not ring-fenced (Ex 34)	Financial	Control Activities					✓		No			



122	Unspent conditional grants misstated (Ex 172)	Financial	Control Activities					✓		No			
124	Supply chain management (Ex 117 – 122, Ex 145, Ex 173)	Compliance	Control Activities					✓		No			
<b>Property, plant and equipment</b>													
134	PPE – Completeness of assets (Ex 63)	Financial	Information system and comm.					✓		No			
136	PPE – Lack of proper assets management (Ex 138)	Control	Control activities					✓		Yes	✓	✓	✓
141	PPE – Land not traced to valuation reconciliation (Ex 178)	Financial	Information system and comm.					✓		No			
142	PPE – Existence through physical verification and completeness from floor to register could not be tested (Ex 79)	Control	Monitoring of controls					✓		No			
<b>Leases</b>													
146	Operating lease rental charged to statement of financial performance could not be determined (Ex 66)	Financial	Control environment					✓		No			
148	Finance leases: Incorrect accounting (Ex 115)	Control	Control activities					✓		No			
<b>Reserves</b>													
150	Cash backing of reserves (Ex 73)	Financial	Control activities					✓		No			
154	Capital grant reserve classification (Ex 196)	Financial	Information system and comm.					✓		No			

<b>Provisions</b>													
156	Provisions: Non-compliance with environmental legislation (Ex 10)	Compliance (Non-AFS)	Control activities					✓		Yes	✓	✓	
161	Provisions: NEMA requirements completeness (Ex 136)	Compliance (Non-AFS)	Control activities					✓		Yes	✓	✓	
<b>Compliance, consolidation and entities</b>													
163	Non-compliance with laws and regulations with regard to audited annual financial statements received on Trade Point (Ex 48)	Compliance (Non-AFS)	Control activities					✓		No			
166	Non-compliance with laws and regulations with regard to audited annual financial statements received on Lebone Municipal (Ex 164)	Compliance (Non-AFS)	Control environment					✓		No			
169	Non-Compliance with section 125(2)(e) (Ex 218)	Compliance (Non-AFS)	Control environment					✓		No			
<b>Revenue AG</b>													
170	Traffic fines: Understatement of revenue from traffic fines (Ex 14)	Financial	Monitoring of controls					✓		No			
173	Revenue licensing and permits: Revenue overstatement in licensing department (Ex 15)	Financial	Control environment					✓		No			
179	Revenue licensing and permits: GL account 812906 has been misclassified (Ex 56)	Financial	Control activities					✓		Yes	✓		
180	Rentals: Incorrect cut-off of the transaction (Ex 37)	Financial	Information system and comm.					✓		No			

Revenue A2A												
181	R&R: Reconciliation for the general ledger account 811900 – Public contributions – Electricity (Ex 40)	Control	Monitoring of controls					✓		No		
183	R&R: Restatement for public contributions (Ex 100)	Financial	Monitoring of controls					✓		No		
186	R&R: Transport income: Monthly reconciliations discrepancies (Ex 94)	Financial	Monitoring of controls					✓		No		
187	R&R - Solid waste – Reconciliations (Ex 43)	Financial	Control activities					✓		No		
189	Limitation of scope: Fraud Investigations (Ex 67)	Financial	Control environment					✓		No		
191	R&R: Housing and land sales – Land sales transaction has no city council approval (Ex 85)	Compliance (Non-AFS)	Monitoring of controls					✓		No		
193	R&R: Housing and land sales: The sale of Erf 165 as well as relevant street portions to Lynnwood Junction (PTY) Ltd (Ex 89)	Financial	Monitoring of controls					✓		No		
195	R&R: Solid waste – No interest charged on bulk and dumping fees debtors (Ex 91)	Financial	Monitoring of controls					✓		No		
196	R&R: Accrued income (Ex 150)	Financial	Control environment					✓		No		
200	R&R: Limitation on property transfer clearance memorandum (Ex 186)	Control	Monitoring of controls					✓		No		
202	R&R: Limitation of scope – Notifications (Ex 193)	Control	Control environment					✓		No		
204	R&R: Transport income: Inadequate controls over ticket sales (Ex 23)	Financial	Control activities					✓		No		
206	R&R: Prepaid Electricity Variances (EX 216)	Control	Monitoring of controls					✓				
208	R&R: Public contributions – work in progress reporting (Ex 59)	Financial	Risk assessment process					✓		No		

213	R&R: Other income (transfer from suspense account to unclaimed income account) (Ex 176)	Financial	Control environment					✓		Yes			
216	R&R: Objections not handled for property rates (EX 181)	Financial	Monitoring of controls					✓		No			
224	R&R: Objections for property rates (EX 135)	Financial	Monitoring of controls					✓		No			
228	R&R: Property rates – Properties on Pro-V not on SAP and SAP not on Pro-V (EX 205)	Financial	Monitoring of controls					✓		Yes			
231	R&R: Property rates – 5573 Properties with difference in market value (EX 140)	Financial	Monitoring of controls					✓		Yes			
<b>Receivables</b>													
236	R&R: Other debtors – Monthly reconciliations not compiled (Ex 108)	Financial	Monitoring of controls					✓		No			
238	R&R: Long-term receivables (Ex 198)	Financial	Control environment					✓		No			
244	R&R: Interest not charged on long-outstanding debts (Ex 155)	Financial	Control environment					✓		Yes			
247	R&R: Consumer debtors: Bad debts: Council approval not provided (Ex 179)	Financial	Monitoring of controls					✓		No			
<b>Performance information</b>													
249	Inadequate explanation of reported achievements (Ex 50)	Performance Information						✓		No			
253	Performance information: Lack of standard documented and approved internal policies and procedure for programme (Ex70)	Performance Information						✓		Yes	✓		
255	Performance information: Not applicable to key performance indicators (Ex 98)	Performance Information						✓		No			

**ANNEXURE C: ADMINISTRATIVE MATTERS**

**Property, plant and equipment**

256	PPE – No controls over master file amendments (Ex 78)	Control	Information system and comm.						✓	No			
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**Revenue AG**

257	Revenue rentals: No supporting documentation for bus rentals (Ex 17)	Financial	Control environment						✓	No			
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**Revenue A2A**

258	R&R: Fresh Produce Market\Debtors are understated (Ex 7)	Financial	Monitoring of controls						✓	No			
262	R&R: Policies and procedures for transport income (Ex 9)	Control	Control activities						✓	Yes			
263	R&R: Housing and land sales: Duplicate land sales transaction (Ex 84)	Control	Monitoring of controls						✓	No			
264	R&R: Consumer deposits – Control weakness (Ex 90)	Control	Control environment						✓	No			
265	R&R: Public contributions – Amount recorded in the incorrect general ledger account (Ex 101)	Financial	Control environment						✓	No			
270	R&R. Other income: Cheques returned (Ex 102)	Control	Control environment						✓	No			
272	R&R: Transport Income: GL not traced to cashiers' books (Ex 27)	Financial	Control activities						✓	No			
274	R&R: Transport income: General ledger v/s batches/cashiers' books (Ex 30)	Financial	Control activities						✓	No			
276	R&R: Consumer Debtors - Inactive Accounts ( Ex 208)	Control	Monitoring of controls						✓	Yes			
278	R&R: Property rates – Rate category (Ex 202)	Financial	Monitoring of controls						✓	No			

Receivables												
282	GL accounts not in use (Ex 142)	Financial	Monitoring of controls							✓	No	
284	Variances on commission (Ex 144)	Financial	Monitoring of controls							✓	No	
286	R&R: Bursary repayment terms (Ex 147)	Control	Monitoring of controls							✓	No	
287	R&R: Debtors with credit balances (Ex 169)	Control	Monitoring of controls							✓	No	
288	R&R: Account with credit balance included in other debtors (Ex 188)	Financial	Monitoring of controls							✓	No	
289	Fresh Produce Market: Debtors (144100) (Ex 5)	Control	Information system and comm.							✓	No	
292	R&R: Other debtors unexplained variances (Ex 107)	Control	Monitoring of controls							✓	No	
Performance information												
294	Performance information: Insufficient comparisons of actual performance with targets (Ex64)									✓	No	
ANNEXURE D1: SAP basis review												
ANNEXURE D2:SAP Applications												
ANNEXURE D3: General Control Review												

## **ANNEXURE A: MATTERS AFFECTING THE AUDITOR'S REPORT**

### **REVENUE**

#### **1. R&R: Property rates – Subsequent journal (EX 201)**

##### **Audit finding**

During the audit of property rates stated as R2 250 051 868 in the statement of financial performance and as R2 250 051 868 in note 20 to the financial statements, and property values stated as R285 326 733 313,00, we were unable to obtain assurance on the existence and accuracy on the current and comparative figures as a result of revenue recognised in the incorrect financial period due to the following:

Management has implemented controls to correct and match the billing system (SAP) with the valuation system (Pro-V). Manual journals are prepared by the property rates billing section and processed onto the SAP system to recognise revenue that was previously unaccounted for or previously recognised at the incorrect amounts. These journals were processed to the debtor accounts when the normal billing runs took place. A sample was selected and tested from the general ledger account (810001) for the financial period 2009-10 and we have identified that the journals processed related to prior year adjustments (2003-04, 2004-05, 2005-06, 2006-07 and 2008-09). However, the total journal amounts were allocated in the financial year 2009-10 and thus the municipality did not recognise revenue in terms of GRAP 9 (recording the income in the year it accrues/relates).

The table below illustrates the incorrectly posted journals identified by the auditors as well as the split from 2003 to 2009 not accounted for in the financial statements of the 2008-09 financial year. Management should take note that auditor's testing is based on sample size and therefore the table below is not the only journals processed in the subsequent financial period, which related to prior periods. A sample of 30 subsequent manual journals was selected and 29 journals were recorded in the incorrect period.

Total journals identified as posted in the incorrect period from the line items (sample) above:

Document Number	Contract Account No	Posting date	Journal No	Giskey	Amount	Other from 03/04-06/07	Amount 07/08	Recalculation ( 08/09)	Amount 09/10	Total Recalculation Amount	Variance
					(R)	(R)	(R)	(R)	(R)	(R)	(R)
70000623902	5005451166	14.07.2009	18429	29500765	(1 377 670.62)	-	(420 670.62)	(957 000.00)	-	(1 377 670.62)	0
70000624306	5002986904	14.07.2009	18604	43401638	(1 168 302.00)	-	(68 302.00)	(1 100 000.00)	-	(1 168 302.00)	0
70000623904	5005880287	14.07.2009	18602	29500768	(658 787.58)	-	(298 787.58)	(360 000.00)	-	(658 787.58)	0
70000624466	5005982887	14.07.2009	C020355	031300000/X11	(628 559.24)	-	-	(439 419.74)	(165 514.77)	(604 934.51)	(23 624.73)
70000623903	5005880210	14.07.2009	18430	29500767	(494 502.00)	-	(164 502.00)	(330 000.00)	-	(494 502.00)	0
70000624379	5003533597	14.07.2009	A132693	098000000/x36	(326 088.11)	-	(113 972.96)	(193 860.00)	(18 225.15)	(326 058.11)	(30.00)
70000624481	2016826755	14.07.2009	18603	2001145	(79 096.82)	-	-	79 096.88	-	79 096.88	(158 193.70)
70000624138	5004979042	14.07.2009	18590	1500590	(48 559.07)	(4 434.36)	(42 008.04)	(2 116.67)	-	(48 559.07)	0
70000624125	5005983646	14.07.2009	C020505	041600757/23	(43 200.00)	-	-	(43 200.00)	-	(43 200.00)	0
70000624126	5005983654	14.07.2009	C020507	041600757/23	(39 600.00)	-	-	(39 600.00)	-	(39 600.00)	0
70000624463	3322565988	14.07.2009	C020281	20504031	(33 958.44)	-	(24 598.44)	(9 360.00)	-	(33 958.44)	0
70000624069	5005585322	14.07.2009	18326	071200144/3	(21 600.00)	-	-	(21 600.00)	-	(21 600.00)	0
70000624255	5005587228	14.07.2009	18380	71600287	(21 600.00)	-	-	(21 600.00)	-	(21 600.00)	0
70000624262	5003074959	14.07.2009	C021009	57104018	(20 817.00)	-	(2 417.01)	(18 400.00)	-	(20 817.01)	0.01
70000624629	5005977400	14.07.2009	C020391	29500662	(16 020.00)	-	-	(16 380.00)	-	(16 380.00)	360.00
70000623686	5003370265	13.07.2009	C020308	066000834/51	1 686 107.54	1 037 960.04	648 147.50	-	-	1 686 107.54	0



70000623739	5001780333	13.07.2009	C018401	057100000/X24	432 669.04	-	-	442 800.00	-	442 800.00	(10 130.96)
70000623407	5005563834	13.07.2009	C018402	030100000/x72	344 745.76	-	-	135 489.60	209 256.16	344 745.76	0
70000623777	5003111986	13.07.2009	C020309	001900000/x15	75 543.50	-	30 543.50	45 000.00	-	75 543.50	0
70000623395	3322565988	13.07.2009	C020281	20504031	33 958.00	-	25 183.00	8 775.00	-	33 958.00	0
70000623414	5000689075	13.07.2009	B009486	22603131	29 950.91	-	5 550.91	24 400.00	-	29 950.91	0
70000623784	2029409373	13.07.2009	B009584	64000300	27 820.17	-	-	27 820.13	-	27 820.13	0.04
70000623767	2070646985	13.07.2009	B009506	039300782/23	21 569.89	13 441.89	-	10 000.00	-	23 441.89	(1,872.00)
70000623771	2070271061	13.07.2009	B009458	071600732/R	13 942.50	-	-	13 942.50	-	13 942.50	0
70000623695	5001782867	13.07.2009	C019974	060400033/R	12 442.56	-	-	18 000.00	-	18 000.00	(5,557.44)
70000623382	5005649283	13.07.2009	C020306	19900704	10 000.00	-	-	10 000.00	-	10 000.00	0
70000623733	5002231564	13.07.2009	C020286	57103982	8 387.07	-	-	7 857.50	-	7 857.50	529.57
70000623779	5003533333	13.07.2009	B009522	33002129	6 129.60	-	-	6 129.50	-	6 129.50	0.1
70000623381	5005654105	13.07.2009	C020305	190070	2 047.44	-	-	2 047.50	-	2 047.50	(0.06)
<b>Total</b>					<b>(2 273 046.90)</b>	<b>1 046 967.57</b>	<b>(425 833.74)</b>	<b>(2 721 177.81)</b>	<b>25 516.24</b>	<b>(2 074 527.74)</b>	<b>(198 519.16)</b>

Based on the audit work performed these corrections were mainly made in respect of the reconciliation variances between ProV and SAP, and this is a clear indication that it effected prior financial years as well. Based on the above findings the provisions calculated in respect of the reconciliation between SAP and Pro-V only include provisions in respect of the current financial year and not prior financial years.

### **Root cause**

- Ongoing monitoring of property rates for the above accounts is not undertaken by management to determine whether internal control over financial reporting is present and functioning.
- Management's philosophy and operating style do not promote effective control over financial reporting.
- The accounting officer/accounting authority does not exercise oversight responsibility over financial reporting and internal control.

### **Risk**

- Current year (2008-09) property rates revenue is misstated.
- Prior year figures (2007-08) for property rates revenue are misstated.
- Prior year figures (2002-03, 2003-04, 2004-05, 2005-06 and 2006-07) are misstated and therefore retained earnings are misstated.
- Debtors as well as debtor's comparative figures are misstated.
- Revenue not recognised in terms of GRAP 9 and corrections not corrected as prescribed according to GRAP 3.

### **Recommendation**

- A journal cannot be recommended to correct the current, comparative and prior year figures as testing is performed on a sample basis.
- All journals processed to match and correct the billing system need to be re-visited and revenue regarding prior years should be allocated accordingly.
- Management should assess how risks identified by auditors should be managed before proceeding to correct the billing system and financial statements.
- Revenue should be recognised in terms of the accounting standards adopted by the municipality.
- Current year, comparative and prior year figures should be adjusted to reflect the correct revenue recognition principles as per the accounting standards.

### **Management response**

- Retrospective adjustments affecting previous financial years are ongoing as a result of supplementary and notifications being processed on the ProV system due to market value changes, consolidations and Sub-Divisions and rate category changes.
- All retrospective adjustment posted in the financial year 2009/2010 will split according to financial years and previous financial statements will be re-instated accordingly as at 30 June 2010 to comply with GRAP 9.
- As the end of the financial year is on the 30 June of every year, the cut-off date for retrospective adjustments posted in that financial year to re-instate the financial statements is 30 June.

- The subsequent retrospective adjustments posted in the financial year will be included with other adjustments as the end of the financial year they were posted in, to re-instate the next financial statements accordingly
- Monthly match and reconciliation is performed and manual adjustment are perused and approved by an accountant before being posted onto SAP billing system.

Property revenue for financial year 08/09 as well as previous financial years will not be misstated as retrospective adjustments will be split and financial statements will be re-instated

*Name: Andile Dyakala*

*Position: Executive Director*

*Date: 25 November 2009*

**SUBSEQUENT  
ADJUSTMENT**

As per the adjustments done as from 1st July 2009 to 30 November 2009, there are a total of 20 920 adjustments posted. 9 292 are Debit adjustments and 11 628 are Credit adjustments of which the net effect is a debit of R 16 768 483.30 as calculated on Table 1. A list of top 100 amounts from both Credit and Debit adjustments were taken, and the top 100 Debit adjustments are R 45 614 649.15 Credit adjustments are R 50 177 607.93. The majority of the total amount of these adjustments relate to the financial year 2008/2009 due to MPRA (Sectional Schemes, Objections, Supplementaries...). Due to the fact that the majority of the adjustments relate to financial year 2008/2009, management recommends that the amount be included in the overs/unders schedule.

Table 1

TOTAL POPULATION		
Adjustment Category		Amount (R)
Debit Adjustments	9292	105 222 020.65
Credit Adjustments	11628	88 453 537.35
Total	20920	16 768 483.30

Table 2

TOP 100 AS PER VALUE		
Adjustment Category		Amount (R)
Debit Adjustments	100	45 614 649.15
Credit Adjustments	100	50 177 607.93
Total	200	-4 562 958.78

Name: Andile Dyakala

Position: Executive Director

Date: 2 December 2009

**Auditor's comments**

Retrospective adjustments were performed by management and the financial statements were adjusted with a net amount of R 16 768 483.30 based on the fact that according to management's top 100 tests performed on the aging of these journals it indicated that the majority of transactions were in respect of the 2008/09 financial year. However, based on a sample of 12 tested in respect journals provided, 59% were in respect of the financial years before 2008/09. As a result the relevant journals could not be netted off to R 16 768 483.30 and be included as property rates revenue for the 2008/09 financial year. Because the municipality could not provide the split per financial year, we could not determine the effect of the allocations of the journals in respect of the relevant financial years when it should have been accrued for. As such, I was unable to determine the accuracy and completeness of the property values as disclosed.

Our sample selected as well as the total debit and credit journals in respect of property rates are as follows:

Sales Order No	Acc No	Journal No	Date issued	Total	Current year	Prior years
70188381	5005946341	C019691	03.08.2009	18 600.00	18 600.00	-
70193550	5006035963	B000010	03.08.2009	16 655.21	-	16 655.21
60184086	3309371823	B000562	20.08.2009	2 360 809.04	-	2 360 809.04
60181996	1033006309	19985	20.08.2009	542 400.00	542 400.00	-
60181995	5003827395	19983	20.08.2009	183 366.62	183 366.62	-
60184118	5005531648	C023207	20.08.2009	97 000.20	97 000.20	-
70187764	5005451166	18429	14.07.2009	1 377 670.62	1 377 670.62	-
70188783	5002986904	18604	14.07.2009	1 168 302.00	1 168 302.00	-
70188785	5005880287	18602	14.07.2009	658 787.58	-	658 787.58
70187766	5005880210	18430	14.07.2009	494 502.00	-	494 502.00

60185649	2010104076	B000872	03.09.2009	1 268 267.50	-	1 268 267.50
60184936	2024383952	B000753	03.09.2009	134 516.24	-	134 516.24
<b>Total</b>				<b>8 320 877.01</b>	<b>3 387 339.44</b>	<b>4 933 537.57</b>

	Prior years
	Current year

**TOTAL  
POPULATION**

Adjustment Category	Total Number of journals	Amount (R)
Debit Adjustments	9292	R 105 222 020.65
Credit Adjustments	11628	R 88 453 537.35
<b>Total</b>	<b>20920</b>	<b>R 16 768 483.30</b>

Furthermore according to section 64(2)(a) of MFMA the accounting officer of a municipality shall take all reasonable steps to ensure that the municipality have effective revenue management systems consistent with section 95 of the Municipal Systems Act. Section 95(e) states that the municipality should ensure that persons liable for payments receive regular and accurate accounts that indicate the basis for calculating the amounts due as various reconciling differences were identified in respect of variances between the ProV and the SAP billing system resulting in individual accounts not timely and accurately billed. Based on the mentioned findings it is evident that individuals liable for payment are not receiving regular and accurate accounts.

During the financial year, R 105 million debit Journals and R 88 million credit Journals were effected by CoT. These Journals were as a result of adjustments due to, the supplementary valuations, rate changes and SAP and Pro-V Reconciliation differences. CoT was able to identify refunds and or additional billings to individual consumer accounts but they were unable to apportion these amounts to the correct financial years. The municipality further netted the debit and the credit journals on the control accounts and individual debtors' accounts which is not correct as the City does not have the right of setoff of individual debtors accounts with debit balances with those individual debtors with credit balances .Hence I could not satisfy myself as to the accurate disclosure and classification of Property Rates and Consumer Debtors in the financial statements of Financial Performance and Financial Position and Note 15 and 20 to the financial statements, as incomplete information was provided for audit purpose in respect of the correcting journals processed during the year under review as well as after year-end, for the correct allocation of revenue to be accrued for in the retrospective financial years.

**(Furthermore please refer to Annexure E for further comments and clarification)**

## 2. R&R: Property rates – Revenue recorded in the incorrect period (EX 200)

### Audit finding

During the audit of property rates recorded as R2 250 051 868 in the statement of financial performance and as R2 250 051 868 in note 20 to the financial statements, and property values stated at R285 326 733 313.00, we were unable to obtain assurance on the existence of the current and comparative figures as a result of revenue recognised in the incorrect financial period due to the following:

Management has implemented controls to correct and match the billing system (SAP) with the valuation system (Pro-V). Manual journals are prepared by the property rates billing section and processed onto the SAP system to recognise revenue that was previously unaccounted for and/or previously recognised with incorrect amounts. These journals were processed to the debtor accounts when the normal billing runs take place. A sample was selected and tested from the general ledger account (810001) for the financial period 2008-09 and we have identified that the journals processed related to prior year adjustments (2002-03, 2003-04, 2004-05, 2005-06, 2006-07 and 2007-08). However, the total amount of journals was allocated in the financial year 2008-09 and thus the municipality did not recognise revenue in terms of GRAP 9 as well as GRAP 3.

The table below illustrates the incorrectly posted journals identified by the auditors. Management should take note that auditor's testing is based on sample size and therefore the table below does not contain all the journals processed in the current financial period, which relates to prior periods. A sample of 60 journals was selected; however, 19 journals included in SAP were not included in the report provided for audit purposes for Premos and Centurion in respect of the split per financial year. Furthermore, four journals were in respect of Akasia and detailed supporting documentation was tested. However, these journals could not be traced back to the total reallocation report for Akasia as the reallocation report was not submitted for audit purposes at the time of finalising the audit of this component and will therefore result in a limitation of scope.

The following journals were provided by management with regard to prior years' journals passed and recorded in the financial period 2008-09; however, the financial statements were not corrected to ensure that it was accrued for in the correct financial period:

Office	Reference no.	Journal amount from 2002 to 2009 (R)
BKS	0000-9099	(26 273 756.62)
Centurion	C000001-C002131	1 129 361.39
Premos	12158-16269	7 639 547.30
<b>Total</b>		<b><u>(17 504 847.92)</u></b>

The following serve as example journals that could not be traced to the journal reallocation reports provided by management:

Reference no.	Account no.	Amount (R)	Account debit	Account credit	Journal no.	Giskey
70000597357	5005371162	5 154 799.96	Assessment rates - GL 810001	Debtors property rate GL14100	C0127719	029500670
70000597422	2047839873	62 400.00	Assessment rates - GL 810001	Debtors property rate GL14100	C012766	006800850
70000597772	3325073477	32 180.10	Assessment rates - GL 810001	Debtors property rate GL14100	C009955	038700962/R
70000597682	2019680800	29 791.68	Assessment rates - GL 810001	Debtors property rate GL14100	C011600	030000122/6
70000597421	5003397278	29 700.00	Assessment rates - GL 810001	Debtors property rate GL14100	C012764	066000844/R
70000597893	5003343240	21 700.02	Assessment rates - GL 810001	Debtors property rate GL14100	C011555	065900160
70000597909	3311458951	14 090.08	Assessment rates - GL 810001	Debtors property rate GL14100	C011567	057001168
70000597812	2055345072	12 825.00	Assessment rates - GL 810001	Debtors property rate GL14100	C012763	066000820/2
70000597321	3325026605	8 467.83	Assessment rates - GL 810001	Debtors property rate GL14100	C009957	030102206
70000597551	5002631340	7 549.36	Assessment rates - GL 810001	Debtors property rate GL14100	C012762	039300866/11
70000597217	5002100779	6 996.75	Assessment rates - GL 810001	Debtors property rate GL14100	C015398	097300057
70000597836	2019124922	6 142.50	Assessment rates - GL 810001	Debtors property rate GL14100	C012765	066001339/R
70000597677	2066819360	5 102.55	Assessment rates - GL 810001	Debtors property rate GL14100	C012780	086500000/198
70000561952	5002955234	(70 551.69)	Debtors property rate GL14100	Assessment rates - GL 810001	849861	022300000/x04
70000561971	5003198518	(16 374.90)	Debtors property rate GL14100	Assessment rates - GL 810001	869102	053201680/7/R
70000561735	5005310465	(4 500.00)	Debtors property rate GL14100	Assessment rates - GL 810001	90875	083001550
70000562291	2077512371	(3 812.41)	Debtors property rate GL14100	Assessment rates - GL 810001	425673	017200918
70000561851	5005371111	(3 363.72)	Debtors property rate GL14100	Assessment rates - GL 810001	14959	023803870
70000562260	2011863769	(2 961.60)	Debtors property rate GL14100	Assessment rates - GL 810001	180658	076100734
<b>Total</b>		<b>5 290 181.51</b>				

**Akasia journals that could not be traced to the reallocation report as reallocation reports not provided for audit purposes:**

Reference no.	Account no.	Amount (R)	Account debit	Account credit	Journal no.	Giskey
70000597717	1083296066	35 536.69	Assessment rates - GL 810001	Debtors property rate GL14100	A126759	012900823
70000597725	5002103191	6 020.00	Assessment rates - GL 810001	Debtors property rate GL14100	A127933	024200571/R
70000597784	2057096763	4 451.10	Assessment rates - GL 810001	Debtors property rate GL14100	A127862	041600065
70000597328	3310857412	8 790.70	Assessment rates - GL 810001	Debtors property rate GL14100	A127931	010900940

**Total** 54 798.49



## Root cause

Ongoing monitoring of property rates for the above accounts is not undertaken by management to determine whether internal control over financial reporting is present and functioning.

## Risk

- Current year (2008-09) property rates revenue is misstated by an unknown amount.
- Prior year figures (2007-08) for property rates revenue is misstated by an unknown amount.
- Retained earnings (2002-03, 2003-04, 2004-05, 2005-06 and 2006-07) are misstated by an unknown amount.
- Current and comparative figures for debtors are misstated by an unknown amount.
- Revenue not recognised in terms of GRAP 9 and GRAP 3.

## Recommendation

- Ongoing monitoring and control procedures need to be implemented to ensure that property rates are recorded in the correct financial period.
- Relevant supporting documentation needs to be provided as a matter of urgency to ensure that correct amounts are allocated in the correct financial year.
- All supporting journals need to be traced back to reallocation reports to ensure the completeness thereof.
- All journals processed to match and correct the billing systems need to be re-visited and revenue regarding prior years should be allocated accordingly.
- Management should assess how risks identified by auditors should be managed before proceeding to correct the billing system and financial statements.
- Revenue should be recognised in terms of the accounting standards adopted by the municipality.
- Current year, comparative and prior year figures should be adjusted to reflect the correct revenue recognition principles as per the accounting standard.

## Management response

- Retrospective adjustments posted in the financial year 2008/2009 will be adjusted in the financial statements accordingly to comply with GRAP 9.
- Adjustments split for Akasia attached with the response.
- All the adjustments splits lists will be reviewed before financial statements are adjusted.
- Adjustments listed below are for Akasia and not Premos.

Reference No.	Account No.	Amount (R)	Journal No.	GISKEY
70000561952	5002955234	-70 551.69	849861	022300000/X04
70000561971	5003198518	-16 374.90	869102	053201680/7/R
70000561735	5005310465	-4 500.00	90875	083001550
70000562291	2077512371	-3 812.41	425673	017200918
70000562260	2011863769	-2 961.60	189658	076100743

JOURNAL SPLIT IN FINANCIAL YEARS	FINANCIAL YEAR							
	OTHER		2006/2007		2007/2008		2008/2009	
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
AKASIA	R 55,186.49	R 44,209.81	R 103,214.60	R 141,465.77	R 607,143.00	R 337,298.79	R 3,548,464.12	R 3,911,867.93
BKS	R 1,769,595.74	R 2,807,716.85	R 8,694,818.61	R 4,310,729.33	R 12,821,769.22	R 19,149,017.49	R 39,659,639.09	R 63,558,010.50
CENTURION	R 249,543.40	R 732,806.37	R 1,261,315.68	R 166,410.97	R 3,659,490.20	R 2,096,387.90	R 13,154,899.04	R 2,971,176.01
PREMOS	R 318,944.90	R 83,934.57	R 227,936.28	R 76,340.04	R 591,592.73	R 144,626.31	R 2,988,158.45	R 189,343.49
TOTAL	R 2,393,270.53	R 3,668,667.60	R 10,287,285.17	R 4,694,946.11	R 17,679,995.15	R 21,727,330.49	R 59,351,160.70	R 70,630,397.93

Name: Andile Dyakala

Position: Executive Director

Date: 2 December 2009

#### Auditor's comments

Management response noted and the financial statements will be reviewed in respect of the correction made, however, based on the journal split provided by management we selected 10 additional samples of journals from the SAP system in respect of Centurion to ensure the completeness of the journal split performed by the City of Tshwane. Based on the sample we identified that 8 of the 10 selected journals were not included in the journals split calculation and 3 of the 10 journals selected was in respect of property rates revenue before the 2008/09 financial year. We requested the quantity as well as debit and credit amounts of all journals processed during the 2008/09 financial year to determine the completeness of the journal split provided, however, during the time of finalisation of the report the relevant amounts were still outstanding as such I was unable to determine the accuracy of the property rates at year-end. The relevant information of the sample selected is as follows:

Selected 10 journals from SAP, the following was identified:

- 8 journals could not be traced to the journal report
- 3 journals were for the prior financial years

Journal No	Date issued	Amount
C003929	16.02.2009	314 704.05
C003657	16.02.2009	108 076.80
C003656	16.02.2009	35 643.54
C009953	31.03.2009	32 180.10
C0010248	01.04.2009	28 200.00
C003759	16.02.2009	27 436.85
C003652	16.02.2009	26 111.10
C001657	16.02.2009	22 166.69
C003903	16.02.2009	18 581.08
C013525	07.05.2009	15 149.97
<b>Total</b>		<b>628 250.18</b>

Current year  
Prior year  
Traced


Furthermore, according to section 64(2)(a) of MFMA states that the accounting officer or municipality shall take all reasonable steps to ensure that the municipality have effective revenue management systems consistent with section with section 95 of the Municipal Systems Act. Section 95(e) states that the municipality should ensure that persons liable for payments receive regular and accurate accounts that indicate the basis for calculating the amounts due as various reconciling differences were identified in respect of variances between the ProV and the SAP billing system resulting in individual accounts not timely and accurately billed. Based on the mentioned findings it is evident that individuals liable for payment are not receiving regular and accurate accounts.

**(Furthermore please refer to Annexure E for further comments and clarification)**

### 3. R&R: Property rates – No contract account on SAP for 12 869 properties (EX 149)

#### Audit finding

During the audit of property rates stated as R2 250 051 868 in the statement of financial performance and as R2 250 051 868 in note 20 to the financial statements, and property values stated as R285 326 733 313.00 the following was identified:

A total of 12 869 properties were identified on the reconciliation between SAP and PROV as properties with no contract account on SAP. Provision for income was calculated, however, no adjustments were made in this regard in the 2008-09 financial year. The provision was calculated accordingly using the residential category rates with a tariff of 0.009 and rebates of 35% for all properties and not as per rate category. Please refer to the calculation below provided by management:

Possible impact of 12 869 properties with no contracts on revenue per COT	Calculation (R)
Market value of 12 869 properties	2 795 847 565.00
Average market value per property per COT	217 254.45
Property value less R 50 000 exemption	167 254.45
Rates based on residential billing tariffs	1 505.29
Rates based on further 35% rebate reduction	978.44
<b>Total revenue for 12 869 properties based on assumptions agreed with CoT</b>	<b>12,591,525.76</b>

After scrutinising the detailed exception report it was noted that there is only 12 792 properties with no contract and 14 properties to the value of R2 505 000 included on the report were duplications.

We performed a recalculation based on rate category and based on the information provided by management and the following variances were identified:

Properties	Rate category	Tariff	Rebates	Market value of 12 778 properties (R)	Average market value per property (R)	Property value less exemption per property (R)	Rates based on the billing tariff per property (R)	Auditors recalculation on total properties (R)	INCOME FORGONE	
									R 50 000.00 rebate (R)	35% Rebate (R)
198	AGR-RES	0.009	35%	288 845 307.00	1 458 814.68	1 443 814.68	8 446.32	1 672 370.55	2 970 000.00	900 507.22
174	COM-OTHER	0.018	0%	380 989 002.00	2 189 591.97	2 189 591.97	39 412.66	6 857 802.04	0.00	0.00
23	GOV-OTHER	0.018	0%	90 492 600.00	3 934 460.87	3 934 460.87	70 820.30	1 628 866.80	0.00	0.00
1	ILLE-OTHER	0.045	0%	1.00	1.00	1.00	0.05	0.05	0.00	0.00
21	IND-OTHER	0.018	0%	26 037 002.00	1 239 857.24	1 239 857.24	22 317.43	468 666.04	0.00	0.00
3	MUN-OTHER	0.018	0%	60 000.00	20 000.00	20 000.00	360.00	1 080.00	0.00	0.00
10534	RES-OTHER	0.009	35%	1 480 976 124.00	140 590.10	90 590.10	529.95	5 582 515.33	526 700 000.00	3 005 969.79
1192	VACANT	0.04	0%	412 642 029.00	346 176.20	346 176.20	13 847.05	16 505 681.16	0.00	0.00
632	NO CATEGORY	0	0%	6 750 500.00	10 681.17	10 681.17	-	-	0.00	0.00
<b>12778</b>				<b>2 686 792 565.00</b>				<b>32 716 981.95</b>	<b>529 670 000.00</b>	<b>3 906 477.01</b>

Auditors recalculation (R)	CoT calculation (R)	Variance (R)
32 716 981.95	12 591 525.76	20 125 456.19

### Root cause

Ongoing monitoring on property rates for the above account is not undertaken by management to determine whether internal control over financial reporting is present and functioning.

### Risk

Understatement of revenue and receivables to the amount of approximately R32 716 982.

### Recommendation

Management should assign the responsibility to review the work performed, spot check the exceptions report and calculate the rates on specified tariff and rebates per rates category. Each property needs to be recalculated and a total provision should be calculated to ensure that the correct amounts are included in the financial statements.

### Management response

1. The average provision was calculated using the residential Rate due to the fact that 835 of the properties are residential properties, however, the was categories and provision was recalculated based on the individual rate categories as in table 1 below and financial statements will be adjusted accordingly.
2. Adjustment will be made retrospectively in the billing system based on the effective dates provided by pro-V
3. Table 2 is the income forgone already subtracted in the calculations of table 1.
4. The figures were confirmed with the auditor

Table 1

Rate Category	Count	Market value (R)	Average Market value (R)	Rates Per Category (R)	Total Rates (R)
AGRC	198	288 845 307.00	14 588 141.68	8 446.32	1 672 370.55
COM	174	380 989 002.00	2 189 591.97	3 9412.66	6 857 802.04
GOV	23	90 492 600.00	3 934 460.87	70820.30	1 628 866.80
ILG	1	1.00	1.00	0.05	0.05
IND	21	26 037 002.00	1 239 857.24	22317.43	468 666.04
MUN	3	60 000.00	20 000.00	360.00	1 080.00

Total RES	10548	1 483 481 124.00	140 640.99		
Less duplicates	14	-2 505 000.00	178 928.57		
RES	1192	1 480 976 124.00	140 590.10	529.95	5 582 515.33
VAC	10548	412 642 029.00	346 176.20	13847.05	16 505 681.16
UNK	632	6 750 500.00	10 618.17	0.00	0.00
	<b>12778</b>	<b>2 686 792 565.00</b>			<b>32 716 981.95</b>

Table 2

INCOME FORGONE	
R 50000.00 Rebate (R)	35% Rebate (R)
2 6730.00	878 677.72
4 740 300.00	3 005 969.79
<b>4 767 030.00</b>	<b>3 884 647.51</b>

Name: Andile Dyakala

Position: Executive Manger

Date: 25 November 2009

#### Auditor's comments

Adjustments in respect of the financial statements will be reviewed. Controls implemented by management to ensure that reconciliation differences are cleared and to ensure that the relevant properties are correctly billed will be followed up during the audit of the 2009/10 financial year. However, according to section 64(2)(a) of MFMA states that the accounting officer or municipality shall take all reasonable steps to ensure that the municipality have effective revenue management systems consistent with section 95 of the Municipal Systems Act. Section 95(e) states that the municipality should ensure that persons liable for payments receive regular and accurate accounts that indicate the basis for calculating the amounts due as various reconciling differences were identified in respect of variances between the ProV and the SAP billing system resulting in individual accounts not timely and accurately billed. Based on the mentioned findings it is evident that individuals liable for payment are not receiving regular and accurate accounts.

#### 4. R&R: Water & Electricity - Notifications

##### Audit Finding (Ex 219)

Based on the information only provided 02/12/2009 in respect of exception 193, the following findings were identified on the work performed. These findings resulted in non-compliance with the Municipal Systems Act Section 95 – Customer Care & Management (e, f, g & h).

During the audit on water and electricity disclosed in note 19 to the financial statements, stated at R 4, 979, 063, 834.00, a sample of notifications were selected from the completed list as at 30 June 2008 and work orders were requested. Notifications are created by officials within the municipality as well as when meter reading notes are uploaded onto the SAP system, these notifications are routed and displayed on the relevant departments work list in order to rectify metering problems that occur. The electricity and water departments will create work orders for the notifications in order for electricians, inspectors and plumbers to visit the site and perform the required tasks. During the audit, we have identified the following:

- a) Notifications were created for the electricity department to replace standing/stuck meters. Notifications were created prior to 30 June 2009 but as at 30 June 2009 no work had been performed. According to the notifications created, work has been performed, however our finding are that work performed is not sufficient or SAP has not been updated with new meter replaced. From the sample selected, we have identified accounts estimated at zero consumption, resulting in a possible loss of revenue for the municipality. The table below is a sample of stuck meters not replaced.

Contract Account	Order no	Notification no	Date of creation of work order	Date work was performed	Days between date work performed and date work order was created	Close date of notification	Date work performed to date notification was closed on SAP
5000722802	1064958	300326107	06/03/07	04/08/08	517	04/08/08	-
5000519356	1065979	300361011	26/04/07	19/09/08	512	19/09/08	-
2014799515	1065752	300361441	02/05/07	08/12/08	586	08/12/08	-
2076664518	1043304	300386548	22/06/07	09/04/09	657	18/05/09	39
5001069878	1066480	300397823	25/07/07	-	-	-	-
2016823307	1066767	300409531	15/08/07	-	-	08/12/08	-
2078190531	1043362	300410421	16/08/07	-	-	18/09/07	-

- b) It was also noted that there are work orders created that are longer than 30 days prior to notification created. This is an indication that queries were not handled within a reasonable timeframe to correct billing of customer accounts. The following serve as examples:

Contract Account	Order no	Notification no	Notification creation date as per SAP	Date of creation of work order	Days between date notification was created and date work order was created	Date work was performed	Days between date work performed and date work order was created	Close date of notification
2016823307	1066767	300409531	15/08/07	15/08/07	-	-	-	08/12/08
2078190531	1043362	300410421	-	16/08/07	-	-	-	18/09/07
5002083000	1064186	300476979	07/07/08	07/07/08	-	-	-	12/08/08
2038467644	1069249	300479697	14/07/08	14/07/08	-	-	-	27/10/09
5003402434	1064554	300481460	21/07/08	21/07/08	-	-	-	19/08/08
5002388959	1066075	300483799	31/07/08	31/07/08	-	-	-	09/09/08



- c) It was furthermore noted that indications on SAP indicate notifications that have been closed and work performed, however we have verified that no work was actually performed by electricity department on this notification before the notification was closed. The following serves as an example:

Contract Account	Order no	Notification no	Notification creation date as per SAP	Date of creation of work order	Days between date notification was created and date work order was created	Date work was performed	Days between date work performed and date work order was created	Close date of notification	Date work performed to date notification was closed on SAP
2079065593	1063225	300472986	11/06/08	11/06/08	-	11/02/09	245	26/01/09	(16)

### Root Cause

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

### Risk

- Possible loss of revenue to the municipality.
- Estimated readings cannot be relied upon
- Controls designed are not implemented to ensure that other related controls are working as intended.

### Recommendation

- The different strategic units need to understand that related controls that must be implemented to ensure a more complete internal control system.
- Notifications created need to be followed up timeously.
- The SAP system needs to be updated when meters are replaced and/or changed.

### Management response

*Name:*

*Position:*

*Date:*

### Auditor's comments

This was a limitation of scope where the information was only provided 3 December and when we start with the auditing of this section the matters above has been noted.

No management response have been received as on 4 December.

## RECEIVABLES

### 5. R&R: Monthly reconciliations not compiled (Ex 113)

#### Audit finding

Section 64(2)(h) of the MFMA states that the accounting officer or municipality shall take all reasonable steps to ensure that all revenue received by the entity, including the collecting agency on its behalf, is reconciled on a weekly or more regular basis.

However, during the audit of other debtors, it came to our attention that no proper reconciliations were compiled in respect of the general ledger account number 202015 (licences over-/under-banking suspense), valued at R10 034 168,56 for the financial year 2008-09. Reasons as to why the suspense account was not cleared at financial year-end were not provided for audit purposes and could result in a limitation of scope to the amount of R10 034 168.56.

#### Root cause

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

#### Risk

- Possible fraudulent transactions
- Limitation of scope
- Variances not timeously detected and followed up, which might result in under- or over-statement of the relevant accounts' non-compliance with the MFMA.

#### Recommendation

- Management should ensure that ongoing monitoring and supervision are undertaken to enable an assessment of the effectiveness of internal control over financial reporting.
- Proper reconciliations should be performed and suspense accounts should be followed up and cleared on a monthly basis.

#### Management response

Reasons for deviation: There are various contributing factors that lead to irrecoverable debt and therefore the relevant Audit Finding. The main contributors to the finding are discussed as follows:

##### 1. Cheque deposits either not banked or lost

It was discovered that some recorded cheque payments were not reflected as being deposited into City of Tshwane's bank account. The Finance Department did reconciliation and reported this to Auxiliary Services within the Licensing Services Section. All these items were referred to our Banker who after verification responded that some of these items were not banked and never received a bank stamp.

Attempts were made to recover the money, but to no avail. This amounts to

R30 932, 37 debit on the Licensing Suspense Account.

Corrective measures:

- Improved insurance claims procedure will prevent a re-occurrence of such debits.
- A process to continuously follow-up on claims will be implemented

## 2. Cashier Shortages

Cashiers incurred shortages and in some cases the shortages were incorrectly noted on the cash up statements as under-banks. This resulted in a debit on the Licensing Suspense Account to the value of R292 698, 37. After a complete investigation and reconciliation by the Finance Department this was reported and a new method was implemented as from May 2008 with strict control measures which will prevent re-occurrence.

Corrective measures:

- Measures have been instituted to recover shortages from the responsible cashiers. However, due to resignations and grievances not all shortages will be recovered.
- All Cashiers are expected to sign an authorisation for the collection of shortages
- Measures to ensure that all outstanding shortages are deducted from Cashiers that have resigned is in process with the HR Division, Corporate and Shared Services
- Monthly meetings are held between the Financial Services of the Department and the Licensing Services Unit to address issues of concern.
- Regular audits are performed to determine status of the issue and to ensure that measures instituted are complied with

## 3. Discrepancies in respect of Licensing Agents

For many years it has been common practice that dealerships within the motor trade fraternity appointed Licensing Agents to do licensing and registration transactions on their behalf. The method to ensure that the payments received and license transactions performed was properly reconciled and accounted for in the records of the Municipality was found to be unreliable.

The period before May 2008 a system was in place where Licensing Agents would submit work at the Bulk Section which was processed and then collected after a few days and paid for. This system was managed by over- and under-banking. The draw back with this system was that besides the face value that was issued there was no receipt and proof that the transactions were actually paid for. The implementation of the provincial Best Practise Management Model contributed to a flawed control measure that was not detected immediately. The officials transacting on e-NaTIS were configured as back-office staff whilst the service desk for dispatching bulk work had no cashiering responsibilities.

Corrective measures:

The system was changed in May 2008 in order to ensure that there is a proper audit trail for work done. Moneys are now channelled through the Municipality's main bank account as opposed to handing it to the cashier by means of cash. The Electronic Funds Transfer (EFT) payment system has worked well since its inception.

## 4. Thefts and insurance payouts

Although claims were registered and claimed from insurance either the reconciliation failed and the insurance settlement amount reflects as a credit amount in favour of the Municipality or the monies were never received.

Corrective measures:

- Improved insurance claims procedure will prevent a re-occurrence of such debits.
- A process to continuously follow-up on claims will be implemented

5. RD cheques and discrepancies on cheque amounts

An intervention with regards to not accepting third party cheques and blocking further NaTIS transactions improved the annual portfolio over the years 2005/06 and 2006/07. However, on migrating to e-NaTIS the blocking in respect of e-NaTIS transactions failed and economic factors resulted in an uncontrollable number of cheques being dishonoured. The annual amounts over 2007/08 and only half of 2008/09 reflects this tendency.

The Department of Roads and Transport (DRT, Gauteng Provincial Government) decided to restrict e-NaTIS payments to cash payments or bank guaranteed cheque or EFT payments only. The implication is that the municipality as an agency must either implement such payment restrictions or carry the liability of dishonoured cheque payments.

Corrective measures:

It has been recommended that payments made to Tshwane be restricted to cash payments or cheques issued by a bank (bank counter or ATM issued) or electronic funds transfer only.

This recommendation is aligned with the extract from the minutes of a workshop with the Gauteng Registering Authorities held on 26 March 2009, at Isizwe Hospitality (Turffontein).

(Unaltered)

The implementation of restricted payment options will result in complaints in respect of service delivery therefore it will be recommended that the implementation of such restrictions be preceded by a comprehensive media/educational campaign.

The Community Safety Department submitted a report: IRRECOVERABLE NET AMOUNTS ON THE LICENSE SUSPENSE ACCOUNT FROM SAP (GO LIVE) UNTIL 31 DECEMBER 2008 TO BE WRITTEN OFF, to address the numerous issues contributing to the finding and requesting approval and implementation, has been submitted to the City Manager and feedback is still expected.

*Name: MA Mmutle*

*Position: Executive director*

*Date: 08 November*

**Auditor's comments**

Management response is reviewed. Based on the Management response the possibility exists that these amounts will not be recovered, however, the non compliance issue still stands as no reconciliations or follow ups were performed in respect of the relevant account. The amount will furthermore be included in the schedule of possible misstatements and will be evaluated in total. Controls implemented by management will furthermore be followed up during the audit of the 2009-10 financial year to rectify the non-compliance issue identified.

## PERFORMANCE INFORMATION

### 6. Performance information: Non-compliance with section 72(1) of MFMA (Ex68)

#### Audit finding

Section 72(1) of the MFMA states the following:

“The accounting officer of a municipality must by 25 January each year -

- a) assess the performance of the municipality during the first half of the year, taking into account -
  - i. the monthly statements referred to in section 71 for the first half of the financial year;
  - ii. the municipality's service delivery performance during the first half of the financial year, and the service delivery targets and performance indicators set in the service delivery and budget implementation plan
  - iii. the past year's annual report, and progress on resolving problems identified in the annual performance report; and
  - iv. the performance of every municipal entity under the sole or shared control of the municipality, taking into account reports in terms of section 88 from any such entities; and
- b) submit a report on such assessment to –
  - i. the mayor of the municipality;
  - ii. the National Treasury; and
  - iii. The relevant provincial treasury.”

We were not able to obtain evidence of the following:

- That the accounting officer took the monthly reports referred to in section 71 of the MFMA into account in the assessment of the municipality's performance for the first half of the year
- That the accounting officer of the municipality submitted a report of the above assessment to the National Treasury and the relevant provincial treasury

#### Risk

- Non-compliance with the requirements of the MFMA
- The accounting officer could base his opinion on insufficient information and make reports that are not necessarily a true representation of the municipality's state of affairs.

#### Recommendation

It is recommended that management comply with all the requirements of legislation that are applicable to the municipality.

#### Management response

We are not in agreement with the finding for the following reasons

- The mid-year report of the City of Tshwane was submitted to the AG on disk as part of response to query 22.
- In the mid year report the performance of Q2 is compared to the performance of Q1.

- The CoT reports cumulatively, therefore by implication monthly reports are taken into consideration in quarterly and annual reporting.
- The mid-year report was submitted to the Local Government Department at Province who did not raise objections regarding the content of the mid-year report.
- Further, the adjustments budget took into consideration the section 71 reports by implication.
- The adjusted SDBIP was approved based on the adjusted budget.(this was submitted on disk as a response to query 22)

*Name: N Makhari/ N Lukhwareni*

*Position: CFO/ Service Delivery coordinator*

*Date: 16 October 2009*

#### **Auditor's comments**

The above reports do not provide evidence of the fact that the section 71 reports were received by the accounting officer within the relevant deadlines each month. We recommend that the accounting officer should at least sign for the monthly reports as and when he receives them. A log of this process should be kept on record as evidence. Copies of the section 71 reports and the register detailing the dates when these reports were received by the office of the city manager will be accepted as evidence that the section has been adhered to. Non-adherence to this section will be reported in the audit report.

#### **Additional Management response**

More information will be submitted

#### **Additional auditor's response**

Section 71 reports still could not be submitted but the mid year report was submitted. As this reports still could not be seen this will remain in the audit report.

## 7. Performance information: Non-compliance with laws and regulations (municipal entities) (Ex 69)

### Audit finding

The evidence for the following sections of the MFMA could not be obtained with regard to the municipal entities:

- Section 87(11), which stipulates that the accounting officer of the municipality entity must no later than seven working days after the end of each month submit to the accounting officer of the parent municipality a statement in the prescribed format on the entity' budget reflecting the following particulars for that month and for the financial year up to the end of that month: “
  - a) Actual revenue, per revenue source;
  - b) actual borrowings;
  - c) actual expenditure;
  - d) actual capital expenditure;
  - e) the amount of any allocations received;
  - f) actual expenditure on those allocations, excluding expenditure on allocations exempted by the annual Division of Revenue Act from compliance with this paragraph ; and
  - g) when necessary, an explanation of-
    - i. any material variances from the entity's projected revenue by source, and from the entity's expenditure projections;
    - ii. any material variances from the service delivery agreement and the business plan; and
    - iii. Any remedial or corrective steps taken or to be taken to ensure that projected revenue and expenditure remain within the entities approved budget.”
- Section 88(1) which states that the accounting officer of the municipal entity must by 20 January of each year – “
  - a) assess the performance of the entity during the first half of the financial year, taking into account –
    - i. the monthly statements referred to in section 87 for the first half of the financial year and the targets set in the service delivery business plan or other agreement with the entity's parent municipality; and
    - ii. the entity's annual report for the past year and progress on resolving problems identified in the annual report;
  - b) submit a report on such assessment to –
    - i. the board of directors of the entity; and
    - ii. the parent municipality of the entity.”
- Section 88(2) which states that the mid-year budget and performance assessment must be made public.

If these sections were adhered to evidence to substantiate this should be submitted to the auditors.

### Risk

- Non-compliance with the requirements of the MFMA
- The accounting officer could base his opinion on insufficient information and make reports that are not necessarily a true representation of the municipality's state of affairs.

## **Recommendation**

We recommend that the municipality takes steps to ensure that reported performance information is complete and complies with the requirements of the relevant laws and regulations.

## **Management response**

- I am not in agreement with the finding for the following reasons:
- Monthly financial statement have been submitted by the accounting officers of the municipality entities to the municipality (i.e. the Office of the Chief Financial Officer) in terms of Section 87(11) of the MFMA no later than seven working days after the end of each month in the prescribed format provided by the municipality for the period July 2008 to June 2009. It should be noted that the monthly financial statements of Housing Company Tshwane were only received for the period January 2009 to June 2009.

The abovementioned monthly financial statements were incorporated into the Corporate Report of the municipality which served at Council on a monthly basis.

Copies of the monthly financial statements of the municipal entities for the period July 2008 to June 2009 are attached hereto as Annexure "A".

- The provisions of Section 88 of the MFMA have been adhered to in that the Municipal Entities' Mid Year Budget and Performance reports for 2008/2009 were received on or before 20 January 2009 and were incorporated into the CoT's Mid Year Budget and Performance Report which serve before the Council on 29 January 2009. It should be noted that Coverall Water's Mid Year Budget and Performance Report was only received on 2 February 2009. The report was however included in the CoT's Mid Year Budget and Performance Report which served before the Council on 26 February 2009.

Copies of the Municipal Entities' Mid Year Budget and Performance reports for 2008/2009 are attached hereto as Annexure "B".

*Name: Simone van der Merwe*

*Position: Deputy Director Governance Compliance Services*

*Date: 3 November 2009*

## **Auditors comments**

The section 87 (11) reports were seen however the uncertainty still exist as to whether they were submitted in time or not, this item will be reported upon. It should be emphasised that the record of submission to the City Manager/his representative should be kept in future.

It should be noted that the reports that were seen were for the two entities, no information was seen for the Housing Company. In respect of this entity section 121(4) (d) and 127 (1) was also not complied with.



## 8. Performance information – Insufficient system descriptions (Ex 106,109,110,111,112 & 153)

### Audit finding

*Framework for Managing Programme Performance Information* as issued by the National Treasury, chapter 5, indicates that the accounting officer or head official of an institution is responsible for ensuring that the institution has, amongst other things, documentation addressing the following:

- Integration of performance information structures and systems within existing management processes and systems
- Definitions and technical standards of all the information collected by the institution
- Processes for identifying, collecting, collating, verifying and storing information
- Use of information in managing for results
- Publication of performance information

System descriptions regarding the backlogs in service delivery were found to be insufficient in that they did not have the vital information as stated in MFMA Circular No. 11, which states that, "When reporting on backlogs it is important to describe the service standard used by municipality to calculate backlogs". This is important because the service standard used might differ between municipalities.

In addition to non-description of service standard used in respect of the backlogs in service delivery, the following were found in the system descriptions provided:

#### a) Electricity backlogs

- The system description does not indicate the identification, processing and reporting of electricity backlogs.
- System description addresses daily electricity connections instead of electricity backlogs eradication.
- System description provided addresses daily activities aimed at ensuring that no new backlog is created instead of the existing backlog.

#### b) Water backlogs

- System description provided does not indicate identification, processing and reporting of water backlogs (e.g. households who do not have access to minimum service standard of water service (6kl)).
- System description provided is for the processing of daily water connection (new water backlog creation avoidance) only.

#### c) Sanitation backlogs

- System description provided does not provide the sanitation service standard used, identification, processing and reporting of sanitation backlog.

#### d) Waste removal backlogs

- The system description does not indicate the identification, processing and reporting of waste removal backlogs.

#### e) Housing

- The system description provided does not describe how households living in formal and informal houses are determined.

#### f) Provision of health care services

- The system description from the health department does not indicate the identification of uninsured households.

### **Risks**

- Lack of proper description of service standard used to identify backlogs may lead to delivery of service which is below the minimum service standard applicable to the municipality.
- Lack of proper information collection for housing may lead to incorrect future housing planning as the data used may be incorrect.
- Lack of proper description on how the uninsured households are identified might lead to objectives of the city not being met as efforts made might be towards the non-targeted population.

### **Recommendations**

- a) Processes and procedures to collect, process and report information on a specific KPI should be standardised and documented to reduce the inaccuracies.
- b) The following are also recommended:
  - KPIs must be analysed to define their data requirements (e.g. data elements needed to do the required calculations)
  - The source from which these data elements are available
  - Routines for collecting data must be established
  - Individuals responsible for collecting data need to be identified
  - The time intervals for the input need to be developed
- c) Controls should be implemented to ensure data integrity, i.e.:
  - Periodic audits by an individual not involved with data collection
  - Reconciliation of collected data against information on another reporting system
  - The data collection and manipulation procedures developed should clearly identify:
    - What needs to be done?
    - Who is to perform the task?
    - When it is to be performed
  - What tools should be used (such as data logs) and training
- d) When data is altered, subsequent to it being used to generate information and reports, such information and reports must be altered to cater for a changed data.

### **Management response**

Additional information will be provided.

*Name: Anisha Darumrajh*

*Position:BPME Department*

*Date:14 November 2009*

**Auditor's comments**

The document describing the service standards and levels used by the municipality when reporting on backlogs was received and accepted however the system description are still insufficient as the process of identification of the backlogs is not described. Processes to identify, collect, collate, verify and storage of data regarding the KPI's should be clearly defined to avoid inconsistencies. The fact that the system descriptions did not cover all the necessary processes will be reported in the audit report.

**9. Performance information: System descriptions not received by the auditors (EX 114, 127, 128, 129, 148, &151)**

**Audit findings**

Process documentation was requested for all the key performance indicators (KPIs) for the selected objectives. The following system descriptions were not received by the auditors:

- a) System description to support the KPI on the percentage of households living in proclaimed townships/areas from the city planning section.
- b) System description to support the KPI on number of trips per capita (total passenger/population) per annum on public buses was not received from transport department.
- c) System description to support the KPI on restructuring grant target of 14% to total income (TOI) was not received by the audit team.
- d) System description to support the KPI on percentage community satisfaction with quality of life was not received by the audit team.
- e) System description to support the KPI on rands spent per capita on sports and recreation facilities and services was not received by the audit team.
- f) System description from BPME was requested as BPME is responsible for consolidating the reports from both the department of housing and storm water for the KPI on Km of backlog of storm-water drainage systems eradicated. The consolidation system description to complete the process is needed as the departmental systems end in what the departments do and do not extend to the completion of the process.

**Risks**

- a) Lack of documented system descriptions might lead to inaccurate information being reported as no formal processes are followed for collection, processing and reporting of information.
- b) Lack of continuity may occur should individuals normally doing the job be unable to continue for some reason.

**Recommendations**

- a. Processes and procedures to collect, process and report information on a specific KPI should be standardised and documented to reduce the inaccuracies.
- b. The following are also recommended:
  - KPIs must be analysed to define their data requirements (e.g. data elements needed to do the required calculations)
  - The source from which these data elements are available
  - Routines for collecting data must be established
  - Individuals responsible for collecting data need to be identified
  - The time intervals for the input need to be developed
- c. Controls should be implemented to ensure data integrity, i.e.:
  - Periodic audits by an individual not involved with data collection
  - Reconciliation of collected data against information on another reporting system
  - The data collection and manipulation procedures developed should clearly identify:
    - What needs to be done?
    - Who is to perform the task?
    - When it is to be performed

- What tools should be used (such as data logs) and training

d. When data is altered subsequent to it being used to generate information and reports, such information and reports must be altered to cater for a changed data.

**Management response**

Information will be provided to the auditors

*Name: Anisha Darumrajh*

*Position:BPME Department*

*Date 14 November 2009*

**Auditor's comments**

Information was received from the BPME department and sport and recreation department. The rest of the system descriptions as mentioned above could not be received. This will be reported in the audit report.

## 10. Performance information – Indicators/achievements not verifiable ( Ex 170)

### Audit finding

The following target achievements relating to the listed KPIs could not be verified/adequately verified as it was not possible to validate the evidence provided to substantiate the reported information:

Key performance indicators for the financial year under review	Planned targets for the financial year under review	Actual targets achieved for the financial year under review	Description of shortfall in supporting evidence
Solid waste removal services: % of households with access to basic or higher level of solid waste removal (NKPI)	Maintain or increase baseline of 77.1% of households with access to basic or higher waste removal services (523 399 households)	89% (611 763 households). Includes new kerb-side waste removal and those provided with communal skips.	<p><b>(1.4.1.1) Number of new kerb-side waste removal service points added to cater for growth/demand:</b> 9 364 new service points (new bins) were reported. Testing could not be done because reports relating to these issued bins could not be drawn: Completeness could not be tested because it was impossible to trace the bin applications through the system to the point of delivery. It was also not possible to test accuracy and validity because a sample could not be selected from the system and traced to the source documents.</p> <p><b>(1.4.2.2)</b> Evidence to support the reported achievements was not submitted for audit purposes as requested.</p>
Tshwane crime levels benchmarked against Gauteng crime levels per type of crime – to be 1% lower in Tshwane than in Gauteng	1% lower in Tshwane than in Gauteng	No official updated information from SAPS for 2008. Departmental reporting shows: assault - 8 305; robbery - 5 476; common robbery - 3 195; burglary at residential premises - 13 749; theft of motor vehicles and motor cycles - 5 716; theft out of or from motor vehicles - 6 465; drug related crimes - 3 069;	The crime reports given to the department by SAPS could not be provided for audit purposes because they contain confidential information. An official letter explaining why these reports could not be provided was requested and no response has yet been received.

		all theft not mentioned elsewhere - 19 538.	
Storm water: km of backlog of storm water drainage systems eradicated	129.6km	76.67km	<p><b>(1.7.4.1 - 50km)</b>. The department of roads and storm water reported that 50 km of storm water drainage systems were constructed to contribute towards this KPI. According to the totals in the report given as evidence, 51 121 km was constructed during 2008-09. It was explained that this inconsistency is caused by tight monthly reporting deadlines. The monthly performance reports have to be submitted by the 2<sup>nd</sup> of the next month, which means that sometimes reporting is based on approximations. The finalisation of the payment certificates – which provide more accurate measurements of the work done during the month – only occurs after reporting has taken place. However, the recalculations that we performed, based on the explanation provided by the department, did not support the reported information or the totals in the department's report.</p> <p><b>(1.7.4.1 - 26.67 km)</b> Reported by the Department of Housing. No evidence was received relating to this KPI.</p>
Storm water: km of new storm water drainage systems provided	2.7km	20.8 km	<b>(1.7.5.1 - 20.8km)</b> Based on calculations, the totals in the reports do not support the achievements in the annual performance report. The reports were challenging to interpret and

			the amounts used for the reporting were not sufficiently evident.
Storm water: km of new storm water drainage systems provided	2.7km	20.8 km	Payment certificates are used as source documents. These certificates are issued on a monthly basis and not necessarily at the completion of a certain phase of a project. Construction of this infrastructure also takes place in phases. This has made it necessary to convert the work done per month to the equivalent of completed km of storm water drainage systems. The payment certificates will therefore not be able to provide sufficient appropriate information to be able to verify the reported achievements.
Roads: km of road as a proportion of square km of proclaimed area in the City of Tshwane	11.56 km	24.5 km of roads delivered. No new areas proclaimed yet	
Roads: km of road as a proportion of square km of proclaimed area in the City of Tshwane	11.56 km	24.5 km of roads delivered. No new areas proclaimed yet	<b>(1.7.4.1 - 24.5 km)</b> Based on calculations, the totals in the reports do not support the achievements in the annual performance report.
Public transport: number of trips per capita (total passenger/population) p.a. on public buses	Maintain or increase baseline of 14 279 126/2 345 908 = 6.1	6.5 (14 000 000/2 147 883)	Based on the reports, the bus tickets are used to determine the number of passengers that used the buses during the year. This method of determining the performance of the department is not valid because there are passengers that use buses repeatedly. Therefore a person could have been counted multiple times in determining the reported number of passengers.
Rands spent per capita on sports and recreation facilities and services	Maintain or improve baseline of R40 086 456/R2 345 908 = R17.08 per annum.	R190 609 526 of the capital budget spent for 2 345 908 people = R81.25 per annum.	Evidence to support the reported achievements was not submitted for audit purposes as requested.
% of conservation areas proclaimed	Maintain or improve baseline of 2.85%	0%	No evidence was submitted relating to this KPI other than the explanation offered by management. According to explanations this indicator was not applicable this year to the CoT.



<p>Electricity: % of households with access to basic or higher level of electricity (NKPI)</p>	<p>Maintain or increase baseline of 531 459 (77.4% of the total 686 640 households with access to electricity-lighting per stats SA 2007).</p>	<p>78.5% (539 401 households out of 686 640 households).</p>	<p>A list of the 7 942 houses that were reported as having been provided with electricity connections during 2008-09 was requested but not received. The list that was supplied contained all the electrical connections made during the year, including those that were made to cater for growth.</p>
<p>Water: % of households with access to basic or higher level of water (NKPI)</p>	<p>Maintain or increase baseline of 98.3% of citizens that have access = 674 967 households.</p>	<p>98.6% (676 794 households have access to piped water).</p>	<p><b>(1.2.1.1 – 6 794 households)</b> Not all the relevant and necessary progress reports were submitted for the audit. It was not possible to find the correlation between the management report and some of the progress reports. This should not be the case because the progress reports should reflect what is included in the management report, as both responsibilities lie with the project managers. Payment certificates were submitted as part of supporting documents. These certificates cannot be used as valid supporting documents because they do not provide information that can be used to verify the number of houses that received water connections during the year.</p> <p><b>(1.2.2.1 – 3 276 households)</b> No evidence was received from the Department of Housing and Sustainable Development relating to this KPI.</p>

<p>% community satisfaction with quality of life. The indicator will only be benchmarked annually against the SACN annual report and the HSRC's social attitudes survey</p>	<p>Maintain or improve baseline of 60%+.</p>	<p>No new information available from the HSRC. However, the customer satisfaction survey conducted by the city shows: overall 44.3% of households are satisfied with the service delivery of the CoT, with only 21.4% being unsatisfied. A total of 34.3% did not give an opinion. This shows that 67.6% of those that responded are happy with the CoT's service delivery.</p>	<p>No supporting evidence was received relating to this KPI.</p>
<p>Levels of the disaster risk management plan fully implemented</p>	<p>Maintain or improve baseline of level 1.</p>	<p>100% of 85% (level 2 plans).</p>	<p>It was not possible to verify 85% of the level 2 plan. It is not indicated at what stage of completion the level 2 plan would be considered to be 85% complete. It was therefore not possible to verify that 85% of the plan was in fact fully completed.</p>
<p>% of uninsured households with access to PHC within 5 km of their homes</p>	<p>98%</p>	<p>98%</p>	<p>Maps were submitted as evidence of the households that have access to the PHC. However, there was insufficient explanation of how the 98% was determined.</p>
<p>Sanitation: % of households with access to basic or higher level of sanitation (NKPI)</p>	<p>Maintain or increase a baseline of 670 161 households that have access to basic or higher service (97.6%).</p>	<p>98.5% (676 274 households have access to basic or higher sanitation).</p>	<p><b>(1.3.1.1 – 2 463 households)</b> Not all the relevant and necessary progress reports were submitted for the audit. It was not possible to find the correlation between the management report and some of the progress reports. This should not be the case because the progress reports should reflect what is included in the management report, as both responsibilities lie with the project managers. Payment certificates were submitted as part of supporting documents. These certificates cannot be used as</p>

			valid supporting documents because they do not provide information that can be used to verify the number of houses that received water connections during the year.
			<b>(1.3.2.1 – 3 650 households)</b> No evidence was received from the Department of Housing and Sustainable Settlements relating to this KPI.
Percentage of Tshwane population living below R3 000 p.a. (in constant R2 000) (poverty head-count index)	Maintain or increase baseline of 47.6% (1 116 297) of the population live on R3 000 or less per annum – this is a total population figure (stats SA community survey 2007 estimate).	68 696 households were registered as indigent. No new poverty head count information has been made available; therefore the percentage of total population cannot be calculated.	<b>(3.1.1.1)</b> No evidence was received relating to this KPI.
Housing: percentage of households living in formal dwellings.	Maintain or increase baseline of 486 161 of 686 640 (70.8%) households having access to formal housing.	71% (487 800) households have access to formal housing due to top structures delivered).	(1.5.1.1) A report or summary of the houses that have been constructed and handed over to owners during the year was not received. This information would have been useful in selecting an audit sample. Examples of "happy letters" were submitted but are not sufficient evidence.

### Risk

The reported information may be inaccurate, invalid or incomplete.

### Recommendation

Key performance indicators for the financial year under review	Planned targets for the financial year under review	Actual targets achieved for the financial year under review	Recommendations
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<p>Solid waste removal services: percentage of households with access to basic or higher level of solid waste removal (NKPI)</p>	<p>Maintain or increase baseline of 77.1% of households with access to basic or higher waste removal services (523 399 households).</p>	<p>89% (611 763 households). Includes new kerb-side waste removal and those provided with communal skips.</p>	<p>A system needs to be developed that allows for an audit trail.</p> <p>Sufficient appropriate evidence should be submitted for audit purposes: a report indicating the number of skips issued and the locations where they were placed is needed to select a sample.</p>
<p>Tshwane crime levels benchmarked against Gauteng crime levels per type of crime – to be 1% lower in Tshwane than in Gauteng</p>	<p>1% lower in Tshwane than in Gauteng</p>	<p>No official updated information from SAPS for 2008. Departmental reporting shows: assault - 8 305; robbery - 5 476; common robbery - 3 195; burglary at residential premises - 13 749; theft of motor vehicles and motor cycles - 5 716; theft out of or from motor vehicles - 6 465; drug related crimes - 3 069; all theft not mentioned elsewhere - 19 538.</p>	<p>The requested letter should be submitted. An alternative method of providing supporting documents for the reported achievements should be devised by the department.</p>
<p>Storm water: km of backlog of storm water drainage systems eradicated</p>	<p>129.6 km</p>	<p>76.67 km</p>	<p>It is recommended that footnotes or similar explanations be provided to assist with the interpretation of the reports. The department should consider implementing a system that allows for reports to be drawn during the month and not only for a full calendar month. Alternatively, reporting deadlines for the municipality should be reconsidered as the deadline of the required reporting is a concern that has been raised by other departments.</p>

			Sufficient appropriate evidence should be submitted for audit purposes.
Storm water: km of new storm water drainage systems provided	2.7 km	20.8 km	It is recommended that footnotes or similar explanations be provided to assist with the interpretation of the reports.
Storm water: km of new storm water drainage systems provided	2.7 km	20.8 km	Source documents should be made available that are better to substantiate the reported performance.
Roads: km of road as a proportion of square km of proclaimed area in the City of Tshwane	11.56 km	24.5 km of roads delivered. No new areas proclaimed yet.	
Roads: km of road as a proportion of square km of proclaimed area in the City of Tshwane	11.56 km	24.5 km of roads delivered. No new areas proclaimed yet.	It is recommended that footnotes or similar explanations be provided to assist with the interpretation of the reports. Explanations of the variances should also be provided.
Public transport: number of trips per capita (total passenger/population) p.a. on public buses	Maintain or increase baseline of 14 279 126/2 345 908 = 6.1	6.5 (14 000 000/2 147 883)	A more verifiable and reliable method of determining the achievement of targets should be devised. Alternatively, the KPI should be amended to allow for a better quality method of measurement of performance.
Rands spent per capita on sports and recreation facilities and services	Maintain or improve baseline of R40 086 456/ R2 345 908 = R17.08 per annum.	R190 609 526 of the capital budget spent for 2 345 908 people = R81.25 per annum.	Sufficient appropriate evidence should be submitted for audit purposes: a list of the capital expenditure incurred during the year that are relevant to this KPI.
% of conservation areas proclaimed	Maintain or improve baseline of 2.85%	0%	Management needs to consider removing or amending this KPI based on the fact that the proclamation process is outside of its control. It should therefore not be used as a measure of the department's performance.

<p>Electricity: percentage of households with access to basic or higher level of electricity (NKPI)</p>	<p>Maintain or increase baseline of 531 459 (77.4% of the total 686 640 households with access to electricity – lighting per stats SA 2007).</p>	<p>78.5% (539 401 households out of 686 640 households).</p>	<p>Sufficient appropriate evidence should be submitted for audit purposes: A list of the houses that received electrical connections during 2008-09. The list should only relate to the backlog houses.</p>
<p>Water: % of households with access to basic or higher level of water (NKPI)</p>	<p>Maintain or increase baseline of 98.3% of citizens that have access = 674 967 households.</p>	<p>98.6% (676 794 households have access to piped water).</p>	<p>Sufficient appropriate evidence should be submitted for audit purposes. An explanation of the differences between the management report and the progress reports should be provided.</p> <p>Sufficient appropriate evidence should be submitted for audit purposes: reports and related supporting documents that can be used to verify the number of connections made by the Department of Housing and Sustainable Development.</p>
<p>Percentage community satisfaction with quality of life. The indicator will only be benchmarked annually against the SACN annual report and the HSRC's social attitudes survey</p>	<p>Maintain or improve baseline of 60%+.</p>	<p>No new information available from HSRC. However, the customer satisfaction survey conducted by the city shows: overall 44.3% of households are satisfied with the service delivery of the CoT, with only 21.4% being unsatisfied. A total of 34.3% did not give an opinion. This shows that 67.6% of those that responded are happy with the CoT's service delivery.</p>	<p>Sufficient appropriate evidence should be submitted for audit purposes: The reports indicating the results of the surveys should be submitted.</p>

Levels of the disaster risk management plan fully implemented	Maintain or improve baseline level 1.	100% of 85% (level 2 plans).	Clarity should be given regarding the different stages of completion of the disaster management plan.
Percentage of uninsured households with access to PHC within 5 km of their homes.	98%	98%	Provide explanations\ interpretations of the maps and how the 98% achievement was determined.
Sanitation: percentage of households with access to basic or higher level of sanitation (NKPI)	Maintain or increase baseline of 670 161 households that have access to basic or higher service (97.6%).	98.5% (676 274) households have access to basic or higher sanitation.	Sufficient appropriate evidence should be submitted for audit purposes. An explanation of the differences between the management report and the progress reports should be provided.
			Sufficient appropriate evidence should be submitted for audit purposes: Reports and related supporting documents that substantiate the achievement reported by the HSD should be submitted for audit purposes.
Percentage of Tshwane population living below R3 000 p.a. (in constant R2000) (poverty head-count index)	Maintain or increase baseline of 47.6% (1 116 297) of the population live on R3 000 or less per annum – this is a total population figure (stats SA community survey 2007 estimate).	68 696 households were registered as indigent. No new poverty head count information has been made available; therefore the percentage of total population cannot be calculated.	Sufficient appropriate evidence should be submitted for audit purposes: A list of the indigents registered during 2008-09.
Housing: percentage of households living in formal dwellings	Maintain or increase baseline of 486 161 of 686 640 (70.8%) households having access to formal housing.	71% (487 800) households have access to formal housing due to top structures delivered.	Sufficient appropriate evidence should be submitted for audit purposes: A report indicating the number of houses constructed during 2008-09 to contribute towards this KPI. The report should indicate an address or reference to the related "happy letter".

The CoT should, as part of monitoring, do internal verification of all the figures reported in the performance information reports and ensure that proper documentation for the reported information is available. Documentation supplied as evidence should be complete, valid and accurate. It should have clear and visible link to the reported information.

**Management response**

Information will be provided to the auditors and explanations will be given when needed.

Name: Anisha Darumrajh

Position:BPME Department

Date:14 November 2009

**Auditors comment**

The information was given after our meeting with BPME department and internal audit of which the following comments resulted per KPI :

Key performance indicators for the financial year under review	Planned targets for the financial year under review	Actual targets achieved for the financial year under review	Auditors' comments
<p><u>Solid waste removal services: % of households with access to basic or higher level of solid waste removal (NKPI).</u></p>	<p>Maintain or increase baseline of 77.1% of households with access to basic or higher waste removal services (523 399 households).</p>	<p>89% (611 763 households). Includes new kerb-side waste removal and those provided with communal skips.</p>	<p>A list of the kerb-side waste removal bins that were issued during 08/09 was submitted. However, the list indicates that 15 776 bins were issued. This does not agree with the reported 9 364.</p> <p><b>(1.4.2.2)</b> Evidence to support the reported achievements was not submitted for audit purposes as requested. It has since come to light that reports with details about the bins issued during the year can be drawn from SAP. A report similar to the one provided for the communal skips (KPI 1.4.1.1) would have been useful for sample selection.</p>



<p>Tshwane crime levels benchmarked against Gauteng crime levels per type of crime - to be 1% lower in Tshwane than in Gauteng.</p>	<p>1% lower in Tshwane than in Gauteng.</p>	<p>No official updated information from SAPS for 2008. Departmental reporting shows: assault - 8 305; robbery - 5 476; common robbery - 3 195; burglary at residential premises - 13 749; theft of motor vehicles and motor cycles - 5 716; theft out of or from motor vehicles - 6 465; drug related crimes - 3 069; all theft not mentioned elsewhere - 19 538.</p>	<p>The information as reported here was only for the 8 months. For four months the SAPS could not provide the crime reports as they were changing computer system they were using. This KPI is dependant in SAPS to issue the official crime statistics. The official statistics report for the financial period from April to March which is different to the CoT financial period.</p>
<p><u>Storm water: km of backlog of storm water drainage systems eradicated.</u></p>	<p>129.6km</p>	<p>76.67km</p>	<p>After having worked through the calculations on the reports and extensive consultation with the department, we were still not able to come to an agreement on all the reported information. Some of the reasons for discrepancies are the conversions that take place in reporting, insufficient referencing of key performance indicators to the relevant information on reports, the application of the guidelines and requirements for stormwater drainage systems design, rounding differences, the use of estimates in reporting and the complexity of the reports because of the nature of the KPI. We recommend that if a certain measurement of km delivered relates to more than one KPI then it should be referenced as such. It is also advisable to offer clearer explanations on the annual performance report as well as the supporting documents. The documents are designed to be understood by the engineers that are familiar with them and who also have the technical knowledge relaint to the construction of roads and stormwater drainage systems. They are however difficult for an external user to interpret.</p> <p>A certificate of completion issued to Dicon Construction (25 June 2009) was submitted as evidence. However,</p>

			the certificate does not indicate the number of km of stormwater drainage systems installed.
<u>Storm water: km of new storm water drainage systems provided.</u>	2.7km	20.8km	After having worked through the calculations on the reports and extensive consultation with the department, we were still not able to come to an agreement on all the reported information. Some of the reasons for discrepancies are the conversions that take place in reporting, insufficient referencing of key performance indicators to the relevant information on reports, the application of the guidelines and requirements for stormwater drainage systems design, rounding differences, the use of estimates in reporting and the complexity of the reports because of the nature of the KPI. We recommend that if a certain measurement of km delivered relates to more than one KPI then it should be referenced as such. It is also advisable to offer clearer explanations on the annual performance report as well as the supporting documents. The documents are designed to be understood by the engineers that are familiar with them and who also have the technical knowledge relevant to the construction of roads and stormwater drainage systems. They are however difficult for an external user to interpret.
<u>Storm water: km of new storm water drainage systems provided.</u>	2.7km	20.8km	As above
<u>Roads: km of road as a proportion of square km of proclaimed area in the city of Tshwane.</u>	11.56km	24.5km of roads delivered. No new areas proclaimed as yet.	After having worked through the calculations on the reports and extensive consultation with the department, we were still not able to come to an agreement on all the reported information. Some of the reasons for discrepancies are the conversions that take place in reporting, insufficient referencing of key performance indicators to the relevant information on reports, the application of the guidelines and requirements for stormwater drainage systems design, rounding differences, the use of estimates in reporting and the complexity of the reports because of the nature of the KPI. We

			recommend that if a certain measurement of km delivered relates to more than one KPI then it should be referenced as such. It is also advisable to offer clearer explanations on the annual performance report as well as the supporting documents. The documents are designed to be understood by the engineers that are familiar with them and who also have the technical knowledge related to the construction of roads and stormwater drainage systems. They are however difficult for an external user to interpret.
<u>Roads: km of road as a proportion of square km of proclaimed area in the city of Tshwane.</u>	11.56km	24.5km of roads delivered. No new areas proclaimed as yet.	It is recommended that footnotes or similar explanations be provided to assist with the interpretation of the reports. Explanations of the variances should also be provided.
<u>Public transport: number of trips per capita (total passenger/population) p.a on public buses.</u>	Maintain or increase baseline of 14 279 126/2 345 908 = 6.1	6.5 (14 000 000/2 147 883)	The reports submitted as evidence reflect the following: Scheduled bus trips summary; monthly summaries of the number of passengers that used the buses based on the buses point of departure and destination (this number is based on the number of bus tickets sold). According to the reports provided, the total number of passengers that used the buses amount to 12 473 174. This differs from the 14 000 000 used in calculating the number of trips per capita. The denominator of 2 345 908 is also incorrect.
Rands spent per capita on sports and recreation facilities and services.	Maintain or improve baseline of R40 086 456/R2 345 908 = R17.08 per annum.	R190 609 526 of the capital budget spent for 2 345 908 people = R81.25 per annum.	We were informed that the expenditure on the budget for repairs and maintenance is used to calculate this. The copy of the SAP official report was not received by the auditors.
% of conservation areas proclaimed.	Maintain or improve baseline of 2.85%	0%	It was not possible for supporting evidence to be provided by CoT. The department gave the following explanation: "The proclamation of nature reserves and nature areas is carried out by Provincial Nature Conservation (GDARD). The land owner submits an application which is evaluated by Province and the proclamation is done by them in the

		<p>Government Gazette. The CoT is obligated to comply with Provincial Legislation which unfortunately is currently in a revision process. The new "Area Protection Act" will replace all previous legislation. The regulations of this Act have not been finalised yet therefore no proclamation applications are being dealt with. Applications for some of the unproclaimed areas have been submitted to GDARD and feedback is being awaited for the past five years. The Nature Conservation and Resorts Section has no control over the target or the number of proclamations approved. According to GDARD all applications were put on hold until further notice. Previously proclaimed areas will also then be revised. It is recommended that this KPI be removed from the CoT's scorecard because the proclamation of conservation areas is outside the jurisdiction of the municipality and is done by Provincial Nature Conservation (GDARD). Management needs to consider removing or amending this KPI based on the fact that the proclamation process is outside of its control. It should therefore not be used as a measure of the department's performance.</p>
<p><u>Electricity: % of households with access to basic or higher level of electricity (NKPI).</u></p>	<p>Maintain or increase baseline of 531 459 (77.4% of the total 686 640 households with access to electricity-lighting per stats SA 2007).</p>	<p>78.5% ( 539 401 households out of 686 640 households).</p> <p>Eskom sent the spreadsheet submitted as evidence of the number of connections made during 08/09. This is accepted as sufficient appropriate evidence because it comes from an external party. Based on our own calculations, the number of connections made by Tshwane amount to 5852 and not 5862; an adjustment should also be made for the Nellmapius X7 project. Therefore the total number of connections for the year should be 6688 and not the reported 7942. The 7942 households that are reported are the number of households that have applied for electrification. However, infrastructure has been provided to more than just the households that have applied for electrification. Electrical transformers and cables are installed in an area (projects) and meters are also put into every house in that area therefore providing access to electricity to all</p>

			<p>the households in that area, irrespective of whether or not the household applies for an electrical connection. It is recommended that reporting be based on the households that have access to electricity i.e. the completed projects where all the infrastructure has been set up and a signed hand-over certificate has been completed.</p>
<p><u>Water: % of households with access to basic or higher level of water (NKPI).</u></p>	<p>Maintain or increase baseline of 98.3% of citizens that have access = 674 967 households.</p>	<p>98.6% (676 794 households have access to piped water).</p>	<p><b>(1.2.1.1 - 6794 households)</b> Agreed the reported number of households to those in the manage report. Compared the Manage reports to the monthly progress reports and payment certificates. The monthly progress reports are submitted by each project manager; the project managers are also responsible for the inputs in made in the Manage system. The reported information agrees with the manage reports. The differences between the reported information and the supporting evidence per project are as follows:</p> <p>a) The project for upgrading water networks the actual information is more by 1423 households than reported information.</p> <p>b) the project for water networks the actual information is less by 223 households than the reported information.</p> <p>Calculations based on the letter of completion to Bigen Ltd show that 4295 stands received water connections. The stands as per evidence submitted are more by 1019 stands than in the performance report. ( Housing department)</p>

<p>% community satisfaction with quality of life. The indicator will only be benchmarked annually against the SACN annual report and the HSRC's social attitudes survey.</p>	<p>Maintain or improve baseline of 60%+.</p>	<p>No new information available from HSRC. However, the customer satisfaction survey conducted by the city shows: overall 44.3% of households are satisfied with the service delivery of CoT, with only 21.4% being unsatisfied. 34.3% did not give an opinion. This shows that 67.6% of those that responded are happy with CoT service delivery.</p>	<p>The CD containing the survey was submitted to the auditors and the reported information could be verified. The evidence submitted is accepted.</p>
<p>Levels of the disaster risk management plan fully implemented.</p>	<p>Maintain or improve baseline of Level 1.</p>	<p>100% of 85% (level 2 plan).</p>	<p>Although an explanation of the different levels of the disaster risk management plan and reports for some of the projects were provided, it was still not possible to verify 85% completion of level 2. The explanation and other evidence given do not provide sufficient information to be able to discern 85% completion.</p>
<p>% of uninsured households with access to PHC within 5km of their homes.</p>	<p>98%</p>	<p>98%</p>	<p>The following explanation was provided: A 5km buffer zone around clinics hosted within spatial databases (SDE) via the arc GIS (ESRI GIS products) is done. Thereafter we determine the total number of households in the City of Tshwane are of jurisdiction which is 597 405 and the number of households within 5km radius which is 585 839 households. The 98% households within 5km radius is therefore calculated as follows: households within 5km radius: <math>585\,839 \times 100 / 597\,405 = 98\%</math>. We recommend that the above elaboration or a summary thereof be included as a footnote in the annual performance report as this is information that will add value to the document.</p>

<p><u>Sanitation: % of households with access to basic or higher level of sanitation (NKPI).</u></p>	<p>Maintain or increase baseline of 670 161 households that have access to basic or higher service (97.6%).</p>	<p>98.5% (676 274 households have access to basic or higher sanitation).</p>	<p><b>(1.3.1.1 - 2463 households)</b> Agreed the reported number of households to those in the manage report. Compared the Manage reports to the monthly progress reports and payment certificates. The monthly progress reports are submitted by each project manager; the project managers are also responsible for the inputs in made in the Manage system. The reported information agrees with the manage reports. The differences between the reported information and the supporting evidence per project are as follows:  a) The project for sewer replacement, the actual information is more by 326 connections than the reported information.  b) the project for basic sanitation, the actual information is less by 36 connections than the reported information.</p> <p>Calculations based on the letter of completion to Bigen Africa Services (Pty)Ltd (14 July 2009) show that 4295 stands received sanitation connections. The stands as per evidence submitted are more by 645 stands than in the performance report. ( Housing department)</p>
<p>% of Tshwane population living below R3000p.a (in constant R2000) (poverty head-count index).</p>	<p>maintain or increase baseline of 47.6% (1 116 297) of the population live on R3000 or less per annum - this is a total population figure (stats SA community survey 2007 estimate).</p>	<p>68 696 households were registered as indigent. No new poverty head count information has been made available, therefore % of total population cannot be calculated.</p>	<p>There are only 53 165 indigents on the indigent register which is less by 15 531 indigents than in the performance report.,The discrepancy could be due to de -registrations that took place during the year. When a person no longer qualifies as an indigent they apply to be removed from the indigent register. Upon removal from the register, all the individuals details are removed from the register. There remains no trace of the deregistered individual. Application for deregistration is voluntary. Certain restrictions on the indigent household's use of water and electricity as are supposed to be put in place as soon as a household is registered as indigent. However, due to limited resources, these restrictions are not always implemented. This results in people who no longer qualify as indigents still being able to access free basic services. One of the registration criteria as per the City of</p>

			Tswane Indigent Policy (paragraph 6) is that "the total gross monthly income of all the members of the household does not exceed the joint amount of the two old age state pensions". We recommend that this be used as the indicator as it is in line with the indigent policy.
<u>Housing: % of households living in formal dwellings.</u>	Maintain or increase baseline of 486 161 of 686 640 (70.8%) households having access to formal housing.	71% (487 800 households have access to formal housing due to top structures delivered).	<b>(1.5.1.1)</b> Only examples of "happy letters" were submitted as evidence. A list of the top structures provided or completion certificates per project (if they show the number of top structures delivered) would have served as appropriate evidence.

All the issues as detailed above will be reported in the audit report.



## 11. Performance information: Targets achieved not addressing the related KPI (Ex 95)

### Audit finding

The following targets were found not to be fully addressing the related key performance indicators:

KPA	KPI	TARGET 2008-09	ACHIEVED 2008-09	COMMENT
Provide housing	Percentage of households living in formal dwellings	Maintain or increase baseline of 70.8%	71% (487 800 households) have access to formal housing due to 1 639 new top structures delivered by housing.	KPI 1.5.1.3 on SDBIP seems more relevant to this KPI because a household can only be reasonably deemed to be <i>living</i> in a dwelling when the house is registered to an owner.  Family units at hostels (KPI 1.5.1.2) should be taken into account in determining households living in formal dwellings because they qualify as formal dwellings and are occupied by households. Consider amending the KPI to account for units registered to owners.
Solid waste removal services	Percentage of households with access to basic or higher level of solid waste removal (NKPI)	Maintain or increase baseline of 77.1%	89% (611 763 households)  529 399 households of the 2007-08 financial year + 9 364 new kerb-side waste removal + 73 000 households provided with communal skips.	KPI 1.4.2.1 should be considered in reporting the households with access to solid waste removal due to:  - the fact that plastic waste removal is a solid waste removal service  - certain residents having expressed a preference for the plastic bag removal service rather than communal skips (footnote 64 on SDBIP).
City planning	Percentage of households living in proclaimed townships/areas	Maintain or increase baseline of 79.3%	79.3%  (544 506 households)  25 informal settlements have been formalised.	The KPI does not correlate to the targets because it refers to "proclaimed areas" whereas the targets refer to "formalised areas". Consider changing the KPI or the targets for better correlation.
Roads	(1.7.2.1) Km of road as a proportion of square km of proclaimed area in	11.56 changed to 18 60 km pas per the dept plan	24,5 km of roads delivered.  No new areas	The target and the achievement are not reported in terms of a proportion as per the KPI. The KPI should be revised

	the City of Tshwane		proclaimed yet.	because departmental reporting is in terms of km, which also corresponds with the reporting on the SDBIP level.
Public transport	No. of trips per capita (total passenger/population) p.a. on public buses	Maintain or improve the baseline	6.5  (14 000 000 / 2 147 883)	The indicators used to measure performance do not necessarily give an indication of how the department has increased accessibility of public buses.  The KPIs in the IDP and the SDBIP are not a fair representation of the department's performance because a passenger can repeatedly use the bus service; counting the number of bus tickets sold to determine the number of people who used the buses is therefore not giving the correct picture.
Fight poverty	Percentage of Tshwane population living below R3 000,00 p.a. (in constant R2 000)(Poverty head count index)	Maintain or improve the baseline  SDBIP target was to register 65 000 households to have access to free basic services	68 696 households were registered as indigent.  No new poverty head count information has been made available; therefore the percentage of the total population cannot be calculated.	No five-year target was set for this key performance area.  Registering citizens as indigents does not necessarily reduce the number of people living below the R3 000 p.a. benchmark. The municipality should rather increase investment in strategies and programmes that will reduce this number and as a result reduce the number of people dependent on municipal support grants.  Providing municipal support grants and free services to registered indigents is actually reducing the burden on people living below the poverty line.
Provide health care services	Percentage of uninsured households with access to PHC within 5 km of their homes	98%	98%	The related KPIs in the SDBIP do not give an indication of how accessibility to PHC will be improved.  Considering that the Tshwane population is ever

				<p>increasing, KPIs and targets should account for this growth and show measures that will be taken to cater for this growth.</p> <p>If the department reports a 98% achievement then it is implied that more public health care facilities have been provided for the increased population in order for the proportion to remain the same.</p>
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The targets and departmental targets set for the KPIs should address the relevant KPI because if it is not properly aligned, service delivery objectives as indicated on the IDP might not be met.

### Risk

Service delivery objectives might not be met.

### Recommendation

Proper links between the city's objective, KPIs and targets should be established to ensure that service delivery objectives are met.

### Management response

Response per KPI is as follows:

KPA	KPI	TARGET 08/09	ACHIEVED 08/09	COMMENT	CoT Response
Provide Housing	% of households living in formal dwellings	Maintain or increase baseline of 70.8%	71% 487,800 h/h have access to formal housing due to 1,639 new top structures delivered by housing.	<ul style="list-style-type: none"> <li>▪ KPI 1.5.1.3 on SDBIP seems more relevant to this KPI because a household can only be reasonably deemed to be <i>living</i> in a dwelling when the house is registered to an owner.</li> <li>▪ Family units at hostels (KPI 1.5.1.2) should be taken into account in determining</li> </ul>	<p>We agree on this suggestion and this will be corrected in the final annual report 08/09. The performance taking into consideration the hostels and registration will be:</p> <p>489,060 households living in formal dwellings which is 71.2% of total households.</p>

				households living in formal dwellings because they qualify as formal dwellings and are occupied by households. Consider amending the KPI to account for units registered to owners.	
Solid waste removal services	% of households with access to basic or higher level of solid waste removal(NKPI)	Maintain or increase baseline of 77.1%	89% 611,763h/h  529,399h/h of FY2007/08 + 9,364 new kerb side waste removal + 73,000h/h provided with communal skips.	KPI 1.4.2.1 should be considered in reporting the households with access to solid waste removal due to: <ul style="list-style-type: none"> <li>the fact that plastic waste removal is a solid waste removal service;</li> <li>Certain residents have expressed a preference for the plastic bag removal service rather than communal skips (footnote 64 on SDBIP).</li> </ul>	I disagree with this. Including the households with plastic bags will be double counting.  Of the total households in unproclaimed areas, some of them are provided with plastic bags. This has therefore been taken into consideration.  Whilst households have indicated a preference for plastic bags, insufficient resources mean that not all receive, and the mechanisms to remove waste is the removal of a bin or skip.
City Planning	% of households living in proclaimed townships/areas	Maintain or increase baseline of 79.3%	79,3%  (544,506 h/h)	The KPI does not correlate to the targets because it refers to	I disagree. The percentage reported refers to households

			25 informal settlements have been formalized.	“proclaimed areas” whereas the targets refer to “formalized areas”. Consider changing the KPI or the targets for better correlation.	in proclaimed areas. You will notice it is the same as the previous year. We have indicated in the reasons for non-achievement and corrective measures column that no townships were proclaimed. The formalisation is additional information.
Roads	(1.7.2.1) Km of road as a proportion of square km of proclaimed area in the City of Tshwane	11.56 changed to 18,60km pas per the dept plan	24,5km of roads delivered.  No new areas proclaimed as yet.	The target and the achievement are not reported in terms of a proportion as per the KPI. The KPI should be revised because departmental reporting is in terms of km which also corresponds with the reporting on the SDBIP level.	I agree. We will implement in the 10/11 year, as an amendment of the indicator on the IDP will require an amended IDP in the 09/10 year, which is not possible due to the public consultation required.
Public transport	Nr of trips per capita (total passenger/ population) p.a. on public buses	Maintain or improve the baseline	6.5  (14,000,000 / 2,147,883)	<ul style="list-style-type: none"> <li>▪ The indicators used to measure performance do not necessarily give an indication of how the department has increased accessibility of public buses.</li> <li>▪ The KPIs in the IDP and the SDBIP are not a</li> </ul>	I agree. We would appreciate further guidance from the AG on an alternate measure to give the correct picture.

				<p>fair representation of the department's performance because a passenger can repeatedly use the bus service; counting the number of bus tickets sold to determine the number of people who used the buses is therefore not giving the correct picture.</p>	
Fight poverty	% of Tshwane population living below R3,000-00 p.a. (in constant 2,000 rand)(Poverty head count index)	<p>Maintain or improve the baseline</p> <p>SDBIP target was to register 65000 households to have access to free basic services</p>	<p>68,696 households were registered as indigent.</p> <p>No new poverty head count information has been made available; therefore % of the total population cannot be calculated.</p>	<ul style="list-style-type: none"> <li>▪ No 5 year target was set for this key performance area.</li> <li>▪ Registering citizens as indigents does not necessarily reduce the number of people living below the R3000 pa benchmark. The municipality should rather increase investment in strategies and programmes that will reduce this number and as a result reduce the number of people</li> </ul>	<p>I partially agree.</p> <p>The total poverty head count could not be reported as indicated on the report due to no new information being made available by Stats SA.</p> <p>The proposal to increase strategies to reduce poverty will be considered in our planning for the 10/11 financial year due the IDP cycle and budget implications.</p>

				<p>dependent on municipal support grants.</p> <ul style="list-style-type: none"> <li>▪ Providing municipal support grants and free services to registered indigents is actually reducing the burden on people living below the poverty line.</li> </ul>	
Provide health care services	% of uninsured households with access to PHC within 5 km of their homes	98%	98%	<ul style="list-style-type: none"> <li>▪ The related KPIs in the SDBIP do not give an indication of how accessibility to PHC will be improved.</li> <li>▪ Considering that the Tshwane population is ever increasing, KPIs and targets should account for this growth and show measures that will be taken to cater for this growth.</li> <li>▪ If the department reports a 98% achievement then it is implied that more public health care facilities have been</li> </ul>	<p>I partially agree. We will look at strategies to improve access to PHC in the 10/11 planning.</p> <p>The 98% does not imply more health care facilities, but means access. We have for example opened clinics on weekends for more people to access who work during the week.</p>

				provided for the increased population in order for the proportion to remain the same.	
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*Name: Ndivho Lukwareni*

*Position: Service delivery coordinator*

*Date: 3 November 2009*

**Auditor's comments**

Management response are noted however those targets that were not relevant to the KPI in the current financial year will be reported upon. However follow up will be made in the next financial year to ensure that all the targets are properly aligned to the KPIs.



## COMPENSATION OF EMPLOYEES

### 12. Irregular expenditure: Official residence of the mayor (Ex 33)

#### Audit finding

As reported in the prior year, it was noted that a residence is provided to the mayor by the Tshwane Municipality where the mayor is only liable for service charges. To our understanding the mayor does not pay any rent. The provision of housing to the mayor does not fall within the framework of the Public Office-Bearers Act and will result in a transgression of section 167 of the MFMA if the residence is occupied by the mayor at no cost or if it is let at less than a market-related rate.

#### Root cause

Reviews of operations, processes and activities are not undertaken to ensure that they are in compliance with regulations, policies and procedures, or other requirements.

#### Risk

- Non-compliance with section 167 of the MFMA
- Understatement of irregular expenditure in the annual financial statements

#### Recommendation

The monetary market value of the benefit of the mayoral residence less the rental payable by the mayor, if any, will constitute irregular expenditure and must be recovered from the mayor.

#### Management response

Kindly be advised that the report on the Mayoral Residence has been submitted to the Speaker of Council who in turn is expected to table it during the Council sitting: 27<sup>th</sup> August 2009 for consideration and possible approval.

*Name: Mr. K Kekana*

*Position title: City Manger*

*Date: 14 August 2009*

#### Auditor's comments

This matter is still unresolved and will be escalated to the audit report under other matters.

## **PURCHASES AND PAYABLES**

### **13. Non-compliance with section 74 of the MFMA – Grants (Ex 99)**

#### **Audit finding**

While performing audit procedures pertaining to grants, it was noted that the Tshwane Municipality failed to submit electronic and signed returns on their conditional grants spending for the period ended 30 June 2009 in terms of section 74(1) of the MFMA. Furthermore, the Tshwane Municipality also did not sign off that they have verified the section 71 report for the period ended 30 June 2009.

#### **Root cause**

Control activities are not selected and developed to mitigate risks over financial reporting.

#### **Risk**

Non-compliance with section 74 of the MFMA.

#### **Recommendation**

Management should implement controls to ensure that the municipality complies with the reporting obligations in terms of section 74 of the MFMA.

#### **Management response**

Annexure C:

The statement in the publication is correct insofar as that the CoT submitted the signed verification in terms of Section 71 to National Treasury after the due date for publication. This occurred due to an administrative delay in the process, which was communicated to National Treasury.

Annexure D:

The statement in the publication is correct insofar as that the CoT submitted the electronic verification in terms of section 74 Conditional Grants spending to National Treasury after the due date for publication.

Annexure E:

The statement in the publication is correct insofar as that the CoT submitted the signed return verification in terms of section 74 Conditional Grant spending to National Treasury after the due date for publication. This occurred due to an administrative delay in the process, which was communicated to National Treasury.

*Name: D M van Heerden*

*Position: Acting Executive Director: Budget Office*

*Date: 20 October 2009*

#### **Auditor's comments**

Management response noted. This non-compliance will be reported on in the audit report under other matters.

#### 14. Invoices not paid within 30 days (Ex 72)

##### Audit finding

While performing audit procedures pertaining to expenditure incurred as well as creditors, the following discrepancies were noted:

##### 1. Invoices are not paid within 30 days.

In terms of section 65(e) of the MFMA all money owing by the municipality must be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure. As reported in the prior year, all invoices are not paid within 30 days of receipt of the invoice. This can, *inter alia*, be attributed to the delayed submission of invoices by the relevant departments within the municipality to the creditors section. The following serve as examples:

No.	Vendor name	Invoice date	Due date	Date payment	of Invoice amount
1	Mesebetsi Trading Enterprise cc	18.11.2008	18.12.2008	06.03.2009	23,500.00
2	Paradise Cargo Services cc	20.10.2008	19.11.2008	10.07.2009	67,313.20
3	Malempo Projects cc	26.01.2009	25.02.2009	16.03.2009	2,250.00
4	Diphetogo Hi-Tech Projects cc	19.03.2009	18.04.2009	09.06.2009	9,271.52
5	Hugo & Ngwenya Inc	24.04.2009	24.05.2009	19.06.2009	50,696.46
6	Bokaba AH	28.11.2008	28.12.2008	07.01.2009	138,114.77
7	Gluch & Gould Enterprise cc	06.11.2008	06.12.2008	05.03.2009	9,197.46
	<b>Total</b>				<b>R 582 291.90</b>

##### Root cause

Control activities are not selected and developed to mitigate risks over financial reporting.

##### Risk

- Non-compliance with section 65(e) of the MFMA
- General expenses and/or creditors may be misstated in the annual financial statements.

##### Recommendation

- Management should ensure that all creditors/invoices are paid in accordance with section 65(e) of the MFMA.
- Management should ensure that the departments send invoices received from the suppliers to the creditors section in good time in order for suppliers to be paid.

## Management response

Your communication No 62 of 2009 dated 9 November 2009 refers.

Cognisance is taken of the audit finding.

1. Invoices are not paid within 30 days

The following invoices in your example were not paid within 30 days due to delayed submission of invoices by the relevant departments within the municipality to the creditors section as indicated in the "Date of Service entry/goods receipt"-column.

No	Vendor Name	Due date	Date of Service entry/goods receipt	Date of payment	Invoice Amount
1.	Mesebetsi Trading Enterprise cc	18.12.2008	02.03.2009	06.03.2009	23,500.00
2.	Paradise Cargo Services cc	19.11.2008	30.06.2009	10.07.2009	67,313.20
3.	Malempo Projects cc	25.02.2009	05.03.2009	16.03.2009	2,250.00
5.	Hugo & Ngwenya Inc	24.05.2009	01.06.2009	19.06.2009	50,696.46
7.	Gluch & Gould Enterprize cc	06.12.2008	04.03.2009	05.03.2009	9,197.46

The Creditors section can only follow up on outstanding payments once a goods receipt/ service entry has been performed. The transaction then appears on the GR/IR and can be traced and followed up. Invoices can only be paid when received at the creditors section and complies and matches entries.

The following invoices refer to retention payments:

No.	Vendor Name	Due date	Date of Service entry/goods receipt	Date of payment	Invoice Amount
4.	Diphetogo Hi-Tech Projects cc	18.04.2009	25.05.2009	09.06.2009	9,271.52
6.	Bokaba AH	28.12.2008	22.12.2008	07.01.2009	138,114.77

4. Documents were not submitted to Accounts Payable timeously until year end month
6. It must be noted that CoT close offices between Christmas and New year, documents due between the said date are processed paid before Christmas holidays. If documents are not submitted timeously before Christmas holidays, documents are processed and paid first week of opening offices in the New Year.

Name: Mr. P van der Walt

Position title: Executive Director: Treasury Office

Date: 9 November 2009

## Auditor's comments

Management comment noted. This non compliance will be escalated to the audit report as non-compliance.

## **COMPLIANCE**

### **15. Entities' submission of annual financial statements (Ex 4)**

#### **Audit finding**

In terms of section 126(2) of the MFMA the accounting officer of a municipal entity must prepare the annual financial statements of the entity and, within two months after the end of the financial year to which those statements relate, submit the statements to the parent municipality and the Auditor-General for auditing.

For the following municipal entities the financial statements have not been received within two months after the end of the financial year:

Active entity AFS still outstanding Tshwane Economic Development Agency (new entity)

Dormant:

- Tshwane Centre for Business Information and Support

#### **Root cause**

Improper planning – Lack of ongoing monitoring of recurring operating activities

#### **Risk**

- Non-compliance with the MFMA
- Incorrect opening balances in the consolidated AFS

#### **Recommendation**

The City of Tshwane, as the parent municipality of these entities, must implemented controls over the entities to ensure submission of their annual financial statements within the MFMA deadlines to the parent municipality and the Auditor-General.

#### **Management response**

##### **Tshwane Centre for Business Information (CENBIS)**

This Company was established by the erstwhile City Council of Centurion. The CoT is the successor in law and title of the City Council of Centurion in terms of Notice 6770 of the Provincial Gazette of December 2000 and Section 12(1) of the Local government: Municipal Structures Act, Act 117 of 1998 as amended, and CENBIS subsequently fell under the Cot's control.

The CoT thereafter resolved to disestablish CENBIS. Its operations were discontinued during 2006 and at this stage it is not operational. The company is in the process of being deregistered in terms of Section 73 of the Companies Act, 1973. The finalization of the deregistration process is hampered by a labor dispute between CENBIS and its former employees. The CoT has appointed a firm of attorneys, Messers, Hugo NGwenya Attorneys to assist with the liquidation and deregistration of the company as well as a formal legal opinion on the validity of the alleged labor claims to enable the CoT to take a decision on the matter. The CoT is also in the process of appointing auditors to draft a decision on the matter. The CoT is also in the process of appointing auditors to draft the financial statements of the company.

A consultation was held by the CoT with the directors of the company on 19 January 2009 to obtain their consent to liquidate the company. Minutes of the meeting was submitted to PWC.

The final legal opinion from the attorneys was received on 9 September 2009. The CoT will now proceed with the liquidation of the company. In this process the assets and liabilities of the entity will be determined and liquidated in terms of the Insolvency Act.

The non-compliance issue listed pertains to the actions required of an entity conducting business. As evident from the aforesaid as well as from the documentation provided to PWC, this entity ceased operation in 2007 as a result of the above mentioned Council resolution of 2004. No board meeting was held as the company is dormant, not conducting business.

In light of the above mentioned, the non-compliance issue is not applicable to CENBIS.

*Name: L. Mahaye*

*Position title: Acting strategic executive head office of the executive mayor and city manager*

*Date: 22 September 2009*

**Auditor's comments**

Follow-up with PWC will be done to confirm if CENBIS has a bank account and any other assets or liabilities.

## ANNEXURE B: OTHER IMPORTANT MATTERS

### IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

#### 1. Irregular, Fruitless and wasteful expenditure (Ex 213, 214)

##### Audit Finding

i) During the audit it was noted that not all Departments have submitted the declaration forms in respect of unauthorised, irregular or fruitless and wasteful expenditure as required by Circular 1 of 2008, Declaration: Unauthorised, irregular or fruitless and wasteful expenditure:

The following serves as an example of declaration forms not submitted:

	Department	Declaration not submitted
1	Corporate and shared services	September 2008 & February 2009
2	Office of the CM/EM – CEO 2010	June 2009

ii) It was also noted that not all unauthorised, irregular, fruitless and wasteful expenditure declared were disclosed in the annual financial statements as required by section 125 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA).

The following serves as an example:

##### Unauthorised expenditure

Month	Department/division	Amount
June	Public works and infrastructure development:Energy and electricity	R 3 925 952.78

##### Irregular expenditure

Month	Department/division	Amount
June	Public works and infrastructure development: Energy and electricity	R 112 269.02
June	Corporate & shared services	R 150 336.66

iii) Furthermore, it was also noted that the declaration forms in some instances are also either not properly completed and/or not mathematically correct. The following serves as an example:

##### Unauthorised expenditure

Month	Department/division	Amount per declaration
June	Housing & Sustainable Development	R 14 012 470.75

Amount of declaration recalculated:

Opening balance	R 29 090 927.29
Unauthorised expenditure in current year	R 14 012 470.75
Approved by council or condoned	(R 15 078 456.54)
Unauthorised expenditure awaiting authorisation	<b>R 28 024 941.50</b>

Unauthorised, fruitless and wasteful expenditure is therefore understated in the annual financial statements.

It is also requested that proof of all unauthorised, fruitless and wasteful expenditure approved by council or condoned, be submitted to the auditors.

### **Root Cause**

Control activities are not selected and developed to mitigate risks over financial reporting.

### **Risk**

Unauthorised, Fruitless and Wasteful expenditure may be understated in the annual financial statements.

### **Recommendation**

- All unauthorised, Fruitless and Wasteful expenditure must be disclosed in the annual financial statements.
- Internal controls should be implemented to ensure that all declarations are made.
- Declarations submitted must be revisited, and the respective amounts of irregular, fruitless and wasteful expenditure recalculated.
- Proof of all unauthorised, fruitless and wasteful expenditure that were approved or condoned during the 2008-09 financial year must be submitted to the auditors.

### **Management response**

The declared expenditure mentioned in the AG query was not included in the annual financial statements because we have received it after the statements was completed and hand over to the Office of the AG. We will include during the last round of corrections.

*Name: Mr. P van der Walt*

*Position title: Executive Director: Treasury Office*

*Date: 20 November 2009*

### **Auditor's comments**

Management comments noted. The management comments in respect of the other matters documented above is still outstanding. This matter will also be followed up during the 2009-10 audit.



## COMPENSATION OF EMPLOYEES

### 2. Employee benefits (Ex 92)

#### Audit finding

While performing audit procedures pertaining to employee benefits and compliance with IAS 19, the following discrepancies were identified:

1.) Discrepancy between actuarial valuation and amount disclosed in the annual financial statements

In terms of IAS 19.30 entities may account for defined benefit plans as defined contribution plans, provided the conditions of paragraph 30 have been met. The CoT accounted for the Multi-Employer Pension Fund, which is a defined benefit plan, as a defined contribution plan.

A valuation report was issued by Alexander Forbes in this regard. The amount disclosed in the annual financial statements in respect of the contributions to this fund differs from contributions as disclosed in the consolidated financial statements. Details are as follows:

Amount per valuation report	Amount as disclosed in the consolidated financial statements
R78 937 000	R78 298 835

2.) All funds not included in annual financial statements

While performing audit procedures pertaining to employee benefits, it was noted that not all funds were disclosed in the annual financial statements, e.g. The Transvaal Gratuity Fund was not disclosed in the annual financial statements. Furthermore, details in respect of this fund must be provided to the auditors such as the type of fund, i.e. Defined Benefit Fund or Defined Contribution Fund, details of contributions made during the year, the value of the fund, etc.

3.) Incorrect application/disclosure of IAS 19

In terms of IAS 19.93A an entity may recognise the actuarial gains in losses in the period in which they occur as opposed to a systematic basis. It is the accounting policy of the CoT to account for actuarial gains and losses in terms of IAS 19.93A. However, disclosed in the annual financial statements (note 36) an "Unrecognised Net (Gain)/Loss" has been disclosed, which contradicts the accounting policy used by the CoT as actuarial gains and losses are recognised immediately.

4.) All disclosure requirement of IAS 19.120A not met

IAS 19.120A (n), for example, requires that principal actuarial assumptions used should be disclosed in the notes to the annual financial statements. The CoT did not disclose all the actuarial assumptions used in the valuation of their defined benefit plans. Furthermore, other disclosure requirements of IAS 19.120 A were also not met.

5.) IAS 19 not applied retrospectively

In terms of IAS 19.160, when an entity changes its accounting policies to reflect the changes in paragraph 159-159D, those changes in accounting policies should be accounting for retrospectively, with the exception of the four-year disclosure requirements of paragraph 120A(p). During the 2008-09 financial year, the City of Tshwane Metropolitan Municipality applied IAS 19 and the application thereof should therefore have been retrospectively in terms of GRAP 3.14 -.29. Comparative figures should therefore have been disclosed.

**Root cause**

Control activities are not selected and developed to mitigate risks over financial reporting.

**Risk**

Non-compliance with IAS 19 as well as GRAP 3.14 - 3.29

**Recommendation**

The financial statements should be amended to comply with, *inter alia*, IAS 19 as well as GRAP 3.14-3.29.

**Management response**

Your communication No 92 of 2009 dated 27 October 2009 refers. Herewith the comments on the findings that my Office (Treasury Office) can render.

Audit finding 1:

We agree with the finding. The necessary adjustment will be done on the financial statements and the amended page will be submitted to your office no later than 6 November 2009.

Audit finding 2:

This finding must be attended to by Human Resources Department, as the necessary information is not available to my Office.

Audit finding 3:

We agree with the finding. This was only a typing error in the note and the necessary adjustment will be done on the financial statements and the amended page will be submitted to your office no later than 6 November 2009.

Audit finding 4:

Discussions were held with your office before the disclosure was done and it was then understood that not all the detailed actuarial assumptions needed to be included. However, after this review by your office the necessary actuarial assumptions will be included in the disclosure notes and the amended pages will be submitted to your office no later than 6 November 2009.

Audit finding 5:

This finding must be attended to by Human Resources Department, as the necessary information is not available to my Office.

*Name: Mr. P van der Walt*

*Position title: Executive Director: Treasury Office*

*Date: 28 October 2009*

**Additional Management response**

Your communication No 92 of 2009 dated 27 October 2009 refers. Herewith follow up comments on audit finding 1.

**Audit finding 1:**

We agree with the finding. After investigation it was found that the information as submitted by the Salary Office was incorrect. Some amounts in respect of the Municipal Employees Pension fund were incorrectly included under the Municipal Gratuity Fund.

The necessary adjustment has been done on the financial statements and the amended page is attached hereto as well as a copy of the supporting documentation.

*Name: Mr. P van der Walt*

*Position title: Executive Director: Treasury Office*

*Date: 11 November 2009*

**Auditor's comments**

The necessary adjustments were made to the annual financial statements. Employee benefits is now fairly stated in the annual financial statements

### 3. Verification of qualifications (Ex 124)

#### Audit finding

To our understanding, Kroll Mie, an independent verification institute, was appointed to perform credibility checks on qualifications held by applicants. While performing audit procedures pertaining to appointments and terminations, certificates issued by Kroll Mie could not be found in respect of senior officials appointed during the 2008-09 financial year. The following serves as examples:

	<b>Personnel no.</b>	<b>Name of employee group</b>	<b>Position details</b>	<b>Appointment date</b>
1	10006127	Top Management	Strategic Executive Director	01.08.2008
2	10008669	Top Management	Executive Director	15.09.2008
3	10011218	Top Management	Executive Director	01.03.2009
4	10010591	Top Management	Strategic Executive Director	01.01.2009
5	10006126	Top Management	Executive Director	01.08.2008
6	10010376	Top Management	Executive Director	01.11.2008
7	10010560	Top Management	Executive Director	08.12.2008

Furthermore, as communicated in Ex 31 in the interim management letter, all appointment files could also not be provided for audit purposes. Details of files not provided are as follows:

	<b>Personnel no.</b>	<b>Appointment date</b>
1	10010272	01.10.2008
2	10009773	01.09.2008
3	10006943	01.09.2008
4	10004729	01.08.2008

#### Root cause

Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.

#### Risk

- Employees appointed might not have the required qualifications.
- Information requested not provided will result in a limitation of scope.

#### Recommendation

- Credibility checks should be performed on all qualifications of applicants where qualifications and experience are essential.
- All information requested should be provided to the auditors as a matter of urgency.

#### Management response

Kroll Mie is being utilized whenever the authenticity of the qualification of an employee is doubted. The results thereof are utilized during the recruitment process and are not always field on the personal file of that specific employee. Only certified copies of qualifications are being utilized

during the recruitment and salary administration process. The qualifications of the officials mentioned are attached for your attention.

*Name: M Mokaba*

*Position: Strategic Executive Director - Human Resource Management*

*Date: 24 November 2009*

**Auditor's comments**

Management comment noted. This matter will be followed up during the 2009-10 audit.

#### 4. Employee cost understated (Ex 105)

##### Audit finding

In terms of section 124(1)(c) of the MFMA “the salaries, allowances and benefits of the Municipal Manager, the Chief Financial Officer, every senior manager and such categories of other officials as may be prescribed” must be disclosed in the notes to the annual financial statements.

While performing audit procedures pertaining to employee-related costs, it was noted that there is a discrepancy with regard to the supporting detailed schedule provided in respect of the remuneration of the municipal manager, the chief financial officer as well as the executive directors and the summary schedule provided. This resulted in the remuneration of the municipal manager and the chief financial officer being understated in the annual financial statements as not all allowances and other remuneration are disclosed. Details are as follows:

##### i) Municipal manager

	<b>Amounts disclosed in the notes to the annual financial statements</b>	<b>Amounts supporting documentation</b>	<b>per</b>	<b>Variance/ Understatement</b>
Annual remuneration	R 1033 104.00	R 1 033 104.00		-
Performance bonus	R 17 636.00	R 17 636.00		-
Car allowance	R 128 400.00	R 128 400.00		-
Medical and pension fund contributions	R 0.00	R 0.00		-
Cellular phone allowance	R 0.00	R 12 000.00		R 12 000.00
<b>TOTAL</b>	<b>R 1179 140.00</b>	<b>R 1 191 140.00</b>		<b>R 12 000.00</b>

##### ii) Chief financial officer

	<b>Amounts disclosed in the notes to the annual financial statements</b>	<b>Amounts supporting documentation</b>	<b>per</b>	<b>Variance/ understatement</b>
Annual remuneration	R 848 742.00	R 848 742.00		
Performance bonus	R 0.00	R 0.00		
Car allowance	R 132 000.00	R 132 000.00		
Medical and pension fund contributions	R 18 510.00	R 18 510.00		
Cellular phone allowance	R 0.00	R 10 800.00		R 10 800.00

<b>TOTAL</b>	<b>R 999 252.00</b>	<b>R 1 010 052.00</b>	<b>R 10 800.00</b>
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The financial statements are therefore understated by an immaterial amount. The same applies to the remuneration of strategic executive directors.

**Root cause**

Control activities are not selected and developed to mitigate risks over financial reporting.

**Risk**

Non-compliance with section 124(1)(c) of the MFMA

**Recommendation**

The financial statements should be amended to comply with, *inter alia*, section 124(1)(c) of the MFMA.

**Management response**

We agree with the finding. During the compilation of the annual financial statements the summarised information was used and it was never picked up that the detailed information did not reconcile to the summary. This oversight lead to the omission of the cell phone allowances in the disclosure note.

Processes will be put in place to prevent a re-occurrence of such oversights in future.

The necessary adjustment will be done on the financial statements and the amended page will be submitted to your office no later than 6 November 2009.

*Name: Mr. P van der Walt*

*Position title: Executive Director: Treasury Office*

*Date: 28 October 2009*

**Auditor's comments**

Management comment noted. This matter will be followed up during the 2009-10 audit.

## 5. Supporting documentation requested, could not be provided – Employee cost (Ex 38)

### Audit finding

Sufficient supporting evidence could not be obtained in respect of manual salary payments, as the manual salary payment register could not be provided for certain manual salary payments made.

The following serves as an example:

No.	Month	Payment date	Employee name	Cheque number	Amount
1	Feb	19/02/2009	L.Drake	628972	R24 407.24
2	Feb	19/02/2009	D.Mmutlana	628976	R34 422.00
3	Feb	19/02/2009	J. Dhlakane	628991	R59 098.85
<b>TOTAL</b>					<b>R 117 928.09</b>

We are therefore unable to determine whether the payments were made to the correct individual.

### Root cause

Control activities not are continuously reviewed and developed to mitigate risks over financial reporting.

### Risk

Fraudulent payments may have been made.

### Recommendation

The supporting documentation requested should be provided to us as a matter of urgency.

### Management response

In response to audit finding as stated above, this office wants to highlight the fact that in February 2009 there were about 400 cheques to be paid to resigned employees. Three officials from this sub-section were sent to One Stop Services (HR) to do payouts on the 27th February.

There were three lists on which the employees signed for the cheques on that day. Most of the cheques were collected but not everybody came to collect their cheques on that day. When arriving at the office, it was realised that two of the lists on which the employees signed got lost along the way between One Stop and BKS. The whole situation was explained to the person who was doing auditing before she could even start with the audit.

Should proof be required that there were no fraudulent payments, cheques are sent back to Accounts Payable Division after being encased with banking details of the beneficiary printed at the back.

*Name: Mr. P van der Walt*

*Position title: Executive Director: Treasury Office*

*Date: 16 November 2009*

### Auditor's comments

Management comment noted. This matter will be followed up during the 2009-10 audit.



## 6. Leave and provision for leave (Ex 103)

### Audit finding

Detailed reports on provision for leave were requested and were subsequently provided. However, it was noted that there is a difference of R95 790 226,47 between the detailed leave liability report and the total leave liability report per cost centre. Details are as follows:

<b>Total per detailed leave liability report provided</b>	<b>Total per leave liability report per cost centre</b>	<b>Discrepancy</b>
<b>R 305 523 513.92</b>	<b>R 401 313 740.39</b>	<b>R 95,790,226.47</b>

The financial statements may therefore be materially misstated. The discrepancy should be investigated by management as a matter of urgency and the outcome should be communicated to the auditors.

### Root cause

Control activities are not selected and developed to mitigate risks over financial reporting.

### Risk

Possible misstatement in respect of the provision for leave in the annual financial statements

### Recommendation

- Internal controls should be implemented to mitigate risks over financial reporting, so that the correct report is provided and used for financial reporting and disclosure in the annual financial statements.
- The discrepancy should be investigated by management as a matter of urgency and the outcome thereof should be communicated to the auditors.

### Management response

The information per cost centre is an extract from the SAP System and the information on the spreadsheet submitted is a summary from this SAP extract. However, 3 typing errors occurred in this summary. The summary was however corrected during the calculation of the provision for inclusion in the financial statements.

The total of the detailed leave liability report and the summary per cost centre should have been R300 893 740,39. This amount was used to determine the value of the leave liability as at 30 June 2009. The provision in period 12 was R255 954 411,76 and therefore the leave liability was increased with an amount of R44 939 328,63 in the financial statements. The total leave liability is therefore reflected on the financial statements at an amount of R300 893 740,39.

*Name: Mr. P van der Walt*

*Position title: Executive Director: Treasury Office*

*Date: 28 October 2009*

### Additional management response

Cognisance is taken of the finding; however we cannot agree with the finding that the financial statements might be materially misstated.

The information as supplied to the Finance Department is the figures as at 30 June 2009, drawn directly after the end of the financial year, before the opening of the Payroll for the next month. Note must be taken that the information is dependant on the stage at which the reports are drawn.

The information per cost centre is an extract from the SAP System and the information on the spreadsheet submitted to the Finance Department is a summary from this SAP extract. However, 3 typing errors occurred in this summary. The summary was however corrected during the calculation of the provision for inclusion in the financial statements. The total of the detailed leave liability report and the summary per cost centre should have been R300 893 740.39.

Only during the audit it was requested by your Office for a more detailed report. The report your office required was drawn in October/November and therefore the discrepancy.

The difference between the values of the leave liability between the two reports is therefore:

Figures submitted to Finance Department 30 June 2009	R300 893 740.39
Report drawn for the Office of the AG (October/November)	R305 523 513.92
Difference (due to timing of the report)	R 4 629 773.53

To prevent a re-occurrence of this type of misunderstanding the detailed report will from 2009/10 be drawn together with the information needed by the Finance Department.

*Name: A U van Zyl*

*Position title: Acting Executive Director: Treasury Office*

*Date: 12 November 2009*

**Auditor's comments**

Management comment noted. The difference of R4 629 773,53 is in the process of being audited.

## **7. Councillors not contributing to the UIF (Ex 32)**

### **Audit finding**

The Unemployment Insurance Contributions Act, 2002 (Act No. 4 of 2002), applies to all employers and employees other than:

- an employee and his/her employer, where such employee is employed by a particular employer for less than 24 hours a month
- employees employed under a contract of learner ship agreement as contemplated in section 18(2) of the Skills Development Act, 1998 (Act No. 97 of 1998)
- public servants who are employed in the national and provincial government and their employers
- non-residents who are in South Africa to carry out contract of service, apprenticeship or learner ship and are required to leave South Africa on termination thereof.

In terms of the provisions of section 5 of the Unemployment Insurance Contributions Act, every employer and employee must contribute to the Unemployment Insurance Fund unless when they are exempted in terms of section 4 of the act.

The councillors and local governments or municipalities are “employee” and “employer” as defined for the purposes of unemployment insurance contributions.

The only possible exemption available to councillors is where the councillor is employed for less than 24 hours per month. Therefore, where the councillor works for at least 24 hours per month, the relevant councillor as well as the local government and municipality will be liable for the payment of unemployment insurance contributions.

As reported in prior years, councillors are not contributing to the UIF and neither is the Tshwane Municipality contributing to the Unemployment Insurance Fund on their behalf.

The Tshwane Municipality therefore did not comply with the requirements of the Unemployment Insurance Contributions Act.

### **Root cause**

Reviews of operations, processes and activities are not undertaken to ensure that they are in compliance with regulations, policies and procedures, or other requirements.

### **Risk**

Fines and penalties may be levied against the municipality, resulting in possible fruitless expenditure which could have been avoided had reasonable care been taken, due to non-compliance with the Unemployment Insurance Contributions Act.

### **Recommendation**

Management should identify and implement actions and control activities to ensure compliance with the Unemployment Insurance Contributions Act so that both councillors and the Tshwane Municipality contribute to the Unemployment Insurance Fund.

### **Management response**

A Council resolution had been passed recently, which determine that full time councillors must pay UIF. The council Resolution has been implemented as from 1 November 2009. I am in process with the receiver of revenue the terms of the payment of the arrears contributions. The Council Resolution is attached for your attention.

*Name: M Mokaba*

*Position title: Executive Director Strategic Human Resource Management*

*Date: 24 November 2009*

**Auditor's comments**

During the 2008-09 financial year, the Municipality did not comply with the Unemployment Insurance Contributions Act, 2002 (Act No. 4 of 2002). This will be reported accordingly. This matter will be followed up during the 2009-10 audit.

## 8. Excessive overtime payments (Ex 146)

### Audit finding

While performing audit procedures pertaining to compensation of employees, especially overtime, it was noted that a significant amount was paid to employees in respect of overtime. The budget, current year actual as well as prior year figures were compared and are as follows:

Current year actual	Current year approved budget	Prior year actual	Variance actual to budget	Variance current year to prior year
R 202 819 638.95	R 129 025 040.44	R 148 420 027.00	57%	37%

The overtime budget was exceeded by a significant amount (57%). There is also a significant increase compared to the prior year. Furthermore, an analysis of overtime payments was also performed for a sample of employees from various departments within the Tshwane Municipality. It was noted that, in certain instances, excessive overtime payments were made to employees and/or the overtime paid exceeded the respective employee's basic salary. The following serve as examples:

Employee number	20301	Cost centre	6521
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Month	Overtime hours worked (normal overtime & Sunday)	Overtime amount paid RAND	Monthly salary, excluding overtime payments RAND	% compared to salary
Jul-08	78	9 666.72	13 247.00	73%
Aug-08	36	4 738.76	13 247.00	36%
Sep-08	78	1 0471.1	13 247.00	79%
Oct-08	64	8 560.32	13 247.00	65%
Nov-08	72	9 477.52	13 247.00	72%
Dec-08	74	9 936.08	13 247.00	75%
Jan-09	98	1 2152.74	13 247.00	92%
Feb-09	133	1 6165.49	13 247.00	122%
Mar-09	162.5	1 9853.35	13 247.00	150%
Apr-09	172	2 1247.4	13 247.00	160%
May-09	114	1 3987.14	13 247.00	106%
Jun-09	54.5	7165.47	13 247.00	54%
<b>143 422.09</b>			<b>158 964.00</b>	<b>90%</b>

Employee number	265109	Cost centre	4914
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Month	Overtime hours worked (normal)	Overtime amount paid RAND	Monthly salary, excluding overtime payments RAND	% compared to salary
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	<b>overtime &amp; Sunday)</b>			
Jul-08	108.5	8 884.2	10 063.00	88%
Aug-08	106.5	9 507.33	10 063.00	94%
Sep-08	126	1 1641.03	10 063.00	116%
Oct-08	139	1 2511.93	10 063.00	124%
Nov-08	124	1 0799.16	10 063.00	107%
Dec-08	125	1 1699.09	10 063.00	116%
Jan-09	58	5 341.52	10 063.00	53%
Feb-09	113.5	1 0291.14	10 063.00	102%
Mar-09	95.5	8 868.67	10 063.00	88%
Apr-09	121	1 1205.58	10 063.00	111%
May-09	80	8 650.46	10 063.00	86%
Jun-09	130.5	1 1979.23	10 063.00	119%
		<b>121 379.34</b>	<b>120 756.00</b>	<b>101%</b>

These excessive overtime worked is also not in accordance with, *inter alia*, the Basic Conditions of Employment Act, 1997 (Act No. 75 of 1997).

#### Root cause

- Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.
- Control activities are not continuously reviewed and developed to mitigate risks over financial reporting.

#### Risk

- Non-compliance with, *inter alia*, the Basic Conditions of Employment Act
- Excessive overtime payments, which are not properly authorised, may be made to employees.
- Possible unauthorised expenditure, as money appropriated for another purpose, was spent on overtime.

#### Recommendation

- An internal investigation should be performed by the management of the City of Tshwane Metropolitan Municipality in respect of the excessive overtime payments made. The outcome thereof should be communicated with the auditors.
- Proper internal controls should be implemented by senior management to ensure that expenditure is within the approved budgets.

#### Management response

Overtime are being approved by the departmental heads of departments. Human Resource will direct the applicable departmental heads to stop the excessive overtime of the employee and to further manage service delivery problems emerging from the loss of overtime work.

Name: M Mokaba

Position: Executive Director: Strategic Human Resource Management

Date: 24 November 2009

**Auditor's comments**

This matter will be followed up during the 2009-10 audit.

## PURCHASES AND PAYABLES

### 9. Deviations from the Supply chain management process (Ex 225)

#### Audit finding

In terms of the Municipal Supply Chain Management Regulations, GNR 868 of 30 May 2005, paragraph 36(2), the accounting officer must record reasons for any deviations from the procurement process, in respect of subparagraph (1)(a) and (b) and include these deviations as a note to the annual financial statements.

While performing audit procedures pertaining to note 47, moreover Deviations from the supply chain management process, significant differences were noted between the amounts disclosed in the annual financial statements, and the supporting schedules and documentation provided. The following amounts were disclosed in the annual financial statements, moreover note 47:

- Deviations from the tender process: R 149 246 332.00
- Deviations from the quotation process: R 2 206 727.00

We have recalculated these amounts based on the supporting schedules and information provided, and based on our calculation, note 47 is understated by at least R 90 951 267.23.

Furthermore, it must also be noted that in certain instances, the supporting schedules and documentation provided does not contain the total amount of the respective deviation, as some amounts included on the schedule is "unknown" or an hourly rate is provided without the estimated or actual hours being provided.

You are requested to examine the population of the misstatement and to make appropriate adjustments, failing which may have a significant impact on the audit report as these transactions/ amounts are material.

#### Root Cause

- Control activities are not selected and developed to mitigate risks over financial reporting.
- Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.

#### Risk

Note 47 may be materially misstated.

#### Recommendation

- Management should identify and implement actions and control activities to ensure that the correct amount is provided for the inclusion in the annual financial statements.
- The entire population in respect of deviations from the supply chain management process must be examined, and appropriate adjustments must be made as a matter of urgency.

#### Management response

With reference to the findings while performing an audit on 2008/09 Tender Deviations I have to inform you that:

1. The Tender Deviations Totals were amended accordingly on the Financial Statements Notes.
2. The Total Amount on the supporting schedules corrected accordingly, however when the deviations were approved we did not have the total or Actual amount we only had the unit



prices. Based on the spend analysis on those Deviations we were able to amend the report and give the total amount. However as per the approved SCM Policy all Deviations and reasons thereof were submitted to Council. An Update report that complies to AG requirements have been submitted accordingly.

*Name: Hamilton Mhlom*

*Position: Executive Director- Supply Chain Management*

*Date: 2 December 2009*

**Auditor's comments**

Management comment noted. The financial statements were amended and this matter resolved. This matter will be followed up during the 2009-10 audit.

## 10. Creditors – all creditors not accrued for (Ex 182)

### Audit finding

#### All creditors not accrued for in the financial statements submitted for audit purposes

While performing audit procedures pertaining to creditors, it was noted that not all creditors were accrued for in the financial statements submitted for audit purposes. Therefore the amount disclosed in respect of creditors was understated in the annual financial statements. Services were rendered and invoiced by vendors prior to year-end (30 June 2009). However, a creditor was not raised for the respective vendors prior to year-end. The following serve as examples:

Vendor code	Details	Amount	Document date	Posting date	Invoice number
6855	Waco Africa (Pty) Ltd	R 54 169.00	23.04.2009	23.09.2009	MI11410911
7059	Bleq IQ Trading Enterprise cc	R 24 510.00	18.06.2009	13.10.2009	BI-00769
<b>TOTAL</b>		<b>R 78 679.00</b>			

#### Creditors reconciliations not performed for all creditors

Creditors reconciliations between SAP and the respective suppliers' statements were not performed for all creditors. The municipality has more than 3000 creditors. Creditors reconciliations were only performed for the 100 highest monetary value vendors, as well as 200 respective reconciliations for the remaining population of creditors.

### Root cause

Control activities are not selected and developed to mitigate risks over financial reporting.

### Risk

- Creditors may not be recorded at the correct amounts and in the correct period.
- Reconciliations not performed for all creditors may result in creditors being over-understated in the annual financial statements.

### Recommendation

- Management should endeavour to perform monthly reconciliations on all creditors within the municipality.
- All transactions and events must be accurately and timeously recorded.

### Management response

Your communication no 90 of 2009 dated 11 November 2009 refers.

Cognisance is taken of the audit finding.

1. All creditors not accrued for in the financial statements submitted for audit purposes EX182

At the end of November 2009, a journal is passed generating a transaction which is included in the financial statements for 30 June 2009. This amount forms an accrual which is entered on the financial statements for all transactions entered in the new financial year which relates to the previous financial year. The final financial statements for the year ending June 2009 will therefore reflect the correct figures.

2. Creditor's reconciliations not performed for all creditors EX183

Your audit finding that creditor's reconciliations were only performed for the 100 highest monetary value vendors, as well as 200 respective reconciliations for the remaining population of creditors are correct. The 100 highest monetary value creditor's amounts to approximately 80% of the total monthly payments made. It needs to be noted that some vendors (e.g. SMME's) does not have sophisticated accounting systems and does not prepare vendor statements.

A new reconciliation process has recently been rolled out. This is to simplify the reconciliation process, and support the payment terms of payment 30 days after receipt of statement.

This also encourages Vendors to supply monthly statements, which will ensure that many more reconciliations will be completed for the 2009/2010 financial year. Further to that, SAP has a number of built-in control measures to ensure accurate and timely entries e.g. invoices matched to purchase order and price variances referred back and the GR/IR account clearing mechanism, ensuring transaction recording in the correct period. Further to that not all vendors has regular monthly transactions with Council.

*Name: Mr. P van der Walt*

*Position title: Executive Director: Treasury Office*

*Date: 11 November 2009*

**Auditor's comments**

Creditors amounting to R 38 834 373.04 have been accrued for. This matter will be followed up during the 2009-10 audit.

## 11. Creditors – Invoices not accounted for in the correct financial year (Ex 184)

### Audit finding

Invoice not accounted for in the correct financial year.

It was also noted that not all transactions are accounted for in the correct financial year. The following serves as an example:

Vendor/Supplier	Invoice date	Payment date	Amount
Landis and Gyr (Pty) Ltd	4 April 2007	16 February 2009	R 174 830.40

### Root cause

Control activities are not selected and developed to mitigate risks over financial reporting.

### Risk

- Non-compliance with section 65(e) of the MFMA
- General expenses and/or creditors may be misstated in the annual financial statements.

### Recommendation

- Management should ensure that all creditors/invoices are paid in accordance with section 65(e) of the MFMA.
- Management should ensure that the departments send invoices received from the suppliers to the creditor's section in good time in order for suppliers to be paid.

### Management response

Your communication No 62 of 2009 dated 9 November 2009 refers.

Cognisance is taken of the audit finding.

1. Invoice not accounted for in the correct financial year

The following invoice in you example was not accounted for in the correct financial year due to delayed submission of invoices by the relevant departments within the municipality to the creditors section.

Vendor /Supplier	Invoice date	Payment date	Date of Service entry/goods receipt	Amount
Landis and Gyr (Pty) Ltd	4 April 2007	16 February 2009	04.02.2009	R174 830.40

Internal controls are in place to periodically journalise invoices of previous financial years that have been processed in the current financial year.

Name: Mr. P van der Walt

Position title: Executive Director: Treasury Office

Date: 9 November 2009

**Auditor's comments**

Management comment noted. This non-compliance will be escalated to the audit report as non-compliance.

## 12. Unusual transactions identified (Ex 184)

### Audit finding

While performing audit procedures pertaining to general expenditure and creditors, it was also noted that certain transactions captured on SAP have unusual transaction dates. The document/ transaction dates captured on SAP are future dates. The following serves as an example for vendor Mdluli Sharp Office Automation:

	Document number	Document date	Amount
1	5100116835	29-Nov-09	R1,186.63
2	5100106451	12-Dec-09	R 89.67
<b>TOTAL</b>			<b>R 1276.30</b>

Furthermore, it was also noted that, in certain instances, the amount of the invoice does not agree with the amount of the purchase order. The following serves as an example:

Vendor name	Vendor number	Invoice number	Date of payment	Purchase order number	Invoice Amount	Purchase order amount
Koane Air conditioning & Refrigeration CC	206526	INV00014	22.09.2008	4500382020	R 10 340.00	R 1 485.00
<b>TOTAL</b>					<b>R 10 340.00</b>	<b>R 1 485.00</b>

### Root cause

Control activities are not selected and developed to mitigate risks over financial reporting.

### Risk

- Creditors may not be recorded at the correct amounts and in the correct period.
- Reconciliations not performed for all creditors may result in creditors being over-/understated in the annual financial statements.

### Recommendation

- Management should endeavour to perform monthly reconciliations on all creditors within the municipality.
- All transactions and events must be accurately and timeously recorded.

### Management response

Your communication no 90 of 2009 dated 11 November 2009 refers.

Cognisance is taken of the audit finding.

1. At the end of November 2009, a journal is passed generating a transaction which is included in the financial statements for 30 June 2009. This amount forms an accrual which is entered on the financial statements for all transactions entered in the new financial year

which relates to the previous financial year. The final financial statements for the year ending June 2009 will therefore reflect the correct figures.

2. Creditor's reconciliations not performed for all creditors EX183

Your audit finding that creditor's reconciliations were only performed for the 100 highest monetary value vendors, as well as 200 respective reconciliations for the remaining population of creditors are correct. The 100 highest monetary value creditor's amounts to approximately 80% of the total monthly payments made. It needs to be noted that some vendors (e.g. SMME's) does not have sophisticated accounting systems and does not prepare vendor statements.

A new reconciliation process has recently been rolled out. This is to simplify the reconciliation process, and support the payment terms of payment 30 days after receipt of statement.

This also encourages Vendors to supply monthly statements, which will ensure that many more reconciliations will be completed for the 2009/2010 financial year. Further to that, SAP has a number of built-in control measures to ensure accurate and timely entries e.g. invoices matched to purchase order and price variances referred back and the GR/IR account clearing mechanism, ensuring transaction recording in the correct period. Further to that not all vendors has regular monthly transactions with Council.

3. Unusual transactions identified EX184

The unusual transaction dates for vendor Mdluli Sharp Office Automation occurred during processing of the invoice when the incorrect year was used. The unusual transaction dates were identified while performing the weekly checklist for open items and rectified subsequently.

In the example of vendor 206526, Koane Air-conditioning & Refrigeration CC, the invoice amount for purchase order 4500382020 does correspond with the order. The amount of R10 340.00 is reflected on the remittance advise dated 22.09.2008 and include a payment for order number 4500381114 in the amount of R8 855.00.

*Name: Mr. P van der Walt*

*Position title: Executive Director: Treasury Office*

*Date: 11 November 2009*

**Auditor's comments**

Management response noted. This matter will be followed up during the 2009-10 audit.

### 13. Creditors and sundry deposits (Ex 190)

#### Audit finding

While performing audit procedures pertaining to the amounts disclosed in the annual financial statements relating to creditors, it was noted that GL 170301 – Sundry deposits, with a debit balance of R990 778,49 was included in the total amount disclosed as the part of creditors, i.e. deposits. An amount of R953 159,99 was journalised to GL 170301 on 27 July 2006. During the 2007-08 and 2008-09 financial years, no movement occurred in respect of this account. Due to the fact that GL 170301 has a debit balance, the total amount of creditors is reduced.

Please clarify why GL account 170301 has a debit balance, as it is a deposit account (creditor). Also please clarify why there has been no movement during the prior and current financial year.

#### Root cause

Control activities are not selected and developed to mitigate risks over financial reporting.

#### Risk

The financial statements, especially creditors, may be misstated in the annual financial statements.

#### Recommendation

- Management should ensure that actions are taken to address all risks to the achievement of financial reporting objectives.
- Corrective journals should be processed to close the account if no longer in use and to correct the effect of the journal processed during the 2006-07 financial year.

#### Management response

Your audit on the above mentioned and the request for management comment refers:

The G/L 170301 Sundry Deposits was created due to a balance that occurred during the Conversion period when transfers from the Legacy Systems to SAP took place. Where line items could be identified these were transferred to the relevant G/L's. In the case of the R953,159.99, no line items could be identified and therefore the amount could not be transferred to the G/L 170300 Sundry Deposits.

It was then agreed that a G/L be opened to accommodate the remaining balance on the G/L 170301 Sundry Deposits.

Your advice on the clearing of said G/L would be much appreciated.

*Name: Gerald Julius*

*Position: Sundry Debtors & Municipal Property Revenue Management*

*Date: 12 November 2009*

#### Auditor's comments

Management comment noted. It is suggested that the Chief Financial Officer as well as the Accounting Officer be consulted to provide guidance on the clearing of the GL account. This matter will be followed up during the 2009-10 audit.



## 14. Unspent conditional grants – not ring fenced (Ex 34)

### Audit finding

While performing audit procedures pertaining to unspent conditional grants, it was noted that Opex (operational) grants in excess of R1 534 793 000,47 received during the year are not ring-fenced. General ledger account 146001, Opex grants and donations, is used to account for all receipts, transfers and expenditure incurred in respect of, inter alia, the following grants:

- PTIS roads grant
- Top structure grant
- Bontle ke Botho grant
- World Cup 2010 Loftus grant

Furthermore, it was also noted that certain operational grants were not linked to the correct funding source on SAP.

Therefore there is no certainty that the grants received were indeed used for its intended purpose.

### Root cause

Control activities are not selected and developed to mitigate risks over financial reporting.

### Risk

Operational grants received may be used to fund other expenditure for which the grants were not intended, resulting in an understatement of unspent conditional grants in the annual financial statements and subsequently an overstatement of expenditure.

### Recommendation

- Operational grants received should be ring-fenced to ensure that funding is used for its intended purpose.
- Additional general ledger accounts should be used to account for different operational grants. Alternatively, operational grants should be linked to project cost centres.

### Management response

Operational grants to the value of R1 691 472 303 and not R1 534 793 000.47 was recognised as revenue in 2008/09 which includes the Equitable Share of R1 335 550 431. The recognised revenue is shown under various revenue general ledger accounts. General Ledger account 146001: Opex grants and donations is the control account for all grant customers relating to operational grants.

Note must be taken that normally operational grants are either ring-fenced within an expenditure general ledger account in a certain cost centre or in the case of the ambulance subsidy and health subsidy ring-fenced within a whole cost centre. The following operational grants were recognised during 2008/09:

Grant	Amount (R)	Revenue GL account nr	Expenditure account nr	GL	Cost centre
Equitable share	1 335 550 431	812916	Whole cost centre		112
Health subsidy	22 554 360	812905	Whole cost centre		2000 to 2099
Ambulance Subsidy	38 377 250	812912	Whole cost centre		515

DWAF	14 644 916	812928	Ring-fenced from 2009/10	13612, 13614, 13621
Bontle ke Botho	393 823	812935	Award received for work already done	1811
Arts & Culture	3 900 000	812931	Ring-fenced 2009/10	4111
Loftus Upgrade 2010	72 802 890	812931	411797	6917
Agriculture	446 250	812931	Not ring-fenced	5311, 5312, 1811
PTIS Roads	5 307 825	812931	Ring-fenced 2009/10	
PTIS Transport	68 565 000	812931	Ring-fenced 2009/10	
Top structure grants	0	812932	412207	8211
HIV Aids	3 000 000	812939	Ring-fenced 2009/10	2020
Transportation Engineering	8 000 000	812931	Ring-fenced 2009/10	
FMG	539 449	812926	412206	7010
Restructuring Grant	45 679 594	812927	412507	112
Stipends (DBSA)	54 000	812931	Once off grant for students	2580
Motor vehicle licenses	71 656 514	812906	Whole cost centre	4912
<b>Total</b>	<b>1 691 472 302</b>			

Where shortcomings were identified during 2008/09 the Budget Office was requested to address the issue by ring-fencing grant expenditure where possible and practical with effect from the 2009/10 Budget and financial year. However, in certain instances where a once off donation or award is received ring-fencing might not be possible/practical.

Note must further be taken that funding sources only pertain to capital grants and has no bearing on operational grants.

*Root cause*

Control activities are continuously reviewed and developed to mitigate risks over financial reporting.

*Risk*

All necessary precautions and procedures are put in place to mitigate the risk of operation grants being used for other than their intended purposes and the possible over-/under statement in the financial statements.

*Recommendation*

Cognisance is taken, with appreciation of your recommendations and implementation thereof will be reviewed where possible and practical.

*Name: Mr. P van der Walt*

*Position title: Executive Director: Treasury Office*

*Date: 26 August 2009*

**Auditor's comments**

Management response noted. However, from Management response received it is clear that the following grants were not ring-fenced in respect of the 2008-09 financial years:

- Arts and Culture
- Agriculture
- PTIS roads
- PTIS transport
- HIV Aids
- Transportation Engineering
- DWAF

## 15. Unspent conditional grants – misstatement (Ex 172)

### Audit finding

As communicated in Ex 34 not all conditional operational grants were ring-fenced during the 2008-09 financial year. Additional audit procedures were performed to ascertain if the unspent balance of conditional grants is accounted for at the correct amount in the annual financial statements. Discrepancies were noted. The following serves as an example:

	<b>Grant</b>	<b>Expenditure accounted for and recognised in the initial annual financial statements submitted</b>	<b>Actual expenditure as per grant reconciliation provided</b>	<b>Discrepancy</b>
1	Sport Recreation Arts & Culture	R 3 900 000.00	R 3 301 369.00	R 598 631.00
2	Agriculture	R 446 250.36	R 440 000.00	R 6 250.36
3	PTIS Roads -	R 5 307 824.66	R 5 163 330.00	R 144 494.66
4	PTIS Transport-	R 68 565 000.00	R 3 608 246	R 64 956 754.00
5	Health (HIV/ Aids)	R 3 000 000.00	R 2 157 398.17	R 842 601.83
6	DWAF	R 14 644 916.00	R 13 493 890.48	R 1 151 025.52
<b>TOTAL</b>				<b>R 67 699 757.37</b>

It is therefore requested that management revisit the calculations and accounting of all conditional grants (therefore the entire population of conditional grants) as opposed to only the above conditional grants and make adjustments where appropriate. Copies of all adjusting entries, together with the supporting documentation in respect of amounts (expenditure) calculated as per the grant reconciliation, must also be provided to the auditors.

Furthermore, reconciliation in respect of the transportation engineering grant was also requested, but could not be provided for audit purposes.

The outstanding information/documentation as documented above should be supplied within five working days from date hereof, failing which may have a significant impact on the audit report as these transactions/ amounts are material.

### Root cause

Control activities are not selected and developed to mitigate risks over financial reporting.

### Risk

Conditional grants may be materially misstated in the annual financial statements.

### Recommendation

- Operational grants received should be ring-fenced to ensure that funding is used for its intended purpose.
- Proper internal controls should be implemented by management to ensure that grants are correctly accounted for and subsequently disclosed in the annual financial statements.
- Outstanding information/documentation should be provided to the auditors as a matter of urgency.

## Management response

My office agrees with the audit finding and we have revisited calculations on all the grants as proposed. I would agree to the following adjustments and request that these be included in the final overs and unders to be corrected in the last run of period 15.

	Grant	Expenditure accounted for and recognised in the initial annual financial statements submitted	Actual expenditure as per grant reconciliation provided	Discrepancy
1	Arts and Culture	R 3 900 000.00	R 3 425 065.00	R 474 935.00
2	Agriculture	R 446 250.36	R 440 000.00	R 6 250.36
3	PTIS Roads	R 5 307 824.66	R 5 163 330.00	R 144 494.66
4	PTIS Transport	R 3 608 246.00	R 3 608 246.00	-
5	HIV/Aids	R 3 000 000.00	R 2 157 398.17	R 842 601.83
6	DWAF	R 14 644 916.00	R 14 644 916.00	-
7	Transportation Engineering	R 8 000 000.00	R 7 946 833.00	R 53 167.00

It must be noted that point number 7 above serves as reconciliation for the transportation engineering grant.

The necessary proof of expenditure for all these grants will be communicated to you once all documentation has been gathered.

### *Root cause*

Cognisance is taken and the necessary controls have been put in place to prevent this from reoccurring.

### *Risk*

Cognisance is taken and with the new procedures that were put in place the risk of material misstatements will be reduced if not diminished.

### *Recommendation*

All operational grants in the 09/10 financial year have been ring-fenced to ensure that funding is used for its intended purpose. The ring-fencing will ensure that all grants are correctly accounted for

*Name: Mr. P van der Walt*

*Position title: Executive Director: Treasury Office*

*Date: 16 November 2009*

## Auditor's comments

Management response noted. Awaiting supporting documentation and adjustments to the financial statements.

## 16. Non-compliance – Supply chain management (Ex 117 – Ex 122, Ex 145, Ex 173)

### Audit finding

While performing audit procedures pertaining to the supply chain management process, the following discrepancies were noted:

#### Financial statements not submitted

In terms of the municipal supply chain management policy tenders in excess of R10 million should be accompanied by the annual financial statements of the bid competitor.

During the audit of tenders it was noted that some of the bidders who were awarded a tender did not submit the minimum required number of audited financial statements (i.e. three-year audited financial statements for tender in excess of R10 million), only the preliminary (half year) audited financial statements were submitted.

The following serves as an example:

Ref. number	Date of approval	Tender Title	Company details	Tender price (R)	CIBD number
CB234/2008	20/10/2008	Construction of a section of new soccer stadium on ERF 2001, Soshanguve	Homeless Building Construction (Pty) Ltd (Reg no: 2008/019463/07)	37,480,479.96	104526

#### No supporting documentation to substantiate that bidders do not owe the municipality any rates or taxes

In terms of the municipal supply chain management policy tender files should contain details of municipal rates owed to the municipality by the relevant bidder.

During the audit of tenders it was noted that utility and/or rates and taxes documentation could not be found on some of the tender files to substantiate that the bidders of the tender did not have any outstanding rates and taxes, payable to the municipality.

The following serves as an example:

Ref. number	Tender details	Date of approval	Company's (bidder) details
CB94/2009	SUPPLY, DELIVERY AND OFF-LOADING OF PUMPS, MIXERS, COMPRESSORS, SCREEN AND GEARBOXES TO WASTEWATER TREATMENT WORKS	23/03/2009	ABS Pumps (Pty) Ltd, (Reg no:1995/013869/07) Fluid Pumps CC, (Reg no:1991/007052/23) Huber Technology (Pty) Ltd,(Rg no: 1992/006606/07) Pumptron (Pty) Ltd, Reg no:1995/001643/07) Circuit Environmental Engineering (Pty) Ltd,(Reg no:1994/008256/07)
CB234/2008	CONSTRUCTION OF A SECTION FOR NEW SOCCER STADIUM ON ERF 2001,	25/11/2008	Homeless Building Construction (Pty) Ltd (Reg

	SOSHANGUVE		no: 2008/019463/07)
CB133/2008	THE SUPPLY, DELIVERY AND OFF-LOADING OF VARIOUS AIRPORT CRASH, RESCUE AND FIRE-FIGHTING VEHICLES TO PUBLIC WORKS AND INFRASTRUCTURE DEVELOPMENT: WONDERBOOM NATIONAL AIRPORT	11/07/2008	Fire Raiders (Pty) Ltd, (Reg no:2000/031783/07)  Marce Fire Fighting Technology CC,(Reg no:1990/13729/23
CB226/2008	RE-MANUFACTURE/REPAIR AND OR PARTIAL OVERHAUL OF DIESEL ENGINES (EXCLUDING PUBLIC TRANSPORT BUSES)	24/10/2008	D & F Diesel Services, (Reg no:1988/013277/23)
CB199/2008	THE SUPPLY, MANUFACTURE AND DELIVERY OF BOILER ASH DISPOSAL SLUICeway LINER CASTING BOILERS: ROOIWAL POWER STATION	12/09/2008	Quality Enhancement Technology (Pty) Ltd, (Reg No: 1998/009755/07)
CB42	TENDER FOR THE APPOINTMENT OF TURNKEY SERVICE PROVIDER TO STAGE SIMULATIONS OF PUBLIC VIEWING AREAS FOR THE CITY OF TSHWANE 2010 FIFA WORLD CUP	23/01/2009	Matchworld Communication (Pty) Ltd, (Reg no: 2003/026361/07)
CB139/2008	SUPPLY, DELIVERY AND OFF-LOADING OF MIXING EQUIPMENT FOR ANAEROBIC SLUDGE DIGESTORS AT THE CoT's BAVIAANSPOORT WASTE WATER TREATMENT WORKS	25/07/2008	Monitor Engineering (Pty) Ltd, (Reg no:2004/0177795/07)
CB228/2008	STAGE 2 OF THE CARE, GROOMING AND ACCOMMODATION OF HORSES	30/01/2009	Botha Wil Stalle CC, (Reg no: 2008/174577/23)
CB186/2008	TENDER CIVIL WORKS AND CHEMICAL AND ELECTRICAL INSTALLATIONS FOR THE CARINA STREET BOOSTER PUMP STATION	04/11/2008	PHAMBILI PIPELINES (PTY)LTD,(Reg no: 1998/005630/07)
CB166/2008	TENDER FOR THE UPGRADING OF EXISTING SUPPLY AND OUTGOING PIPES AT THE CLIFTON RESERVOIRS: CENTURION	15/08/2008	PHAMBILI PIPELINES (PTY)LTD,(Reg no: 1998/005630/07)

Tenders awarded to companies that were incorporated a few months prior to awarding of the tender

During the audit of tenders at the municipality it was noted that some of the tenders were awarded to companies/CCs which were incorporated a few months prior to the advertisement date of the tender. It is therefore uncertain if the service provider does have the required experience.

Tender and bidder's details are as follows:

Ref. number	Date of approval	Tender title	Company details	Tender Price (R) - Incl VAT	Company/CC registration date
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CB228/2008	30/01/2009	Stage 2 of the tender for comprehensive care, accommodation and grooming of horses of the community safety department	Botha Wil Stalle CC, (Reg no: 2008/174577/23)	2,790,720.00	14/08/2008
CB234/2008	20/10/2008	Construction of a section for new soccer stadium on ERF 2001, Soshanguve	Homeless Building Construction (Pty) Ltd (Reg no: 2008/019463/07)	37,480,479.96	18/08/2008
CB194/2008	24/10/2008	Upgrading of the Rietvlei Water Purification Works, phases 1 and 3 (civil): construction of ozone facilities and refurbishment of GAC filters	Gas road Construction CC, (reg no: 2008/084785/23)	16,208,665.407	17/04/2008

#### Tax clearance certificates

As required by the municipal supply chain management policy, tender files should contain copies of tax clearance certificates. The following serves as an example of tender files that did not contain tax clearance certificates:

Ref. number	Tax clearance certificate number	Tender title	Company details	Tender price (R)
CB234/2008	Not available	Construction of a section of new soccer stadium on ERF 2001, Soshanguve	Homeless Building Construction (Pty) Ltd (Reg no: 2008/019463/07)	37,480,479.96

#### No share certificates or certificates of incorporation on file

During the audit of tenders of the CoT it was noted that some of the bidders files did not contain certificates of incorporation.

The following serves as an example:

Ref.	Tender title	Date of	Company's	Tender price
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number		approval	(bidder) details	(including VAT) (R)
CB226/2008	RE-MANUFACTURE/ REPAIR AND/OR PARTIAL OVERHAUL OF DIESEL ENGINES (EXCLUDING PUBLIC TRANSPORT BUSES)	24/10/2008	D & F Diesel Services, (Reg no:1988/013277/23)	1,750,000.00

CB226/2008 estimated at R1 750 000,00 was not awarded to the bidder with the highest score, i.e. Mayibuye Engineering (Pty) Ltd T/A Fleet Motors in terms of the point system; namely 3.5/10 when compared to 2.46 of its counterpart who eventually won the tender.

The reason provided to substantiate the awarding of the tender is that Mayibuye Engineering (Pty) Ltd could not provide documentation (share certificates) to substantiate that part of its equity is held by a female person and that it had no franchise in national elections prior to 1983 as required by the policy. The above resulted in the bid committee choosing D & F Diesel Fuel Services CC over Mayibuye Engineering (Pty) Ltd.

However, during the inspection of corroborating documentation, neither certificate of interest of members in D & F Diesel Fuel Services CC nor its certificate of incorporation could be found in the tender files.

#### Information requested, but not received

##### Tender process

The following tender documentation/files were requested, but could not be provided for audit purposes:

Ref. number	Date of advertisement of tender	Description	Closing date	Contact person	Department in charge of the tender
CB159/2008	20/02/2009	Provision of a telephone management system (TMS) for deployment on the 358 prefix (VOIP) private telephone system deployed in the CoT	25/03/2009	LeRoy Olivier 358-1640	Office of the Executive Mayor & City Manager
CB118/2009	17/04/2009	Stage 1 of the proposal call for the safe handling, processing and disposal of waste water sludge at the Rooiwal WWTW	19/05/2009	Koot Snyman 358-0664	Water and Sanitation
CB14/2009	06/02/2009	Appointment of an auctioneer	10/03/2009	Johan Kachelhoffe r 358-7390	Finance
CB250/2008	23/01/2009	Cleaning services at the Marabastad Retail Market: Tshwane Market	24/02/2009	Gerhard Geyer 358-2340	Economic Development
CB28/2008	12/09/2008	Internet connection services	06/10/2008	Herman Claasen 358-4999	Corporate Services
CB102/2008	11/07/2008	Construction of new hawker stalls, toilet	31/07/2008	Gerrie Venter 358-	Corporate & Shared

		facilities and taxi rank at the existing Barolak Building on Erf 3303, Pretoria CBD		7832 (082-602-3228)	Services
CB252/2008	28/11/2008	Stage 1: To plan, develop, build, finance, oversee (project manage) and operate a public transport system for the remainder of the public transport corridors for the CoT	17/12/2008	Tom Nkoana 358-4006	Transport Development
CB79/2009	06/03/2009	Appointment of a consultant to review the service delivery mechanism of the Tshwane Fresh Produce Market in accordance with chapter 8 of the Municipal Systems Act	07/04/2009	Gerhard Geyer 358-2240	Economic Development

#### Tenders and contracts

NO.	PURCHASE ORDER NUMBER	VENDOR NAME	NAME ALLOCATED BY PIETER MOLLER	VAT NUMBER	R	REQUIRED
1	4500435534	The Innovation Hub Development	Marthina	48408195616	2 600 000.00	Tender Contract
2	4500406239	Sandspruit Works Association	Marthina	4040189047	4 792 181.09	Tender Contract
3	4500469744	Maluleke & Luthuli Development	Elsie	4330171655	5 442 904.35	Tender Contract
4	4500462453	Safdev SSDC (Pty) Ltd	Elsie	4690202702	10 177 463.04	Tender Contract
5	4500461426	Maluleke & Luthuli Development	Elsie	4330171655	13 090 882.77	Tender Contract
6	4500421792	Absa Property Development (Pty)	Elsie	4530111048	13 094 473.82	Tender Contract
7	4500403692	ZMK Construction (Pty) Ltd		4310148988	7 150 343.55	Tender Contract
<b>Total</b>					<b>56 348 248.62</b>	

#### Supporting documents for journals.

The supporting documents (e.g. invoices, credit notes, etc.) in respect of the following journals were also requested but could not be provided for audit purposes. Details are as follows:

No.	Journal no.	Description	Date	R
1	100175009	JN	08.01.2009	900 913.81
2	100110553	JN	29.10.2008	4 152 273.59
3	100127325	JN	06.11.2008	523 508.77
4	100092985	JN	16.10.2008	299 771.38
			<b>TOTAL</b>	<b>5 876 467.55</b>

#### Note 47 – Deviations from supply chain management

Request for information, # 184 of 2009 was issued on 28 October 2009. Supporting documentation in respect of note 47 to the consolidated annual financial statements, especially the deviations from supply chain management procedures, were requested but were not provided for audit purposes.

The outstanding documentation as documented above should be supplied within three days from the date hereof, failing which may have a significant impact on the audit report as these transactions/amounts are material.

#### VAT vendor search

While performing audit procedures pertaining to general expenses we have performed a VAT vendor search on the SARS website for a sample of vendors. Part 4, paragraph 24, as well as chapter 2, paragraph 9.2(g), of the supply chain management policy requires that a written quotation or bid should not be considered unless the tax matters of the provided vendor is in order.

The Value-Added Tax Act, 1991 (Act No. 89 of 1991) only allows an input VAT claim for items procured from registered VAT vendors and only in respect of invoices which meet the requirements of a valid VAT invoice. However, the City of Tshwane Municipality has claimed input VAT on these invoices.

The following serve as examples of vendors for which VAT numbers and/or entity name could not be found on SARS website as registered VAT vendors:

	Vendor number	Vendor name	VAT number	Amount paid to vendor, inclusive of VAT
1	6253	Tshwane Stadium Concepts (Pty)	473024702	2,820,523.01
2	3895	The Innovation Hub Development	4840195616	2,964,000.00
<b>TOTAL</b>				<b>5,784,523.01</b>

#### **Root cause**

- Control activities are not selected and developed to mitigate risks over financial reporting.
- Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.

#### **Risk**

Non-compliance with the Value-Added Tax Act, 1991 (Act No. 89 of 1991), as well as the municipal supply chain management policy.

#### **Recommendation**

- Management should identify and implement actions and control activities to ensure compliance.

- Information requested should be provided to the auditors as a matter of urgency.
- Management should endeavour to do a VAT search for all their vendors before registering vendors and/or before payments to vendors are made.

## Management response

### Financial statements not submitted

Homeless Building (Reg: 2008/019463/07) started their operation in 2008 as can be seen from their registration number. It is objectively impossible to give financial statements for a period that they did not exist. Their financial statements for the period that they operated was included in the final report) 758-782. (Attached as Annexure A)

No supporting documentation to substantiate that bidders do not owe the municipality any rates or taxes

The City of Tshwane Supply Chain Policy states in the following in connection with the above

- a) Document 1 paragraph 9.2 (e)
- b) Document 2 paragraph 9.9 (2)
- c) Document 3 paragraph 19 (d) (i)

The Municipality utilise a questionnaire, attached as Annexure B, where the tenderer sign a declaration. This declaration is in each and every Bid document

Tenders awarded to companies that were incorporated a few months prior to awarding of the tender

There is no Legislation forbidding tenderers from bidding for work only after their companies existed for a specific amount of time. Some entities are created explicitly to tender on specific projects. Some BEE companies and co-operatives only exist for a short time and this factor can not be categorically be used against them. Such a method would be unconstitutional and against the pillars of fairness, transparency etc

### Tax clearance Certificates

The tax clearance of Homeless was included in the Bid Committee report P 751 (Attached as Annexure C) and was perhaps not seen by the auditor.

### No Share Certificate

It is not clear where the auditor got their information from so we state the facts from the file for clarity

The evaluation report page 299-231 (Attached as Annexure D) stated that D&F Diesel claimed 2.46 HDI points and were awarded the 2.46 points. The CK2 document on page 3 of their tender document clearly state the ownership and it was not necessary to reduce the points (See annexure E)

Mayibuye did not include the necessary proof in their tender document and their claim was reduced.

The HDI points, as prescribed by the act, was calculated as follows

D&F Diesel: 90 for price + 2.46 = 92.46

Mayibuye: 63.38 for price + 1.00 = 64.38

D&F Diesel got the tender on 92.46 points. The HDI point's portion of the formula did not result in the Bid Committee choosing D&F Diesel over Mayibuye.

Mayibuye was 26.62 points behind on the price portion of the formulae and the HDI would not have made any change in the recommendation.

Information requested, not received

#### Tender process

The following tender documentation/ files were requested, but could not be provided for audit purposes; I have included the last two columns for reason/ status and the current status for your consideration.

Ref number	Date of advertisement of tender	Description	Closing date	Contact person	Department in charge of the tender	REASON/STATUS	CURRENT STATUS
CB159/2008	20/02/2009	Provision of a telephone management system (TMS) for deployment on the 358 prefix (VOIP) private telephone system deployed in the CoT	25/03/2009	LeRoy Olivier 358-1640	Office of the Executive Mayor & City Manager	23/09/2009 Finalised BAC	Available
CB118/2009	17/04/2009	Stage 1 of the proposal call for the safe handling, processing and disposal of Waste Water sludge at the Rooiwal WWTW	19/05/2009	Koot Snyman 358-0664	Water and Sanitation	22/09/2009 Finalised BAC	Available
CB14/2009	06/02/2009	Appointment of an auctioneer	10/03/2009	Johan Kachelhoff 358-7390	Finance		Available
CB250/20	23/01/20	Cleaning services at	24/02/20	Gerhard Geyer	Economic Developm	Still in	

08	09	the Marabastad Retail Market: Tshwane Market	09	358-2340	ent	process	
CB28/2008	12/09/2008	Internet Connection Services	06/10/2008	Herman Claasen 358-4999	Corporate Services	In Process	Tender with Department
CB102/2008	11/07/2008	Construction of new hawker stalls, toilet facilities & taxi rank at the existing Barolak Building on Erf 3303, Pretoria CBD	31/07/2008	Gerrie Venter 358-7832 (082-602-3228)	Corporate & Shared Services	In process	With Department
CB252/2008	28/11/2008	Stage 1: To plan, develop, build, finance, oversee (project manage) and operate a public transport system for the remainder of the public transport corridors for the CoT	17/12/2008	Tom Nkoana 358-4006	Transport Development	In process	With Department
CB79/2009	06/03/2009	Appointment of a consultant to review the service delivery mechanism of the Tshwane Fresh Produce	07/04/2009	Gerhard Geyer 358-2240	Economic Development	Still in process	

		Market in accordance with Chapter 8 of the Municipal Systems Act					
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**Note 47 – Deviations from Supply Chain Management**

All deviations were submitted to Council as per the Approved SCM Policy

*Name: Mr H Mhlom*

*Position: Executive Director – Supply Chain Management*

*Date: 16/11/2009*

**Auditor’s comments**

Management response noted. Tender files and documentation not provided, were provided. This matter will be followed up during the 2009-10 audit.

## PROPERTY, PLANT AND EQUIPMENT

### 17. PPE – Completeness of assets (Ex 63)

#### Audit finding

During the testing of completeness of land it was found that title deeds selected from deeds office for land could not be traced to the asset register. Detailed below are the discrepancies found from the sample selected.

Title deed no.	ERF no.	Registration date
T7507/2009	PORTION 28 (A PORTION OF PORTION 7) OF THE FARM OLIEVENHOUTBOSCH 389	13/2/2009
T16457/2009	PORTION 67 (A PORTION OF PORTION 6) OF THE FARM OLIEVENHOUTBOSCH 389	
T42185/2007	Portion 22 of ERF 2816 LADIUM EXTENSION 2 TOWNSHIP	30/03/2007
T053905/2007	PORTION 296 (A PORTION OF A PORTION)OF THE FARM KLIPFONTEIN 268	24/04/2007
T76039/2007	ERF 386 NEWLANDS UITBREIDING 2 (PRETORIA) Dorpsgebeid	19/06/2007
T97243/2007	PORTION 7 ERF 2784 DANVILLE EXTENSION 5	20/07/2007
T100822/2007	PORTION 24 OF ERF 541 CLAREMONT (PRETORIA) TOWNSHIP	30/07/2007
T117113/2007	PORTION 139 (A PORTION OF PORTION 28) OF THE FARMWITFONTEIN 301	29/08/2007
T133443/2007	PORTION 349 (A PORTION OF PORTION 155) OF THE FARM WONERBOOM 302	01/10/2007
T136244/2007	ERF 3367 ROOIHUISKRAAL NOORD EXTENSION 26 TOWNSHIP	NO DATE
T147217/2007	ERF 1097/1096 NINAPARK UITBREIDING 36 DORPSGEBEID	30/10/2007
T152719/2007	ERF 1262 PEACH TREE EXTENSION 2 TOWNSHIP	09/11/2007
T1454545/2007	ERF 1513 EQUESTRIA EXTENSION209 TOWNSHIP	14/11/2007
T169365/2007	ERF 1700 MONTANA TUINE EXTENSION 53 TOWNSHIP	14/12/2007
T26617/2006	PORTION 294 (A PORTION OF PORTION 125)OF THE FARM KLIPFONTEIN 268	29/09/2006
T4751/2008	1413/1414 ROSSLYN EXT 20 TOWNSHIP	22/01/2008
T40859/2008	3298 ATTERIDGEVILLE TOWNSHIP	25/04/2008
T43141/2008	765 EERSTERUST UITBREIDING 2 DORSGEBEIID	7/5/2008
T53528/2008	7280 MORELETAPARK EXT 78 TOWNSHIP	6/6/2008
T58697/2008	PORTION 211 (A PORTION OF A PORTION OF 10) HAREBESPOORT 328	19/06/2008
T59929/2008	1004 CELTISDALE EXT 23 TOWNSHIP	27/06/2008

#### Root cause

Written procedures, authorisations, record keeping, management reviews and asset safeguards are not segregated to prevent fraudulent financial data and asset misappropriation.



## **Risk**

The asset register could be understated or overstated.

## **Recommendation**

All land should be recorded in the asset register and updated regularly, with a clear audit trail between the asset register and the deeds office where title deeds are kept.

## **Management response**

In respect of the list of properties mentioned under this point, the staff at Asset Management (Amanda Bantjes) needs the LISkey as indicated on the 'Land Parcel' information at Zania's Property Register section to assist the auditors in tracing the properties on the Asset Register. I've checked my e-mails of today 12 November 2009 and the information is already been provided by Zania.

*Name: Johan Anderson*

*Position: Functional head Property administration*

*Date: 12 November 2009*

## **Title deeds could not be traced to the Asset Register**

We agree with the finding. Asset Management has rechecked the information with the common denominator the erf number (we don't include the LIS-key in the asset register) and couldn't trace these properties on the Asset Register. Johan Anderson from Property Management has indicated on the meeting of 12 November 2009 that the last information (dump of LAMACS property management data) has been supplied to CoT approximately 2 years ago and these properties were most probably not included in that data.

It is agreed that a reconciliation should be performed between the different systems in use by CoT, i.e. LAMACS, Valuation Roll, etc. However, this will have to be a future project due to the volume and complexities involved.

## **Auditor's comments**

We accept the Management response and we have also perform a deed search on which we were able to verify the assets in the first table under audit finding. However CoT should take note that they should Performa reconciliation between the different systems in use by CoT, i.e. LAMACS, Valuation Roll, etc. However, this will have to be a future project due to the volume and complexities involved.

This matter will be followed up during next year 2009-10.

## 18. PPE – Lack of proper assets management for investment property (Ex 138)

### Audit finding

In terms of section 63(2) of the MFMA the accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure that the municipality has and maintains a management, accounting and information system that accounts for assets and liabilities of the municipality.

However, during the audit of investment properties the following findings surfaced:

We could not attest to the cost price of the assets selected (refer to table below). It was thus impossible to determine the accuracy of the amounts reflected in the financials, thus the total net book value of investment property of R7 917 609,00 could not be verified and therefore we could not conclude on the validity, existence and classification.

Furthermore, the asset register was incomplete as it did not have information relating to the erf number and title deeds. This made it difficult for the auditors to get historic cost information from the LAMACS system and verify the existence of these investment properties. In order to trace the assets from the SAP asset register to the LAMACS system, information regarding erf numbers was received from Amanda Bantjies (chief disposal asset operations).

The total net book value of investment property R7 917 609,00 could not be verified and therefore we cannot conclude on the completeness of investment property.

Asset	Class	Asset description	class	Asset main no. text	Information supplied by Amanda	Results of search on Lamacs system
40009323	4002016	INVPROP: Business: Special		BUILDINGS AT QUARRIES	JR300.0000300.	"JR" is an indication that it should be a farm portion. However, no such farm exists at the deeds office with a portion 300.
40009323	4002016	INVPROP: Business: Special		BUILDINGS AT QUARRIES	JR300.0000300.	
40009323	4002016	INVPROP: Business: Special		BUILDINGS AT QUARRIES	JR300.0000300.	
40008368	4002004	INVPROP: Business: Offices Only		CITY CENTRE		No traceable information in these lines
40008400	4002006	INVPROP: Business: Parking Areas/Facilities		CITY CENTRE		
40009017	4002012	INVPROP: Business: Shops Only		CITY CENTRE		
40009185	4002014	INVPROP: Business: Mix Bus Units: Shops & Other		CITY CENTRE		
40009635	4004007	INVPROP: Industrial: Workshops		KITSHOFF STREET WORKSHOP	Kitshoff Street 41, Rosslyn X2	According to our geomatics information, there is no 41 Kitshoff street in Rosslyn x2 - the closest we could get to that is a street number 6741, but that is privately owned property.
40009635	4004007	INVPROP: Industrial: Workshops		KITSHOFF STREET WORKSHOP	Kitshoff Street 41, Rosslyn X2	
40009635	4004007	INVPROP: Industrial: Workshops		KITSHOFF STREET WORKSHOP	Kitshoff Street 41, Rosslyn X2	
40009635	4004007	INVPROP: Industrial: Workshops		KITSHOFF STREET	Kitshoff Street 41, Rosslyn X2	

40009635	4004007	INVPROP:Industrial: Workshops	KITSHOFF STREET WORKSHOP	Kitshoff Street 41, Rosslyn X2	
40009635	4004007	INVPROP:Industrial: Workshops	KITSHOFF STREET WORKSHOP	Kitshoff Street 41, Rosslyn X2	
40009635	4004007	INVPROP:Industrial: Workshops	KITSHOFF STREET WORKSHOP	Kitshoff Street 41, Rosslyn X2	
40009635	4004007	INVPROP:Industrial: Workshops	KITSHOFF STREET WORKSHOP	Kitshoff Street 41, Rosslyn X2	
40009635	4004007	INVPROP:Industrial: Workshops	KITSHOFF STREET WORKSHOP	Kitshoff Street 41, Rosslyn X2	
40009636	4004007	INVPROP:Industrial: Workshops	MAMMOGAL E STREET WORKSHOP	Mammogale Street	We could not trace any info in this line as there is no indication of an erf number or street address. We did, however, check the whole of Mammogale Street in Saulsville and seven erven were owned by the CoT in that particular street, but they all seemed to be residential properties.
40009637	4004007	INVPROP:Industrial: Workshops	NBOWENI STREET WORKSHOP	Nboweni Street 40, Saulsville	According to our geomatics information, there is no 40 Nboweni Street in Saulsville - the closest we could get to an erf owned by the CoT in that street is no. 1 Nbowenis Street, and its erf 4336 Saulsville.
40009637	4004007	INVPROP:Industrial: Workshops	NBOWENI STREET WORKSHOP	Nboweni Street 40, Saulsville	
40009497	4004004	INVPROP:Industrial: Sidings	RAILWAY SIDING: ERF 0000040PTN00R	ERF 0000040PTN00R	The line info is to incomplete - no indication of the suburb name.
40009500	4004004	INVPROP:Industrial: Sidings	RAILWAY SIDING: ERF 0000057PTN00R	ERF 0000057PTN00R	
40009503	4004004	INVPROP:Industrial: Sidings	RAILWAY SIDING: ERF 0000089PTN000	ERF 0000089PTN000	
40009506	4004004	INVPROP:Industrial: Sidings	RAILWAY SIDING: ERF 0000107PTN00R	ERF 0000107PTN00R	
40009508	4004004	INVPROP:Industrial: Sidings	RAILWAY SIDING: ERF 0000143PTN00R	ERF 0000143PTN00R	

			000	0	
40009638	4004007	INVPROP:Industrial: Workshops	WALTLOO ROAD WORKSHOP	Waltloo Road 309, Waltloo	This street address translates to the remainder of erf 107 Waltloo (107/R Waltloo - see the lamacs screen print with relevant info attached to the email). There is not deeds office data in respect of a purchase/acquisition amount. The reason for that is that the erstwhile City Council of Pretoria was the township owner in terms of the Township Title 5001/1952 dated 5/3/1952 and the city council then applied in the deeds office for a separate title deed for this specific property in 1964. Therefore there were no purchase amounts applicable in this transaction on the date of acquisition.
40009638	4004007	INVPROP:Industrial: Workshops	WALTLOO ROAD WORKSHOP	Waltloo Road 309, Waltloo	
40009638	4004007	INVPROP:Industrial: Workshops	WALTLOO ROAD WORKSHOP	Waltloo Road 309, Waltloo	
40009638	4004007	INVPROP:Industrial: Workshops	WALTLOO ROAD WORKSHOP	Waltloo Road 309, Waltloo	
40009638	4004007	INVPROP:Industrial: Workshops	WALTLOO ROAD WORKSHOP	Waltloo Road 309, Waltloo	
40009638	4004007	INVPROP:Industrial: Workshops	WALTLOO ROAD WORKSHOP	Waltloo Road 309, Waltloo	

**Root cause**

General, hardware and application controls have not been designed to ensure the reliability of the operating system, the accuracy of the data outputs, and the protection of equipment and files.

**Risk**

- Misstatements of the financial statements as the auditors could not attest the amounts in the financials.
- Existence of the assets could not be determined.

**Recommendation**

Measures should be put in place to ensure the following:

- The information per the SAP assets register should be accurate and complete, e.g. erf numbers and title deeds and clear audit trail to the LAMACS system.
- Sufficient supporting documentation is kept to substantiate amounts reflected per the financial statements.

As the amount is not material it will be included in the overs and unders and reported as a limitation in scope of audit in the management report.

**Management response**

It appears that the auditors have not been able to validate the existence and having been able to verify the classification of some of the immovable assets, which is currently reflected in the asset register as 'investment property'. This will have an impact on the value i.e. investment property. We at Property Admin are not able to assist as the coding and asset information provided is not sufficient.

As discussed a couple of years ago, with both auditors from PWC as well as the officials at Asset Management, it was brought under their attention that the unique 'Stock Code –

- (e.g. Cmt00.0000088.0015.01.0000 which clearly indicates a TOWNSHIP [Cmt = Claremont], ERF number [0000088], PORTION nr [0015] as well as whether it is the LAND or the IMPROVEMENTS [01 = land]) 'on the LAMACS-system;
- The LISkey on the GIS-system,  
Should be carried in the asset register. Referring to the first problem within this group, the 'JR300' was mentioned by the auditors that this farm could not be searched on the LAMACS system, which is not the situation. The JR, as mentioned refers to a farm portion, but the '300' refers directly to the farm name, which is 'Onderstepoort 300-JR'. The rest of the specific portion of that farm is not mentioned, and therefore we will not be able to assist.

*Name: Johan Anderson*

*Position: Functional head Property administration*

*Date: 12 November 2009*

We agree with the finding. The necessary documentation which states the process that was followed to determine the cost price of investment property will be obtained and submitted.

It is agreed that reconciliation should be performed between the different systems in use in CoT, i.e. LAMACS, Valuation Roll, etc. However, this will have to be a future project due to the volume and complexities involved.

### **Finding 1**

I am not in agreement with the finding due to the following:

The link and balance methodology agreed to and utilized for the apportionment of cost to the property assets has been set out in the close-out report.

Set out below are instances particular to the Property work stream where the link and balance methodology had not been applied or had to be changed:

- Globular balances that could be linked via an erf number/street name/suburb to a specific asset were allocated to those assets.
- Globular balances that could be linked to a particular asset class were allocated to assets within that class on a pro-rata basis based on market value/ replacement cost.
- Globular balances that could not be linked a specific asset or asset classes were allocated to all property assets based on erf size or market value/ replacement cost.
- In cases where no erf code existed in SAP, or the erf code was incomplete, the Lamacs data was used to populate these fields in SAP.
- The data in Lamacs that could not be linked to SAP at all was brought into the PID 2 as NEW entries.
- SAP data that could not be linked to Lamacs was left as is.

As it is the municipality's policy not to re-value assets, the cost as determined by means of the methodology has been recorded in the fixed asset register.

With the exception of assets 40008368, 40008400, 40009017, and 4009185 (These will be dealt with as part of Finding 2), the title deed numbers as recorded on Lamacs for the properties selected have been inserted in the table above. It should therefore be possible for the auditors to verify the validity, existence and classification of the assets.

### **Finding 2**

I am in agreement with the finding. It seems that there are instances where information had not been transferred to SAP when the asset register had been updated. This matter will be investigated and corrected in future as part of the property project as mentioned in communication

letter 51 of 2009 point 2, to ensure that the relevant information has been populated in the asset register.

*Name: Philip van der Walt*

*Position: Executive Director: Treasury Officer*

*Date: 16 November 2009*

**Auditor's comments**

Accepted Management response for part one of the audit finding on how the cost price of investment property has been determine.

Part two of the audit finding is still out standing as the title deeds could not be confirmed to LAMCS or the deed office

## 19. PPE – Land not traced to valuation reconciliation (Ex 178)

### Audit finding

During the audit of assets it was found that land could not be traced to the valuation roll to determine the fair value of land included in the asset register. The net book value of the land included in the asset register and financial statements is R1 068 591 503,00. This value could not be tied up to the valuation roll; however, the value and existence of land could be tested and verified under physical verification.

### Root cause

Written procedures, authorisations, record keeping, management reviews and asset safeguards are not segregated to prevent fraudulent financial data and asset misappropriation.

### Risk

Land could be misstated as the amount could not be verified to the valuation roll.

### Recommendation

Land should be included at its fair value as it is not depreciated with a clear audit trail between the valuation roll and the asset register.

### Management response

We agree with the audit finding. The matter will be investigated further and reported on within the next week. The CFO will discuss this issue with the Executive Director: Debtor Management as there is currently running a reconciliation project of a similar nature in respect of land values for the purpose of Assessment Rate billing.

*Name: Philip van der Walt*

*Position: Executive Director: Treasury Officer*

*Date: 16 November 2009*

### Auditor's comments

This matter will be corrected with the final overs and underders and correctional journals and calculation have been inspected before processing. As soon as this matter has been corrected the finding will be resolved.

**20. PPE – Existence through physical verification and completeness from floor to register could not be tested (EX 79)**

**Audit finding**

During the audit of assets the following assets selected from the floor could not be traced to the asset register:

<u>Asset no</u>	<u>Description</u>	<u>Location</u>
014801	CPU MONITOR	Rietvlei dam
707200541-6	BACKWASH PUMP	Rietvlei dam
707200406-2	BLOWER	Rietvlei dam
707200551-3	PUMP	Rietvlei dam
G71946	CPU	BOTHONG PLAZA EAST
G72190	CPU	BOTHONG PLAZA EAST
G73741	MONITOR	Premos
F06320	CPU-AUCTIONED	Fleet management Bosman street
A48090	NOT WORKING	Bosman street Bella Ombre
B04556	COMPRESSOR	Bosman street Bella Ombre
0-20686	CPU	Fresh produce market
A65949	STEEL LOCKER	PHILLIP NEL PARK FIRE STATION
H15253		PHILLIP NEL PARK FIRE STATION
000086		Erasmuskloof fire station
A48361		Erasmuskloof fire station
G74238		Akasia Library
G73905		HB Philips building
F08132	CPU	Melrose tea Garden
E73375	TV	Melrose tea Garden
E73376	PROJECTOR	Melrose tea Garden
G73051	CPU	Melrose tea Garden
A95732	PRINTER	Melrose tea Garden
E68406		Pretoria Art Museum
G72606		Pretoria Art Museum
020737		Pretoria Art Museum
F48543		Pretoria Art Museum

**Root cause**

Pertinent information is not identified, captured, used at all levels of the company and distributed in a form and time frame that support the achievement of financial reporting objectives

**Risk**

Asset register could be overstated or understated, thereby causing the financial statements to be misstated.



## Recommendation

All assets should be included in the asset register. The asset register should be updated regularly when assets are procured and assets are moved to different locations.

## Management response

### a) Assets could not be physically verified

Management do not agree with this finding.

- All properties were checked via the GIS system available on the intranet. All properties selected in the sample with aerial photo's and title deed information as registered will be supplied by Asset Management.
- Lawrence Mahlangu, Asset Controller of the Asset Management Section, has been sent to verify the existing of the sample assets (properties excluded). Asset Management will supply an excel spreadsheet "51 of 2009\_point 10.1.other" with added comments in the last column, as well as word document (51 of 2009\_point 10.1.AG) with all the photos of the existing assets marked according to the number in column A on the excel spreadsheet. These assets have been physically verified between 12/11/09 and 17/11/09. Arrangements can be made if the Auditor General needs to verify these items themselves.

### b) Assets found on the floor and not traced to the asset register

This part of the query has been referred to the service provider who assisted with the 2007/08 Asset Register (PricewaterhouseCoopers) as these assets have all been purchased before June 2008. Feedback will be given to your office as soon as the information is received from them.

I do not agree with the finding in respect of the following items. Please refer to the comments in the table below:

Barcode	Description	Comments
707200406-2	BLOWER	This is not a valid barcode - Assets will be investigated, barcoded and corrected in the asset register
707200541-6	BACKWASH PUMP	This is not a valid barcode - Assets will be investigated, barcoded and corrected in the asset register
707200551-3	PUMP	This is not a valid barcode - Assets will be investigated, barcoded and corrected in the asset register

I do agree with the finding in respect of the items below. These items will be investigated, and if found not to be listed, be fair valued and added to the asset register.

Barcode	Description	Comments
014801	CPU MONITOR	These items will be investigated, and if found not to be listed, be fair valued and added to the asset register.

020686	CPU	These items will be investigated, and if found not to be listed, be fair valued and added to the asset register.
020737		These items will be investigated, and if found not to be listed, be fair valued and added to the asset register.
A48090	Shearing & Punching machine	These items will be investigated, and if found not to be listed, be fair valued and added to the asset register.
A48361	CONSOLE, CONTROL	These items will be investigated, and if found not to be listed, be fair valued and added to the asset register.
A65949	STEEL LOCKER	These items will be investigated, and if found not to be listed, be fair valued and added to the asset register.
B04556	COMPRESSOR/BLOWER	These items will be investigated, and if found not to be listed, be fair valued and added to the asset register.
E68406	COMPUTER DATA/VIDEO MONITOR PROJECTOR	These items will be investigated, and if found not to be listed, be fair valued and added to the asset register.
E73375	TV	These items will be investigated, and if found not to be listed, be fair valued and added to the asset register.
E73376	PROJECTOR	These items will be investigated, and if found not to be listed, be fair valued and added to the asset register.
F06320	CPU-AUCTIONED	These items will be investigated, and if found not to be listed, be fair valued and added to the asset register.
F08132	CPU	These items will be investigated, and if found not to be listed, be fair valued and added to the asset register.
F48543	TROLLEY, STEEL/WODDEN/PLASTIC	These items will be investigated, and if found not to be listed, be fair valued and added to the asset register.
G71946	CPU	These items will be investigated, and if found not to be listed, be fair valued and added to the asset register.
G72190	CPU	These items will be investigated, and if found not to be listed, be fair valued and added to the asset register.
G72606		These items will be investigated, and if found not to be listed, be fair valued and added to the asset register.
G73051	CPU	These items will be investigated, and if found not to be listed, be fair valued and added to the asset register.

G73741	MONITOR	These items will be investigated, and if found not to be listed, be fair valued and added to the asset register.
G73905		These items will be investigated, and if found not to be listed, be fair valued and added to the asset register.
G74238		These items will be investigated, and if found not to be listed, be fair valued and added to the asset register.
000086		These items will be investigated, and if found not to be listed, be fair valued and added to the asset register.
A95732	PRINTER - CABINET?	These items will be investigated, and if found not to be listed, be fair valued and added to the asset register.
H15253		These items will be investigated, and if found not to be listed, be fair valued and added to the asset register.

*Name: Philip van der Walt*

*Position: Executive Director: Treasury Officer*

*Date: 16 November 2009*

**Auditor's comments**

This matter will be followed up as soon as updated response have been provided by management.

All items selected from the register could be verified except for two items, these two items are below the thrivial threshold of R10 000.00 and will not be reported on.

## LEASES

### 21. Operating lease rental charged to statement of financial performance could not be determined (Ex 66)

#### Audit finding

The accounting policy of the City of Tshwane states that payments made under operating leases are charged against income on a straight-line basis over the period of the lease. During the audit of the CoT we could not verify the lease payments made during the year as there is no specific GL account allocated for operating leases. The CoT could also not assist us with a list of the total amount per expense GL where operating leases have been recorded. Operating leases are included under general expenses (note 30). Furthermore, operating leases are disclosed in note 44 but this amount could not be verified for existence, accuracy or cut off.

As a result of the above I could not verify that the total amount of R5 620 571,00 for operating leases expensed during the year is valid and correctly disclosed.

Operating lease payments are made from the following general ledger accounts:

#### Admin expenditure

- 411777: Hire of vehicles
- 411416: Hire of site
- 411418: Rental of property
- 411704: Hire of data lines
- 411721 Rental of office equipment
- 411772 Hire of equipment
- 411775: Hire of computer programmes
- 411420: Rental: Plant and equipment

#### General expenditure

- 412477: Rental vehicles
- 412478: Leases vehicles (operating) VAT
- 412481: Leases expenditure (Reclassification)
- 412483: Leases of vehicles op (non-VAT)

#### Root cause

Management does not have sufficient skills and knowledge of leases and the consultants hired did not look at the payments side of the leases.

#### Risk

- Leases may be classified incorrectly and may result to non-compliance with accounting policy, GRAP 13 and IAS 17.
- Input VAT may be incorrectly claimed.

#### Recommendation

- Management must charge operating lease rental of all the departments within the CoT to a specific general ledger account or a detailed list must be provided with the total amount of operating lease captured different GL accounts.

- A schedule of all lease rentals must be made available for audit purposes.
- Management should make sure that they work with the consultant so that they are fully aware of the duties performed by the consultant, as well as outstanding issues so that they make a provision to perform those duties because it their responsibility.

### **Management response**

CoT indicated that they unfortunately cannot help us with the relevant GL account numbers as each department that is involved with lease payments need to give us the GL account numbers. This can be discussed with Budget Office, maybe they can assist.

Provision was made in the 2009-10 MTREF for departmental budgeting towards operating lease on GL412478: Leave Vehicles (operating) and GL412483: Lease of vehicles (operating) Non-VAT. It should furthermore be noted that it is the responsibility of the relevant department to use the correct GL in this regard. During the 2009-10 budget hearings, this was brought to the attention of departments.

*Name: DM van Heerden*

*Position: Acting Executive Director: Budget office*

*Date: 29 October 2009*

### **Auditor's comments**

This finding will be reported on and also cases where supporting documents cannot be provided. As a result of the above I could not verify that the total amount of R5 620 571,00 for operating leases expensed during the year is valid and correctly disclosed.

During a meeting with the service provider Deloitte and CoT we agree that we can verify the operating leases from the contracts however the finding will be reported as there must be a split in the GL accounts for 2009-10

## 22. Finance leases: Incorrect accounting (Ex 115)

### Audit finding

GRAP 13 and IAS 17 indicate that the following principles should be applied in the financial statements of leases (CoT):

- At the commencement of the lease term, lessees shall recognise finance leases as assets and liabilities in their statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. (GRAP 13.34 and IAS 17. 20)
- Minimum lease payments shall be apportioned between the finance charge and the reduction of the outstanding liability. The finance charge shall be allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. (GRAP 13.40 and IAS 17. 25)
- The depreciation policy for depreciable leased assets shall be consistent with that for depreciable assets that are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.

During the audit of finance leases the following weaknesses were identified:

1. Finance lease payments are not apportioned between the finance charge portion and the reduction of the outstanding lease liability when payment is made. CoT appointed specialists to calculate this finance charge at the end of the financial year and process one correctional journal entry for all finance charges for the year on all the finance lease agreements.
2. Audit finding has reoccurred. Proper procedures, business and system processes, along with the allocation of responsibility for the management of finance leases has not being established.
3. Finance leases are paid from and recorded in several general ledger accounts.

#### Admin expenditure

- 411777: Hire of vehicles
- 411416: Hire of site
- 411418: Rental of property
- 411704: Hire of data lines
- 411721 Rental of office equipment
- 411772 Hire of equipment
- 411775: Hire of computer programmes
- 411420: Rental: Plant and equipment

#### General expenditure

- 412477: Rental vehicles
- 412478: Leases vehicles (operating) VAT
- 412481: Leases expenditure (Reclassification)
- 412483: Leases of vehicles op (non-VAT)

This matter was also raised in the prior year's audit.

### Root cause

Integration with risk assessment – Actions are not taken to address risks to the achievement of financial reporting objectives.

**Risk**

- Loss of control over payment of finance leases which could lead to misappropriation of funds
- Misstatement of the annual financial statements due to non-compliance with GRAP 13 and IAS 17

**Recommendation**

- Lease payments should be made from one general ledger account for control purposes.
- Finance lease payments should be apportioned between the finance charge portion and the reduction of the outstanding lease liability when payment is made in order to comply with GRAP 13 and IAS 17.

**Management response**

- I am [not] in agreement with the finding [and supply the following/attached information in support of this]:
- The misstatement will be investigated and corrected by [date].
- The misstatement will not be corrected for the following reasons:  
[Reasons]

*Name:*

*Position:*

*Date:*

**Auditor's comments**

Finding has been issued on 13 November

## RESERVES

### 23. Cash backing of reserves (Ex 73)

#### Audit finding

During the audit of the HDF and the CRR the CoT accounting policy indicates that these funds/reserves should either have a separate bank account or should be backed by cash. As in the accounting policy the CoT took the option to fund these accounts by cash backing as per implementation guidelines on GAMAP/GRAP. The Housing Act, 1997 (Act No. 107 of 1997) sections 15(5) and 16 also requires that the municipality maintain a separate housing operating account or cash backed.

#### CoT calculation on cash backing needs 30 June 2009

	<b>Jun-09</b>
	<b>RAND</b>
<b>A1 Available cash</b>	
Long term liabilities	(R 4 336 968 215.00)
LESS: Internal advances to departments	(R 4 567 589 723.00)
LESS: Temporary advances to departments	(R 1 148 342 371.00)
	<hr/>
	R 1 378 963 879.00
LESS: Long-term investments including sinking funds	R 598 458 250.00
	<hr/>
<b>Surplus cash/(cash shortage) EFF</b>	<b><i>(R 780 505 629.00)</i></b>
	<hr/> <hr/>
<b>A2 Cash available form investments</b>	
Total investments	R 677 951 768.00
LESS: Investments ceded to compensation commissioner	(R 41 303 607.00)
LESS: Investments ceded for repayment of long-term liabilities	(R 598 458 250.00)
	<hr/>
<b>Available investments</b>	<b><i>R 38 189 911.00</i></b>
	<hr/> <hr/>
<b>A3 Cash available from current bank account</b>	
Cash book balance	<hr/> <b><i>R 89 560 594.00</i></b> <hr/>
	<hr/> <hr/>
<b>Total cash available</b>	<hr/> <b><i>(R 652 755 124.00)</i></b> <hr/> <hr/>
<b>B CASH NEEDS</b>	
Housing development fund	R 44 102 908.00
Insurance reserve	R 190 686 064.00
Capital replacement reserve	R 361 254 474.00
Capital grants and donations unutilised	R 332 586 920.00
Cash book balance overdrawn	R 95 416 694.00
Capital provisions	R 204 984 534.00



**Total cash needed: Reserves and grants**

**R 1 229 031 594.00**

**CASH STILL (NEEDED)/AVAILABLE**

**(R 1 881 786 718.00)**

From the cash back calculation it was noted that after the surplus cash available from external financing fund (EFF) less cash available from investments and less cash available from current bank account, the CoT already needed R652 755 123.

For the housing development fund the CoT needed a further R44 102 908 of cash backing and for the capital replacement reserve they needed R361 254 474.

The accounting policy, however, does not require any cash backing for the other reserves, but if the CoT needed to repay these reserves they would need the following:

Insurance reserve	R190 686 064
Capital grants and donations unutilised	R332 254 474
Cash book balance overdrawn	R95 416 694
Capital provisions	R204 984 534

In total for cash to repay reserves and grants that the CoT needs R1 229 031 595.

This also has an effect on the preparation of the financial statements and the going concern risk for the CoT. Furthermore, it is also a contravention of the Housing Development Act that requires cash backing for the housing development fund, and a contravention of the accounting policy.

Result is that the CoT will not be able to meet its mandate in terms of the Housing Act and accounting policies.

### **Root cause**

Written procedures, authorisations, record keeping, management reviews and asset safeguards are not segregated to prevent fraudulent financial data and asset misappropriation.

### **Risk**

Going concern and risk that the CoT would not have enough cash to repay reserves and grants

### **Recommendation**

Management must ensure that all reserves are backed by cash as per legislation and accounting policy.

### **Management response**

It is a well known fact that all entities are currently struggling under the economic down-turn. The City of Tshwane as local government is not free from the economic climate and is hugely affected by the economic recession due to the non-payment by consumer debtors and the non-payment of government grants by the National and Provincial government. The City of Tshwane is experiencing cash flow shortages as a result of price increases and the inability of the community to honour their monthly municipal accounts.

However, we cannot agree with the root cause as stated in your audit finding. Management is doing its utmost to address the current cash flow situation. The following strategies and initiatives were already started:

#### **A. 2009-10 budget approved on 28 May 2009**

The cash backing of reserves was addressed with the approval of the 2009-10 budgets and a number of strategies were recommended to Council:

- The motivation for a strategy towards cash backing is to have separate investments earmarked for specific future indefinite liabilities that may amongst other provide funding for capital reserves and capital provision and repayment of grants received but not utilised. A phased in approach should be followed and managed according to mid-year en year end figures.
- During the draft 2009-10 MTREF a strategy towards the cash backing of the CoT capital reserves and provisions and unspent conditional grants, as well as the uptake of long-term loans were modelled into the LTFS to ensure the sustainability of the City over a medium- to long-term. The strategy was informed amongst others by relevant GRAP standards, sections 18 and 19 of the MFMA and National Treasury Circular 48.
- Further more, it is recommended that during the 2010/11 MTREF process the current strategy be extended in taking a further step towards ensuring that all the above are cash backed.
- It was further recommended that from the 2009-10 financial year, the cash back position be reported on, on a quarterly basis and be included in the quarterly report to council.

#### **B. Long-term Financial Strategy (LTFS)**

The Long-term Financial Strategy (LTFS) has essentially informed the compilation of the 2009-10 MTREF with the emphasis on affordability and long-term sustainability.

Although the LTFS is predominantly a financial planning tool to ensure long-term financial sustainability for the organisation, the financial planning process and LTFS run parallel to ensure the strategies and direction of the Municipality are at all times informed by best practice. One of the salient features of the LTFS is the attentiveness to ultimate sustainability, not only from a municipal finance perspective, but also relating to service delivery inline with the CDS imperatives/priorities, a driver of the Five-year Integrated Development Plan.

#### **C. Implementation of Cash-flow management Intervention initiatives and strategies**

##### **3.1 2008-09 MTREF**

In terms of a Mayoral Committee resolution dated 18 March 2009 the following interventions were inter alia approved for the 2008-09 financial year:

- 10 % saving in respect of General Expenditure according to the 2008-09 Adjustments Budget
- No requisitions for capital expenditure (expenditure relating to non-capital items funded in capital budget, i.e. office furniture above R10 000), be submitted to Supply Chain Management after 31 May 2009
- No requisitions for operating expenditure (expenditure related to non-capital items funded in the operating budget, i.e. office furniture below R10 000), be submitted to Supply Chain Management after 31 May 2009
- Any other operating requirements which the City could do without for the remaining of the financial year not are processed.

### 3.2 2009-10 MTREF

A report proposing cash-flow management intervention initiatives and strategies that can be implemented immediately regarding the cash-flow challenges for the 2009-10 financial years was approved on 16 September 2009 by the Mayoral Committee. These initiatives consist of the following:

- Proposed savings on expenditure (expenditure will have to be managed down) e.g. employee related cost (by the non-filling of funded vacancies); special events; overtime; special projects; consultant fees; reduction of identified operational items; delaying/reprioritising of capital projects; reprioritisation of tenders
- Interventions to assist in optimising of revenue generation
- Investigation of strategic issues over the long-term by various departments due to the technical nature thereof and which will be lead by The Financial Services Department for example: Hiring/leasing vs. purchasing of vehicles; rental of hostels; travelling agencies
- Collection of debt – various collection strategies (initiatives) have been embarked on by the City of Tshwane to ensure maximum collection of debt owed by consumers.
- Proposed improvements of revenue sources by the relevant Strategic Units for example: maximising the potential of outdoor advertising, intensified operations for fine collections; etc.
- Further intervention proposed to assist with the financial challenges – a strategy to increase loans should be considered to assist the City of Tshwane with the financial challenges

#### *Risk*

The risk with regard to the cash backing of the Housing Development Fund is minimal as it will be the first priority on possible repayment and on 30 June the available investments and cash available per the cashbook would have been sufficient.

The risk with regard to the unspent grants will be addressed with the commitment of these amounts to capital projects as required by National Treasury in terms of MFMA Circular 48. These amounts were already committed to capital projects in the 2009-10 Capital Budget.

The capital provisions of R204, 9 million constitutes the rehabilitation of landfill sites and quarries and these rehabilitations is more of a long-term nature than short-term expenditure.

The Capital Replacement Reserve is an internal reserve where monies are set aside for the funding of capital projects. Currently it is not prescribed in any GRAP standard and according to the guidelines of National Treasury it should in actual fact be shown as part of the Accumulated surplus, therefore the cash backing of this reserve need to be investigated further during the 2009-10 financial year as the accounting policy for the 2008-09 financial year cannot be changed at this point in time.

#### *Recommendation*

The recommendation as stated in your audit query is supported and it is again re-iterated that Management is constantly busy to investigate, review and monitor the cash flow situation.

*Name: Mr. PA van Der Walt*

*Position title: Executive Director: Treasury office*

*Date: 9 October 2009*

#### **Auditor's comments**

Comment noted but this matter will be reported on in the management report.

## 24. Capital grant reserve classification (Ex 196)

### Audit finding

During the audit of the statement of changes government grant reserve it came to our attention that the classification with in the reserve is not correct.

	Currently RAND	Should be RAND
Opening balance	3 795 803 234.00	3 795 803 234.00
Asset purification/retirements	-55 383 182.00	(3 842 084.84)
Capital grants used to purchase PPE (revenue recognised)	645 859 651.00	567 108 163.53
Offsetting of depreciation	-116 780 731.00	(89 570 341.15)
Closing balance as per GL074250	<b>4 269 498 972.00</b>	<b>4 269 498 971.54</b>

### Root cause

Pertinent information is not identified, captured, used at all levels of the company and distributed in a form and time frame that support the achievement of financial reporting objectives.

### Risk

Incorrect classification and disclosure of reserves in the financial statements

### Recommendation

Management should adjust the statement of changes to agree or we will report on incorrect classification of the reserve in the management report.

### Management response

Cognisance is taken of the finding.

Note must be taken that the amount shown in the Statement of Changes in Net assets must reflect the same amount for "Capital Grants used to purchase PPE (revenue recognised)" as what is reflected in the Statement of Financial Performance for Capital Grants and donations (included in Note 22). Since the implementation of GAMAP/GRAP in 2004/05 this has been the case.

The revenue recognised for capital projects financed from Government Grants is drawn from the Capital Projects (program ZPROJECTS) on SAP and the projects financed with grants amounted to R645 859 651 for 2008/09 which cannot be changed on the financial statements.

It is recommended (at this stage) that the matter be investigated further why the transfer general ledger account (GL 419201) when analysed does not render the same total.

It is further recommended that this matter be held over until the final overs- and under adjustments, if any adjustment is indeed necessary.

*Name: Mr. PA van Der Walt*

*Position title: Executive Director: Treasury office*

*Date: 16 November 2009*

***Auditor's comments***

Management indicated that a final journal entry should be processed and we audited this journal entry to confirm the correctness and completeness of the entry of R 78 751 488.09, debit GL419201 and credit GL74250.

This matter will be corrected with the final overs and underders. As soon as this matter has been corrected the finding will be resolved.

## ENVIRONMENTAL PROVISIONS

### 25. Provisions non-compliance with environmental legislation (Ex 10)

#### Audit finding

During the audit performed of the provision for the rehabilitation of quarries, the following discrepancies were identified:

#### **A. Unauthorised use of quarries**

The mining rights for the Bon Accord Quarry and the other quarries owned by the CoT have expired during 2002.

In addition, as per the Mineral and Petroleum Resources Act, 2002 (Act No. 28 of 2002) the CoT must submit an environment management plan to the Department of Water Affairs and Forestry and to the Department of Minerals and Energy after performing an environment impact assessment, when the prospecting right or mining permit was accepted in terms of the act. This can take up to two years and thus result in the CoT mining on a quarry before officially being authorised thereto due to budget allocations received for the financial year and project deadlines.

#### **B. Monitoring of water quality and air quality for landfills and quarries**

As per the National Environmental Management Act, the CoT is obliged to monitor water quality and air quality (due to dust pollution) twice during the financial year, but no such tests were done during the 2008-09 financial year.

The "Minimum Requirements for Waste Disposal by Landfill policy" and the permits issued to approve the establishment of a landfill site require the CoT to monitor water quality and gas emissions twice per annum.

The last water quality report is dated April 2006.

No water quality and gas measurement tests were done on any landfill sites during the 2007-08 and 2008-09 financial years as no contractor has been appointed for the monitoring of water and gas emissions.

#### **C. Compliance with the Department of Agriculture Conservations and Environment**

This department requires that the CoT must have a waste minimisation programme in place.

This programme is important to the CoT as it must be in place before permission can be given for new landfill sites.

#### Root cause

- Approval of the EMP and EIA is a timely exercise which needs the assistance of several consultants and role players.
- There are possible problems relating to the tender processes of the CoT.
- There is a lack of staff at the CoT environmental section.
- There is difficulty in finding a suitable contractor to provide the required service to the CoT.

#### Risk

Hefty fines may be issued to the CoT for illegal mining at the different sites.

#### Recommendation

- Management must ensure that controls are in place to address the non-compliance with the applicable laws and regulations.

- Management must ensure that controls are put in place to ensure that tender processes are done as timeously as possible in order to assist in compliance to the applicable laws and regulations.
- Tender procedures should be followed and completed more timeously.
- The tender committee should assist in finding a suitable contractor.
- The tender should be awarded to the same contractor for a period of three to five years for comparative purposes as different contractors use different reporting styles.

## **Management response**

### ***A. Unauthorised use of quarries***

The appointment of a competent consultant was made under tender CB55/2008 in December 2008. Due to the fact that specialist surveys and studies are required, the Mining Right application process may take up to 18 months before applications are actually lodged with the DME, thereafter the process may take up to 388 days to be approved by the DME. Some of the documents that must accompany the application form as prescribed in the MPRDA are as follows;

- Plans detailing the land,
- A mining work programme
- Financial and technical competence, proof thereof,
- Detailed financing plan,
- Copies of the title deeds,
- Existing rights and
- A social and labour plan.

Once approval of the application was obtained, the public participation process may commence and a Scoping report must be submitted, where after the Environmental Impact Assessment (EIA) and the Environmental Management Plan (EMP) must be submitted that includes the proposed management and mitigation measures as identified in the EIA as well as in consultation with the Interested and Affected Parties (I&AP) during the Public Participation process. All of these documents are forwarded by the DME to the other previously identified governmental departments i.e. DWAF and Department of Agriculture, Conservation, Environment and Land Affairs as required by legislation.

Approval for a Mining Right will only be obtained when issues identified in the Public Participation process have been addressed and management or mitigation measures identified and have been approved by the relevant authorities including DWAF.

Surveying of quarries have to be done by a qualified and accredited Mine surveyor as dictated by the Mine Health and Safety Act of 1996. Surveying information is essential for the lodging of an application as co-ordinates and other surface information is required. The CoT have no accredited Mine surveyors and therefore had to appoint a Mine surveyor on tender before any more applications could be lodged.

Progress on the applications for the quarries of the CoT is as follows:

- A Mining Right was granted for the Bon Accord Quarry (Ref: (GP) 30/5/1/2/2(183) EM and (GDACE): Gaut 003/882/S/T/SR) in terms of the MPRDA in July 2009 which included the approval of the EMP, pending the submission of the Financial Provision for the Rehabilitation of CoT Quarries and Borrow Pits Policy. This is the only outstanding issue pending the approval of the policy by the council for the Bon Accord Stone Quarry and compliance has therefore been achieved in terms of the MPRDA.
- An approval for the continuation of the application for the Stellenberg Gravel Quarry (Ref: (GP) 30/5/1/2/3/2/1(288) EM and (GP) 30/5/1/2/2(288) MR) was obtained on 14 July 2009. The Scoping report was submitted on 13 August 2009. Public participation is currently under way and the due date for the submission of the EIA as well as the EMP is 16 January 2009.
- Two more quarries are a part of Turnkey projects where appointments of consultants have been made and are in process of applying on behalf of the CoT. These application submissions will be lodged before the end of this financial year.

- Other quarries that have been identified will be applied for during the following financial year.

### **Environment Management Plans for all the quarries**

EMP's compiled for the Mining Rights applications are submitted to the DME for approval. According to National Environmental Management Act (NEMA) regulations a Public Participation process must be followed in which all I&AP's that have an interest in or can be affected by activities on the quarries and borrow pits of the CoT must be consulted. This process may according to the MPRDA only be started after approval was obtained from the DME to continue with the Mining Right application process 14 days after an application was lodged with the DME. These consultations with the public, according to NEMA, must then be included in the EMP.

Progress on the applications is as follows;

- Applications already lodged with an approved EMP:  
Bon Accord Quarry.
- Applications already lodged with an EMP that is currently in the public participation phase:  
Stellenberg Quarry.
- Applications to be lodged before end of financial year:  
Klip-kruisfontein Quarry  
Soshanguve Quarry
- Applications to be lodged in the next financial year:  
Mamelodi Quarry (closure permit)  
Stinkwater Quarry  
Mabopane Quarry.

As stated previously it is the responsibility of the DME to distribute these EMP's as a part of their public participation process to the other relevant government departments as required by the MPRDA.

*Name: Michelle Fourie*

*Position: Administration Officer: Construction and Quarry Operations Belle Ombré Roads Depot*

*Date: 11 November 2009*

### **B. Monitoring of water quality and air quality for landfills and quarries**

As an application for a Mining Right is lodged with the Department of Minerals and Energy (DME) it is the responsibility of the DME, according to the Mineral and Petroleum Resources Development Act no 28 of 2002 (MPRDA), as a part of their Public Participation process responsibility, to consult with other governmental bodies e.g. DWAF.

None of the gravel or stone quarries utilise ground water or any other natural source of water. All quarries utilise municipal water only, including the water utilised for dust suppression.

Quotations have been received for the various types of air quality monitoring required for Bon Accord Quarry. Initialising this project is going to be very costly (in excess of R2 million) and will have to be budgeted for in the 2010/2011 budget. A baseline assessment was done utilising the dust bucket method and certain criteria have been identified for future continuous monitoring, however this report was requested by the Environmental Management Department of the CoT in 2007 and the Report in question was only obtained by this department in May 2009.

The implementation of a periodic monitoring program will be done possibly during this financial year through the advertisement of a quotation and the approval thereof is subject to the normal procurement procedures.



A baseline assessment for the stack of the asphalt plant has been approved and will be done by the end of December 2009 where after a way forward will be determined.

Water quality has been tested annually on the Bon Accord Quarry since the initiation of the Environmental audits as a part of the TIEP implementation process. Samples are collected by the Environmental Management Department and tested at the laboratory at Rietvlei Water Works.

A program to have the water tested on all of the other quarries of the CoT has already been implemented and water samples are also tested by the Rietvlei Water Works Laboratory against the Drinking Water Quality Standards of South Africa. Chemical analysis has been conducted on the samples and where suspected that water may be contaminated biological tests were conducted.

*Name: Michelle Fourie*

*Position: Administration Officer: Construction and Quarry Operations Belle Ombré Roads Depot*

*Date: 11 November 2009*

We did manage to get a 2008/9 water monitoring done. (WM Report is attached.) Q.1.26

The need for a 3 year tender to have continuances on the water monitoring still exists to enable CoT to have a track record and timely testing.

The "Minimum Requirements for Waste Disposal by Landfill policy" and the permits issued to approve the establishment of a landfill site require CoT to monitor water quality and gas emissions twice per annum.

The landfill gas project driven by CEF is in process again. The dust monitoring is a real waste of time as it change from day to day with different weather conditions and is actually a fruitless expenditure ( Except in conditions where no dust suppression is done, it would be recommendable)

Subsequently a water quality report for 2008-09 has been received.

No water quality and gas measurement tests were done on any landfill sites during the 2007-08 and 2008-09 financial year as no contractor has been appointed for the monitoring of water and gas emissions.

*Name: Frans Dekker*

*Position: Functional Head Landfill Management Operations*

*Date: 10 November 2009*

### ***C. Compliance with the Department of Agriculture conservations and environment***

Buy back centres are currently in operation to help with the waste minimisation and attached is a report to this account.

*Name: Pieter de Wit*

*Position: Deputy Director: Finance, Logistics & Contract Management Agriculture & Environmental Management Department*

*Date: 13 November 2009*

**Auditor's comments**

Management did respond as documented, but the CoT did not comply with all the requirements as listed in the finding and therefore this will be reported in the management report.

## 26. Provisions NEMA requirements completeness (Ex 136)

### Audit finding

The following are extracts from the NEMA Act, 1998 (Act No, 107 of 1998).

"Responsibility for the environmental health and safety consequences of a policy, programme, project, product, process, service or activity exists throughout its life cycle." (Chapter 1, Par 4(e))

"The costs of remedying pollution, environmental degradation and consequent adverse health effects and of preventing, controlling or minimising further pollution, environmental damage or adverse health effects must be paid for by those responsible for harming the environment."(Chapter 1, Par 4(p))

Based on the above extracts it is evident that the CoT is responsible for all expenses relating to any activities performed by the CoT throughout the life cycle of the activities, where these activities will have a negative impact on the environment.

This plan must include information on illegal dumping and hazardous waste disposal.

The CoT provided for the following expenses which relate to future expenses that will be incurred in order to rehabilitate the environment:

- Provision for the rehabilitation of landfill sites
- Provision for the rehabilitation of quarries
- Provision for the clearing of alien vegetation

No proof could, however, be provided to indicate that the CoT considered any other activities performed by the CoT during the financial year which had a negative effect on the environment.

### Root cause

No process is in place to address the completeness of the provisions raised at financial year-end.

### Risk

- The provision raised in respect of environmental matters may be misstated.
- Funds might not be available for possible future expenses due to litigation claims or rehabilitation costs in respect of environmental aspects.

### Recommendation

- The provision raised in respect of environmental matters may be misstated.
- Funds might not be available for possible future expenses due to litigation claims or rehabilitation costs in respect of environmental aspects.

### Management response

I am in agreement with the finding

Legislative constraints e.g. the Municipal Finance Management Act which does not make allowance for the provision of rehabilitation in the manner which the MPRDA requires. New policies and procedures had to be developed and are still being developed to accommodate this requirement of the MPRDA and final approval thereof is still pending both from the CoT's council and the DME.

The CoT has demonstrated willingness to comply with legislation and all of the requirements will eventually be satisfied. Unfortunately the MFMA and Financial By-laws restrict local authorities to

implement requirements within a short period. Budget limitation within the CoT is another restriction on implementation.

*Name: Michelle Fourie*

*Position: Administration Officer: Construction and Quarry Operations Belle Ombré Roads Depot*

*Date: 11 November 2009*

**Auditor's comments**

Management did respond as documented, but the CoT did not comply with all the requirements as listed in the finding and therefore this will be reported in the management report.

## COMPLIANCE

### 27. Non-compliance with laws and regulations with regard to audited annual financial statements received for Trade point Pretoria for the year ended 30 June 2009 (Ex 48)

#### Audit finding

We have received audited financial statements of Trade point Pretoria for the year ended 30 June 2009. Upon receiving these financial statements the following concerns came to our attention:

- Our understanding from the prior year's discussion and communications is that this company was under voluntary liquidation as per a council resolution on 25 November 2004, yet these financials statements received have been prepared on a going concern basis. Why has the liquidation and deregistration process taken so long?
- Also, we have a letter from Trade Point to the municipal manager, dated 4 August 2006, in which it is stated that the company will be voluntarily liquidated and closed down by 30 June 2006, yet this has not happened.
- The financial statements show that there is a bank account, investment income has been received and this was present in the prior year. During our discussions in the prior year it was indicated to us that there are no financial statements for Trade Point as it is under voluntary liquidation. The effect of this is as follows:
- If financials for the year 30 June 2008 had been prepared, why were these financials not presented to the Auditor-General for auditing in terms of section 126(2) of the MFMA?
- The consolidated financial statements of Tshwane for the year ended 30 June 2008 have been misstated as this bank accounts and the profit made on the investment were not consolidated in those statements.

Various communications by the Auditor-General in 2006 to the municipal manager and all accounting officers on municipal entities clearly stated that, in terms of section 92 of the MFMA, the Auditor-General must audit and report on the accounts, financial statements and financial management of each municipal entity. This is also clearly stipulated in the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), section 4(1)(e), where it states that the Auditor-General must audit and report on the accounts, financial statements and financial management of all municipal entities. This has resulted in a breach of legislation by the municipal entity by appointing their own auditors.

#### Root cause

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

#### Risk

- The consolidated annual financial statements of the City of Tshwane Metropolitan Municipality of the prior year are misstated.
- Non-compliance with laws and regulations

#### Recommendation

- All audited amounts relating to the municipal entity must be included in the consolidated financial statements of the municipality and the prior year figures should be corrected.
- The municipal entity must ensure that it complies with all the laws and regulations governing the entity.

## Management response

I refer to your above mentioned request dated 18 September 2009. The following can be stated as far as it pertains to your request:

### TRADEPOINT

The council resolved on 25 November 2004 to liquidate Trade point as the Tshwane Economic Development Agency (TEDA) would be replacing Trade point.

The board consented to winding up the company in a special general meeting dated 19 June 2006.

As part of the deregistration process in terms of section 73 of the Companies Act the directors signed declarations to confirm that the company is dormant and not conducting business.

Furthermore, for deregistration purposes financial statements up to 30 June 2009 were also drafted by the company's auditors. A copy was submitted to the auditors, PWC, who is conducting the audit on the dormant municipal entities for the financial year 2008-09.

The CoT will now proceed to transfer the funds left in the bank account into a suspense account of the CoT later to be paid out in terms of the board resolution of 2006. Thereafter deregistration of the company in terms of section 73 of the Companies Act will proceed.

All the non-compliance issues listed pertain to the actions required of an entity conducting business. As evident from the aforesaid, as well as from the documentation provided to PWC, this entity ceased operations in 2007 as a result of the said council resolution of 2004. No board meeting was held as the company is dormant, not conducting business.

In view of the above, the non-compliance issues are not applicable to Trade point.

Name: L. Mahaye

Position title: Acting strategic executive head office of the executive mayor and city manager

Date: 22 September 2009

### Audit finding 3(a)

I (Treasury Office) did not receive any formal statements from Trade point to Consolidate during 2007-08. Only a copy of the bank statement and a schedule of interest revenue and bank charges were submitted. As it was not formal statements that were also being submitted to the Office of the AG I could not use it to consolidate. The transactions according to the excel schedule indicated the following:

Interest on bank account (Revenue)	R4 145.25
Bank charges (expense)	R 568.60
Surplus for 2007-08	R3 576.65

These amounts are not material.

### Audit finding 3(b)

The misstatement of the consolidated financial statements of CoT is therefore immaterial. It was agreed with Marelize Louw from the AG that both the 2007-08 and 2008-09 information will be consolidated during the 2008-09 consolidation process as proper signed statements have been submitted for Trade point on 31 August 2009 i.e. 2008-09.

Statements on a going concern:

As far as I could find out, preparing the statement on a going concern or liquidation basis. It is just a note to the accounting policy to inform the users of the statements that the company/entity will probably be liquidated within the next financial year. If I get more information I will sent it through

*Name: Mr. PA van Der Walt*

*Position title: Executive Director: Treasury office*

*Date: 22 September 2009*

**Auditor's comments**

Management response has been noted, but the following matters have still not been addressed in the response:

Our understanding from the prior year's discussion and communications is that this company was under voluntary liquidation as per a council resolution taken on 25 November 2004, yet these financial statements received have been prepared on a going concern basis. Why has the liquidation and deregistration process taken so long?

Various communications by the Auditor-General in 2006 to the municipal manager and all accounting officers on municipal entities clearly stated that, in terms of section 92 of the MFMA, the Auditor-General must audit and report on the accounts, financial statements and financial management of each municipality entity. This is also clearly stipulated in the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), section 4(1)(e), where it states that the Auditor-General must audit and report on the accounts, financial statements and financial management of all municipal entities. This has resulted in a breach of legislation by the municipal entity by appointing their auditors.

**28. Non-compliance with laws and regulations with regard to audited annual financial statements received on Lebone Municipal Finance Corporation (Pty) Ltd for the year ended 28 February 2008 and three months ended 31 May 2008 (Ex 164)**

**Audit finding**

We have received audited financial statements of Lebone Municipal Finance Corporation (Pty) Ltd for the three months ended 31 May 2008. Upon receiving these financial statements the following concerns came to our attention:

- The financial statements for the three months ended 31 May 2008 were prepared, why were these financials not presented to the Auditor-General, for auditing, in terms of section 126(2) of the MFMA. The financial year end-was 28 February.
- Section 91 of the MFMA states that the financial year of a municipal entity must be the same as that of municipalities. Why was the financial year not amended in terms of section 91 of the MFMA at the Company and Intellectual Property Registration Office (CIPRO) as required by the Companies Act, 1973 (Act No. 61 of 1973)?
- As per various communications by the Auditor-General made in 2006 to the municipal manager and all accounting officers on municipal entities, where it was clearly stated that in terms of section 92 of the MFMA, the Auditor-General must audit and report on the accounts, financial statements and financial management of each municipality entity. This is also clearly stipulated in the PAA, where it states that the Auditor-General must audit and report on the accounts, financial statements and financial management of all municipal entities. This has resulted in a breach of legislation by the municipal entity by appointing their own auditors and not changing the company records at CIPRO in terms of the Companies Act.

**Root cause**

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

**Risk**

- The consolidated annual financial statements of the City of Tshwane Metropolitan Municipality of prior year are misstated.
- Non-compliance with laws and regulations

**Recommendation**

- All audited amounts relating to the municipal entity must be included in the consolidated financial statements of the municipality and the prior year figures should be corrected.
- The municipal entity must ensure that it complies with all the laws and regulation governing the entity.

**Management response**

*Audit finding 1*

The entity's accountants, JTC Chartered Accountants, compiled the financial statements for the year ended 28 February 2008 and the final financial statements ended 31 May 2008 on instruction of the entity.

The financial statements mentioned above were provided by the CT to PWC the agent acting on behalf of the AGSA in August 2008.



The aforesaid financial statements were again presented to PWC in August 2009 together with the final deregistration notice published in the Government Gazette of 17 April 2009.

It is the practice that in instances where external service providers are conducting an audit on behalf of the AGSA, all documents are submitted to the service provider requesting the information. PWC was conducting the audit on behalf of the AGSA and the financial statements were provided to PWC on two occasions. (i.e. August 2008 and August 2009)

The audit finding is thus not agreed with.

#### *Audit finding 2*

The Council resolved on 2 August 2007 that Lebone Municipal Finance Corporation (Pty) Ltd is to be deregistered. The entity ceased operations in 2007 as a result of the aforesaid council resolution of 2007 as well as the board resolution dated 20 December 2007 and has been dormant since December 2007.

Due to the aforesaid and due to the fact that the entity was in the process of being deregistered the financial year end of the entity was not amended from 28 February to 30 June.

The audit finding is agreed with save to say the entity has been deregistered and thus the non-compliance cannot be rectified.

#### *Audit finding 3*

The auditors (i.e. Messrs. JTC chartered Accountants) was appointed by Lebone to finalise deregistration of the entity in June 2006. The financial statements were drafted in line with his appointment as well as in accordance with the duties as the auditors of the company prescribed in section 301 of the Companies Act. The auditor was appointed by Lebone as the company's auditor when the company was established in 1999. Neither Lebone nor the CoT appointed the auditor to do the audit of the entity. It is unclear why the auditor did the audit on his own initiative.

The aforesaid does however not preclude the Auditor General of SA from executing its legislative obligation to audit and report on the accounts, financial statements and financial management of the municipal entity in terms of section 4(1)(e) of the Public Audit Act, 2004, nor does it in any way nullify the Auditor General of SA obligation. The Auditor General of SA must and should audit the closing down financial statements of the municipal entity in question. From the information available the AG is currently busy with the audit.

The audit finding is thus not agreed with.

Name: L. Mahaye

Position title: Acting strategic executive head office of the executive mayor and city manager

Date: 13 November 2009

### **Auditor's comments**

#### **Finding 1**

Management response noted, the CoT should ensure that the AFS are submitted to the Auditor-General and not to any of the companies doing the audit on its behalf.

#### **Finding 2**

Management response noted, as the MFMA was enacted in 2004, the financial year-end should have been changed in 2004.

**Finding 3**

The mere fact that a signed audit report was given indicates that an audit firm has done the audit and the company records at CIPRO have not been updated to show the Auditor-General is the auditor, but JTC Chartered Accountants acted as auditors.

## **29. Non-Compliance with section 125(2)(e) (Ex 218)**

### **Audit Finding**

In terms of sec 125(2)(e) of the MFMA, the notes to the financial statements of a municipality must disclose particulars of non-compliance with this act.

However inspection of the financial statements revealed that no such disclosure had been made despite the fact that the auditors had identified non-compliance with certain sections of this act

### **Root Cause**

Non-compliance with applicable laws and regulations

### **Risk**

Non-compliance with applicable laws and regulations

### **Recommendation**

Measures should be put in place to ensure that all relevant acts and regulations are complied with.

### **Management response**

Cognisance is taken of the finding. Cognisance should however, be taken that the disclosure note was not yet included in the financial statements as the audit is not yet finalised and all non-compliance issues identified by your office is not yet known.

The disclosure note will be included in the financial statements during the final round of audit adjustments, after discussion and clarification of the structure of the note with your Office.

*Name: Philip van der Walt*

*Position: Executive Director: Treasury Officer*

*Date: 16 November 2009*

### **Auditor's comments**

CoT provides us with the updated Financials where this matter has been included in note 34.7. However CoT only reported on items identified during the audit and therefore the finding will stay in the management report as we could not confirm if all non compliance have been reported by CoT.

## REVENUE (AG)

### 30. Traffic fines: Understatement of revenue from traffic fines (Ex 14)

#### Audit finding

There are no signed service level agreement between the CoT and the RTMC and therefore the accuracy, validity and completeness of commission revenue could not be verified.

Note must furthermore be taken of section 64(2)(h) of the MFMA act which require that all revenue received y the municipality, including revenue received by any collecting agent on its behalf, is reconciled at least on a weekly basis.

During the audit it was discovered that the commission revenue from traffic fines issued on behalf of AARTO is not yet recognised (commission revenue) as required by GRAP 19. The client indicated that the revenue included under the revenue GL from traffic fines is the total amount received, including the amount that belongs to AARTO, not only the portion that belongs to the CoT. The CoT uses two GL accounts GL811770 for non-AARTO fines and GL811799 for AARTO fines. The total amount as in GL811799 of R12 566 038,35 does not agree with the reconciliation provided for audit purposes

The following reconciliation was provided from E-Natis to us but it could not be verified to the amounts in the annual financial statements or GL accounts. The schedule is also not up to date as the system does not have a backlog and does not include all payments made as on 30 June 2009. We could not verify payments of fines which were paid directly at RTMC.

The descriptions of the headings of the table below are as follows:

- The paid amount relates to monies received by the CoT.
- The face value relates to the total of the fine issued – if you pay within 30 days you only need to pay 50%, the CoT receives 50% of all fines paid.
- Due to Tshwane 50% of what the CoT should receive of fines paid.
- Due to the RTMC if fines are paid after 30 days the RTMC should received the other 50% of paid fines.

<b>Total for the year</b>	<b>Paid Amount RAND</b>	<b>Face Value RAND</b>	<b>Due to Tshwane RAND</b>	<b>Due to RTMC RAND</b>
Fines issued by Tshwane and Paid at Tshwane – Discount amount paid	10 167 475.00	20 335 550.00	10 167 475.00	-
Fines issued by Tshwane and paid at Tshwane – Full penalty paid	1 743 350.00	1 743 350.00	871 675.00	871 675.00
Fines issued by Tshwane and paid at Tshwane – Courtesy letter, enforcement order and representation fees collected	292 660.00	2 578 150.00	-	292 660.00
Fines issued by Tshwane and discount amount paid at other collection agencies	2 580 150.00	5 174 400.00	2 580 150.00	-
Fines issued by Tshwane and full penalty paid at other collection agencies	206 400.00	206 400.00	103 200.00	-
Fines issued by other issuing authorities – Paid at Tshwane (3% collection fee due)	262 445.00	550 000.00	7 873.35	-
<b>Total</b>	<b>15 252 480.00</b>	<b>30 587 850.00</b>	<b>13 730 373.35</b>	<b>1 164 335.00</b>

## Root cause

Internal control deficiencies are not identified and communicated in a timely manner to those parties responsible for taking corrective action, and to management and the accounting officer/authority as appropriate.

## Risk

The revenue in the statement of financial performance is understated or overstated.

## Recommendation

- The City of Tshwane and AARTO should finalise their service level agreement to make it possible for the money to be paid into AARTO's bank account in order for them to receive their commission which they can recognise as revenue in the period to which it relates.
- The CoT should reclassify AARTO income as commission received as well as income receivable, which is monies received by the RTMC that should be paid over to the CoT and commission payable which is income received by the CoT which should be paid over to the RTMC.

## Management response

### *Service level agreement between CoT and RTMC*

This matter need to be addressed by the Metro Police Division.

### *Recognition of revenue iro AARTO fines*

We do not agree with the finding.

The total amount already received iro AARTO fines in the bank account of CoT amount to R11 939 842.01. The reconciliation supplied by the Metro Police Department was used to determine the relevant amounts regarding both the debtor (amount owed to CoT by RTMC) and the creditor (amount owed to RTMC by CoT). A copy of the journal is attached for your convenience.

The calculation was done as follows:

Total amount owed to CoT	R13 730 373.35
Less: Amount already received (GL 811799)	R11 939 842.01
Amount still owed to CoT	R 1 790 531.34 (debtor created in period 13)

The amount of R1 164 335.00 supplied by Metro Police Department was used to create the creditor in period 13 of June 2009.

The recommendation regarding the reclassification of AARTO fines between income as commission received, income receivable and income which was received by CoT which should be paid over to RTMC can only be investigated and possibly introduced upon the receipt of more updated information from E-Natis on a regular basis. The information which was used for the 2008-09 financial statements was only received during July 2009 for inclusion in the financial statements. This reclassification also needs to be addressed with the Budget Process as a matter of urgency.

### ***Updated E-Natis system***

This matter should be addressed by the Metro Police Department.

### *Usage of two different GL account numbers*

Two different GL accounts are used due to the different nature of the types of fines. GL 811770 is used to account for the former TRAFMAN system fines. For management purposes a new GL account number was opened for the accounting for AARTO fines.

*Name:* Basil Dinga Nkhwashu

*Position:* COMMANDER: Prosecutions Services

*Date:* 22 September 2009

**Auditor's comments**

Management response has been noted. The matter relating to the fact that there is no service level agreement will be reported in the management report. The fact that there is no service level agreement, the completeness of fines paid either at the CoT or at AARTO could not be confirmed.

Note must furthermore be taken of section 64(2)(h) of the MFMA act which require that all revenue received y the municipality, including revenue received by any collecting agent on its behalf, is reconciled at least on a weekly basis.

The rest of the finding has been confirmed and cleared.

### 31. Revenue licensing and permits: Revenue overstatement in licensing department (Ex 15)

#### Audit finding

During the audit we discovered that the following GL accounts were credited with the incorrect amounts, although the journals were processed by Mpho Mabidilala and such journals were released by Swanepoel after being approved.

GL accounts affected 811705 and 812906

No.	Months	FULL AMOUNT	COMMISSION	RECALCULATED	DIFFERENCE
<b>1</b>	July				
	Motor registration and licence fees	R 33 485 211.86	R 6 225 541.65	R 6 225 541.65	R 0.00
	Fees in respect of direct income	R 403 639.50	R 341 731.00	R 341 731.00	R 0.00
	Fees in respect of roadworthiness	R 88 602.00	R 88 602.00	R 88 602.00	R 0.00
	Fees in respect of driver's licence	R 2 935 238.00	R 1 881 853.26	R 1 881 853.26	R 0.00
	Fees in respect of instructor's certificates	R 3 828.00	R 382.80	R 382.80	R 0.00
	<b>Total</b>	<b>R 36 916 519.36</b>	<b>R 8 538 110.71</b>	<b>R 8 538 110.71</b>	
<b>2</b>	August				
	Motor registration and licence fees	R 25 949 663.51	R 4 826 752.81	R 4 826 752.81	R 0.00
	Fees in respect of direct income	R 368 321.89	R 301 442.00	R 301 442.00	R 0.00
	Fees in respect of roadworthiness	R 80 444.00	R 80 444.00	R 80 444.00	R 0.00
	Fees in respect of driver's licence	R 2 623 775.00	R 1 719 389.79	R 1 719 389.79	R 0.00
	Fees in respect of instructors certificates	R 2 358.00	R 235.80	R 235.80	R 0.00
	<b>Total</b>	<b>R 29 024 562.40</b>	<b>R 6 928 264.40</b>	<b>R 6 928 264.40</b>	
<b>3</b>	September				
	Motor registration and licence fees	R 35 340 387.38	R 6 544 835.84	R 6 544 835.84	R 0.00
	Fees in respect of direct income	R 422 205.00	R 395 572.80	R 327 204.00	R 68,368.80
	Fees in respect of roadworthiness	R 82 220.00	R 82 220.00	R 82 220.00	R 0.00
	Fees in respect of driver's licence	R 2 496 335.00	R 1 606 862.71	R 1 606 862.71	R 0.00
	Fees in respect of instructor's certificates	R 1 590.00	R 159.00	R 159.00	R 0.00
	<b>Total</b>	<b>R 38 342 737.38</b>	<b>R 8 629 650.35</b>	<b>R 8 561 281.55</b>	

<b>4</b>	October				
	Motor registration and licence fees	R 34 053 473.26	R 6 300 415.72	R 6 300 415.72	R 0.00
	Fees in respect of direct income	R 421 543.00	R 397 379.60	R 342 726.00	R 54,653.60
	Fees in respect of roadworthiness	R 94 544.00	R 94 544.00	R 94 544.00	R 0.00
	Fees in respect of driver's licence	R 2 766 530.00	R 1 740 379.44	R 1 740 379.44	R 0.00
	Fees in respect of instructor's certificates	R 216.00	R 21.60	R 21.60	R 0.00
	<b>Total</b>	<b>R 37 336 306.26</b>	<b>R 8 532 740.36</b>	<b>R 8 478 086.76</b>	
<b>5</b>	November				
	Motor registration and licence fees	R 28 503 272.50	R 5 230 273.37	R 5 283 699.97	-53426.60
	Fees in respect of direct income	R 329 219.25	R 308 032.60	R 254 606.00	53426.60
	Fees in respect of roadworthiness	R 78 757.00	R 78 757.00	R 78 757.00	0.00
	Fees in respect of driver's licence	R 2 388 137.00	R 1 537 148.68	R 1 537 148.68	0.00
	Fees in respect of instructor's certificates	R 1 944.00	R 194.40	R 194.40	0.00
	<b>Total</b>	<b>R 31 301 329.75</b>	<b>R 7 154 406.05</b>	<b>R 7 154 406.05</b>	
<b>6</b>	December				
	Motor registration and licence fees	R 28 201 199.90	R 5 095 501.70	R 5 164 864.42	-R 69,362.72
	Fees in respect of direct income	R 328 806.40	R 303 920.72	R 234 618.00	R 69,302.72
	Fees in respect of roadworthiness	66 090.00	R 66 090.00	R 66 090.00	R 0.00
	Fees in respect of driver's licence	R 1 853 107.00	R 1 181 238.40	R 1 181 238.40	R 0.00
	Fees in respect of instructor's certificates	R 832.00	R 83.20	R 83.20	R 0.00
	<b>Total</b>	<b>R 30 450 035.30</b>	<b>R 6 646 834.02</b>	<b>R 6 646 894.02</b>	
<b>7</b>	January				
	Motor registration and licence fees	R 37 819 821.31	R 6 978 857.07	R 6 978 857.07	R 0.00
	Fees in respect of direct income	R 509 360.50	R 227 662.00	R 227 662.00	R 0.00
	Fees in respect of roadworthiness	R 81 679.00	R 81 679.00	R 81 679.00	R 0.00
	Fees in respect of driver's licence	R 2 443 757.00	R 1 551 705.00	R 1 551 705.00	R 0.00
	Fees in respect of	R 2 564.00	R 256.40	R 256.40	R 0.00



	Instructor's certificates				
	<b>Total</b>	<b>R 40 857 181.81</b>	<b>R 8 840 159.47</b>	<b>R 8 840 159.47</b>	
8	February				
	Motor registration and licence fees	R 29 645 590.19	R 5 500 184.31	R 5 500 184.31	R 0.00
	Fees in respect of direct income	R 411 590.96	R 387 872.37	R 326 838.00	R 61,034.37
	Fees in respect of roadworthiness	R 69 267.00	R 69 267.00	R 69 267.00	R 0.00
	Fees in respect of driver's licence	R 2 381 204.00	R 1 546 353.22	R 1 546 353.22	R 0.00
	Fees in respect of instructor's certificates	R 2 224.00	R 222.40	R 222.40	R 0.00
	<b>Total</b>	<b>R 32 509 876.15</b>	<b>R 7 503 899.30</b>	<b>R 7 442 864.93</b>	
9	March				
	Motor registration and licence fees	R 32 935 263.87	R 6 094 001.25	R 6 094 001.25	R 0.00
	Fees in respect of direct income	R 927 271.78	R 896 705.42	812600	R 84,105.42
	Fees in respect of roadworthiness	R 70 702.00	R 70 702.00	R 70 702.00	R 0.00
	Fees in respect of driver's licence	R 2 563 396.00	R 1 648 334.98	R 1 648 334.98	R 0.00
	Fees in respect of instructor's certificates	R 1 774.00	R 177.20	R 177.20	R 0.00
	<b>Total</b>	<b>R 36 498 407.65</b>	<b>R 8 709 920.85</b>	<b>R 8 625 815.43</b>	
10	April				
	Motor registration and licence fees	R 31 596 799.89	R 5 882 291.40	R 5 882 291.40	R 0.00
	Fees in respect of direct income	R 416 463.00	R 396 100.40	R 339 370.00	R 56,730.40
	<b>Fees in respect of roadworthiness</b>	<b>R 68 665.00</b>	<b>R 68 665.00</b>	<b>R 68 665.00</b>	R 0.00
	Fees in respect of driver's licence	R 2 191 569.00	R 1 385 283.85	R 1 385 283.85	R 0.00
	Fees in respect of instructor's certificates	R 2 250.00	R 225.00	225	R 0.00
	<b>Total</b>	<b>R 34 275 746.89</b>	<b>R 7 732 565.65</b>	<b>R 7 675 835.25</b>	
11	May				
	<b>Motor registration and licence fees</b>	<b>R 34 641 646.25</b>	<b>R 6 469 081.89</b>	<b>R 6 469 081.89</b>	R 0.00
	Fees in respect of direct income	R 464 101.50	R 439 539.20	R 367 650.00	R 71,889.20
	Fees in respect of roadworthiness	R 62 545.00	R 62 545.00	62545	R 0.00

	Fees in respect of driver's licence	R 2 391 531.00	R 1 510 087.87	R 1 510 087.87	R 0.00
	Fees in respect of instructor's certificates	R 2 050.00	R 205.00	R 205.00	R 0.00
	Total	R 37 561 873.75	R 8 481 458.96	R 8 409 569.76	
12	June				
	Motor registration and licence fees	R 35 126 320.31	R 6 565 507.32	R 6 565 507.32	R 0.00
	Fees in respect of direct income	R 426 638.00	R 408 969.40	R 363 255.00	R 45,714.40
	Fees in respect of roadworthiness	R 76 900.00	R 76 900.00	R 76 900.00	R 0.00
	<b>Fees in respect of drivers license</b>	<b>R 2 532 057.00</b>	<b>R 1 632 346.91</b>	<b>R 1 632 346.91</b>	R 0.00
	Fees in respect of instructor's certificates	R 2 300.00	R 230.00	R 230.00	R 0.00
	Total	R 38 164 215.31	R 8 683 953.63	R 8 638 239.23	

Over-stated

565 225.51

Under-stated

(122 789.32)

### Root cause

The processing of the wrong amount was due to duplicates journals which were sent to BKS.

### Risk

- Accrued commission and revenue in the financial statement will be overstated.
- The City of Tshwane might have claimed some money that they were not entitled to because of incorrect accruals raised against revenue.

### Recommendation

- When monthly journals are prepared, all the figures that get posted to one GL account should be added together and posted as such. The following serves as an example:
- Motor trade numbers, roadworthy certificates and direct income figures should be added together and posted to the 811705 GL account as one amount to avoid double or incorrect posting of an amount.

### Management response

The department cannot agree with the findings reflected for May and June 2009. According to the journals that were captured for these months revenue was not overstated and the correct amounts were journalized. Only the calculation of commission and the division of income per GL account were taken into consideration when the audit findings were populated.

Rectification/corrections that were made could therefore not be identified by the Auditor due to the fact that the actual journals captured were not included in the population.

In regard to the findings reflected for March 2009, February 2009, October and September 2008, that commission for those months was overrated, the department is in agreement. The cause of the misstatements was examined and the discussed as follows:

Reasons for deviation: Misstatements is due to revenue form Motor trade numbers not being deducted from direct income even though it had already been recorded as a separate income type. This resulted in the duplication of revenue received for Motor trade number plates. Deviations were due to human error when compiling and calculating revenue per income type (GL number) on different templates and reconciliation between the calculation templates and the journals.

Adjustment: Journal entries will be captured to correct the misstatements in order to ensure that the correct revenue is reflected in the GI811705 (Motor trade numbers)

Corrective measures: Templates used to calculate revenue per income type are to be amended in order to ensure that each revenue type is calculated separately and be amended in order to ensure that each revenue type is calculated separately and recorded as such. Reconciliation between SAP journal and the division of income template will be done and signed off by 2 individuals after being balanced and checked before commission can be captured on SAP and forwarded to the Director.

The department does not agree with the total revenue for November and December 2008 and April 2009 that it was overstated. However there was a misstatement but only in terms of 2 individual revenue types which make up the total commission due to Licensing. Revenue collected for matter trade numbers was deducted from revenue for matter vehicle licenses fees instead of direct income in order for it to be reflected as a separate income type and to distinguish it from income that Cot licensing received 100% commission.

Deviations were due to human error when compiling and calculating revenue per income type (Gel accounts) on different templates and reconciliation between the calculation templates and the journals resulting in revenue being allocated to the incorrect GL but within licensing's portfolio of GL accounts hence having one GL understated and one overstated but the total commission being correct.

Journal entries are to be compiled and captured to correct the misstatements in each affected GL account. Commission calculated for those months will remain the same

Templates used to calculate revenue per income type are to be amended in order to ensure that each revenue type is calculated separately and recorded as such. Reconciliation between the SAP journal and the division of income template will be done and signed off by 2 individuals after being balanced and checked before commission can be captured on SAP and forwarded to the Director for final approval.

In conclusion Cot did not claim money that it was not entitled to because the division of revenue/commission into different revenue types is only calculated after the total commission due has been calculated. The revenue types are only calculated after the total commission due has been calculated. The revenue that was misstated will not be paid over to the department of transport. It was revenue that will still belong to CoT but not revenue from licensing activates. Our examination of the audit findings has been included as part of this response.

*Name: Devenand Loykisoonaal*

*Position: Deputy Director: Formal & Informal Business Regulation & Compliance Project Management Local Economic Development*

*Date: 23 October 2009*

#### **Auditor's comments**

Management response have been noted and correction journals will be reviewed when period 15 has been opened and corrections have been made.

No supporting documents were, however, provided for the variance of May and June 2009 where the CoT indicates that they do not agree that the auditors only used the commission and the division of income GL for population. The CoT should provide the auditors with the updated information.

No.	Months	FULL AMOUNT	COMMISSION	RECALCULATE	DIFFERENCE
	<b>May</b>				
	<b>Motor registration and License fees</b>	<b>R 34 641 646.25</b>	<b>R 6 469 081.89</b>	<b>R 6 469 081.89</b>	R 0.00
	Fees in respect of direct income	R 464 101.50	R 439 539.20	R 367 650.00	R 71 889.20
	Fees in respect of roadworthiness	R 62 545.00	R 62 545.00	62545	R 0.00
	Fees in respect of driver's license	R 2 391 531.00	R 1 510 087.87	R 1 510 087.87	R 0.00
	Fees in respect of instructor's certificates	R 2 050.00	R 205.00	R 205.00	R 0.00
	Total	R 37 561 873.75	R 8 481 458.96	R 8 409 569.76	
	<b>June</b>				
	Motor registration and license fees	R 35 126 320.31	R 6 565 507.32	R 6 565 507.32	R 0.00
	Fees in respect of direct income	R 426 638.00	R 408 969.40	R 363 255.00	R 45 714.40
	Fees in respect of roadworthiness	R 76 900.00	R 76 900.00	R 76 900.00	R 0.00
	<b>Fees in respect of drivers license</b>	<b>R 2 532 057.00</b>	<b>R 1 632 346.91</b>	<b>R 1 632 346.91</b>	R 0.00
	Fees in respect of instructor's certificates	R 2 300.00	R 230.00	R 230.00	R 0.00
	Total	R 38 164 215.31	R 8 683 953.63	8 638 239.23	

## **32. Revenue licensing and permits: GL account 812906 has been misclassified (Ex 56)**

### **Audit finding**

During the audit of licences and permits we have discovered that GL account: 812906 described as Refund: Motor Vehicle Licenses: T.P.A has been misclassified as operational government grants and subsidies.

We have discussed this with the functional head at Saambou: Solly Maluleke and he confirmed that the account is for licences and permits: motor vehicle licence fees (income).

Details of the account are as follows:

GL account 812906: Refund motor vehicle licences: T.P.A (2007-08: R58 252 438) 2008-09 R71 656 513,61

This matter was also reported on during 2007-08 and management indicated that they will correct it for the 2008-09 financial years

### **Root cause**

Written procedures, authorisations, record keeping, management reviews and asset safeguards are not segregated to prevent fraudulent financial data and asset misappropriation.

### **Risk**

Licences and permits may be understated and operational government grants and subsidies may be overstated

### **Recommendation**

General ledger accounts should be properly classified.

### **Management response**

Corrective measures and adjustments are to be taken with consultation between the Municipal budget office as well as Financial Accounting services (both CoT finance department). The recommendation to have all GL accounts that reflect income from licensing activities to be integrated under a centralized heading has already been submitted to the Finance department. The license finance office has commenced with efforts to ensure that the different units in the finance department assist in solving the query and a meeting to address the issue before the finalization of the adjustment budget has already been requested.

*Name: Devenand Loykisoona*

*Position: Deputy Director: Formal & Informal Business Regulation & Compliance Project Management Local Economic Development*

*Date: 23 October 2009*

### **Auditor's comments**

Management comment has been noted. As this is only a classification problem it will not be reported on in the audit report, but until management provides the auditors with supporting documents of corrections this matter will be included in the management report

### 33. Rentals – Incorrect cut-off of the transaction (Ex 37)

#### Audit finding

During the audit of rental of facilities it was noted that the dates on which services were rendered as per invoice do not fall within the current financial period, but these dates pertain to 2007-08 financial year.

Assignment	Document no.	Doc. Date	Amount RAND
20080731	100008448	7/31/2008	-3 453.60
20080731	100008516	7/31/2008	-4 786.10

#### Root cause

Pertinent information is not identified, captured, used at all levels of the company and distributed in a form and time frame that support the achievement of financial reporting objectives.

#### Risk

Overstatement of current year's revenue and understatement of debtors

#### Recommendation

Establish a system that enables the identification of information captured, used at all levels of the company and distributed in a form and time frame that support the achievement of financial reporting objectives.

All rental income should be reviewed and the City of Tshwane should confirm that income is captured within the financial year when the service was rendered.

#### Management response

I am [not] in agreement with the finding for the following reasons [and supply the following/attached information in support of this]:

*Name: Jerry Mabena*

*Position:*

*Date: 12 October 2009*

#### Auditor's comments

- Management response inadequate
- This matter will be reported on as no further information has been provided by management.

**34. R&R: Reconciliation for the general ledger account 811900 Public Contribution – Electricity (Ex 40)**

**Audit finding**

During the audit of public contributions it came to our attention that monthly reconciliations were not prepared for account no. 811900 between the cash received and SAP for the following general ledger account:

<b>General ledger account</b>	<b>General ledger name</b>	<b>Balance (R)</b>
811900	Township Contribution Development: Consent use	(86,653,638.89)
<b>Total</b>		<b>(86,653,638.89)</b>

As a result of the above the following contributions could not be traced to the general ledger account (811900) and could therefore result in a limitation of scope:

<b>Property description</b>	<b>Receipts date</b>	<b>Receipt no.</b>	<b>Amount (R)</b>
ARCADIA, 1566/R	04/12/2008	T772820	205,884.00
WATERKLOOF GLEN X 11	19/12/2008	T772829	3,514,783.00
KOSMOSDAL X 53	2009/04/02	T772854	727,157.57
CHANTELLE X 24	2009/06/02	T772863	416,617.62
HEATHERVIEW X 39	19/02/2009	T772879	180,741.30
BEAU RIVAGE	25/02/2009	T772890	1,466,610.00
SINOVILLE X 27	06/03/2009	T772897	420,333.20
WATERKLOOF GLEN X 2, 857	10/03/2009	T772901	211,789.20
ZWARTKOP 356 JR, 169	18/03/2009	T772907	176,198.40
SOSHANGUVE X 6	25/03/2009	T772913	414,751.11
HATFIELD, 608/2	27/03/2009	T772917	615,030.00
WATERKLOOF HEIGHTS X 5	26/06/2009	T773000	196,196.28
THE REEDS X 34, 4848 – 4875	26/06/2009	T773010	199,500.00
THE REEDS X 31, 4658 – 4687	29/06/2009	T773011	213,750.00
MAHUBE VALLEY X 21 & 24	30/06/2009	T773016	2,487,285.06
BROOKLYN, 891	30/06/2009	T773017	202,213.20
PRETORIUS PARK X 23 & 35	30/06/2009	T773020	2,799,900.48
KOSMOSDAL X 6	30/06/2009	T773022	377,910.00
CELTISDAL X 29	30/06/2009	T773026	402,691.53
ARCADIA, 1562	05/11/2009	T773686	202,692.00

Although reviewing controls were in place for the other general ledger accounts in respect of public contributions, proper reviewing controls were not in place in respect of the preparation, reviewing and sign-off of reconciliations by the senior officials as well as the follow-up and clearing of differences in respect of the above account.

### **Root cause**

Ongoing monitoring of public contributions for the above account is not undertaken by management to determine whether internal control over financial reporting is present and functioning.

### **Risk**

- Incorrect classification of required services in the general ledger accounts
- Errors that occurred will not be detected and corrected timeously.
- Override of monitoring (supervisory) controls
- Invalid transactions as well as possible misstatements of the general ledger account

### **Recommendation**

- All receipts, tax invoices and proclamation letters should be conveyed to a centralised senior administrative clerk (preferably the person responsible for performing the reconciliation).
- Monthly reconciliations should be performed with supporting documentation and compared to the relevant general ledger accounts.
- Differences should be followed up and appropriate explanations obtained for differences.
- Files containing copies of proclamation letters, tax invoices and receipts should be stored and kept safely at all times.
- A senior official should also select a sample of transactions and physically verify the supporting documentation to the reconciliations to ensure correctness and occurrence thereof before signing the reconciliations as having been reviewed and that differences are timely followed up and cleared.

### **Management response**

Verification of contributions traced to General Ledger account 811900:

The information requested on Audit Finding Ex 40 of 2009 was provided to the office of the Auditor-General on 07 October 2009.

Acknowledgement

The Division acknowledges that monthly reconciliations were not done but henceforth the Division will introduce procedures and control measures to ensure that reconciliations of the above-mentioned GL is done on monthly basis.

*Name: David Mahlangu*

*Position: Acting Executive Director*

*Date: 14 October 2009*

### **Auditor's comments**

- Reconciliations issue (controls)
- Controls implemented by the municipality in respect of the reconciliations will be tested during the 2009-10 financial year.



## 35. R&R: Restatement for public contributions (Ex 100)

### Audit finding

1. Correction of prior period errors should be corrected as prescribed in accordance with GRAP 3.41-.49 and is as follows:

#### *“Errors*

- .41 Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Standards of GRAP if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity’s financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are authorised for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period (see paragraphs .42 - .47).
- .42 Subject to paragraph .43, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by:
  - (a) Restating the comparative amounts for the prior period(s) presented in which the error occurred; or
  - (b) If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets for the earliest prior period presented.

#### *Limitations on retrospective restatement*

- .43 A prior period error shall be corrected by retrospective restatement except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error.
- .44 When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable (which may be the current period).
- .45 When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity shall restate the comparative information to correct the error prospectively from the earliest date practicable.
- .46 The correction of a prior period error is excluded from surplus or deficit for the period in which the error is discovered. Any information presented about prior periods, including any historical summaries of financial data, is restated as far back as is practicable.
- .47 When it is impracticable to determine the amount of an error (e.g. a mistake in applying an accounting policy) for all prior periods, the entity, in accordance with paragraph .45, restates the comparative information prospectively from the earliest date practicable. It therefore disregards the portion of the cumulative restatement of assets, liabilities and net assets arising before that date. Paragraphs .50- .53 provide guidance on when it is impracticable to correct an error for one or more prior periods.
- .48 Corrections of errors are distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need revision as additional information becomes known. For example, the gain or loss recognised on the outcome of a contingency is not the correction of an error.

#### *Disclosure of prior period errors*

- .49 In applying paragraph .42, an entity shall disclose the following:
  - (a) The nature of the prior period error;

- (b) For each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;
- (c) The amount of the correction at the beginning of the earliest prior period presented; and
- (d) If retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.”

Financial statements of subsequent periods need not repeat these disclosures.

During the audit of the comparative figures of public contributions recorded in the statement of financial performance stated at R150 033 829, it came to our attention that a restatement to the amount of R15 340 771,20 was made. Upon further investigation of the relevant transactions it came to our attention that these amounts were received from the Independent Election Commission in respect of the 2004 general elections and incorrectly accrued for as public contributions during the 2004-05 financial year. This resulted in incorrectly restating the comparative figures and not the restating the opening balances of assets, liabilities and net assets for the earliest prior period presented as prescribed according to GRAP 3.42(b). The comparative figure of R150 033 829 in respect of public contributions was therefore incorrectly restated by an amount of R15 340 771,20 and not the accumulated surplus as prescribed according to GRAP 3. This correction was not correctly disclosed in note 43 to the financial statements as prescribed according to the minimum requirements of GRAP 3. The breakdown of the amount is as follow:

Document no.	Date	Amount (R)
100000148	07/12/2004	6,892,430.46
100001324	15/12/2004	6,158,820.33
100001324	15/12/2004	2,289,520.41
<b>Total</b>		<b>15,340,771.20</b>

2. Proper supporting documents, such as agreements between the City of Tshwane and the Independent Election Commissioner were not provided for audit purposes to ensure that the amount was utilised for purposes intended.

#### **Root cause**

Ongoing monitoring of public contributions for the above account is not undertaken by management to determine whether internal control over financial reporting is present and functioning.

#### **Risk**

- Overstatement of comparative figures in respect of public contributions in the incorrect financial year.
- Limitation of scope

#### **Recommendation**

Proper monitoring controls need to be implemented in respect of corrections of prior periods. It should be considered to adjust the financial statements accordingly to ensure the correct disclosure thereof in the financial statements.

**Management response**

We agree with the audit finding. The incorrect restatement of the financial statements will be reversed and the correct prior period restatement will be done together with the next round of audit adjustments as agreed with your Office.

No agreement between the City of Tshwane and the Independent Election Commissioner was entered into as the work was done by the City of Tshwane and the IEC opted at their own discretion to repay a certain amount of the expenses incurred by the municipality.

Control procedures have in the meantime been instituted and reconciliations have to be performed with regard to public contribution general ledger accounts to prevent the incorrect allocation of receipts to these accounts.

The amended statements will be presented to your Office no later than 6 November 2009 as the next batch of audit adjustments will be processed during the week of 1 November 2009.

*Name: Philip van der Walt*

*Position: Executive Director: Treasury Officer*

*Date: 28 October 2009*

**Auditor's comments**

The adjustment for the disclosure will be verified as soon as adjusted financial statements are received.

### 36. R&R: Transport income: Monthly reconciliations discrepancies (Ex 94)

#### Audit finding

During the audit of transport income an audit finding (Exception 41) regarding the monthly reconciliation not provided for audit purposes was submitted to the auditee. Subsequently, the outstanding monthly reconciliations were submitted for audit purposes. However, it was discovered that the monthly reconciliations for the month of April 2009 and May 2009 were compiled, prepared and reviewed on 15 April 2009, which is the date before month-end.

Furthermore, the following discrepancies were noted between the general ledger and the reconciliations submitted:

Month	Amount per SAP/GL (R)	Total ticket sales per month(R)	Difference (R)
1. May 2009	R 4,635,233.38	R 3,969,950.66	R 665,282.72
2. June 2009	R 5,791,540.46	R 4,885,298.42	R 906,242.04
<b>Total</b>	<b>R 10,426,773.84</b>	<b>R 8,855,249.08</b>	<b>R 1,571,524.76</b>

#### Root cause

- Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.
- Integrity and ethical values have not been developed and are not understood to set the standard for financial reporting.

#### Risk

- Fraudulent transactions
- Overstatement/Understatement of account balance
- Errors occurred will not be timeously detected and corrected.

#### Recommendation

- Management should ensure that all the transactions that occurred are captured at the correct amount prior to review and authorisation.
- Management, together with all the employees, should do their work with integrity.

#### Management response

Management comment still outstanding

Name:

Position:

Date:

#### Auditor's comments

Awaiting Management response

### 37. R&R – Solid waste – Reconciliations (Ex 43)

#### Audit finding

While performing audit procedures pertaining to solid waste, the following were identified in respect of reconciliations:

Appropriate reconciliations are not performed between the SAP general ledger and the PASTEL general ledger for dumping fees and bulk containers. Furthermore, the balance as per the SAP general ledger does not agree with the balances as per the PASTEL general ledger. The following differences were identified:

<b>Dumping fees 811756</b>	<b>(R)</b>
Balance as per Pastel as at 30 June 2009: (Invoices less credit notes)	34 070 251.01
Balance as per SAP as at 30 June 2009:	11 957 349.24
Differences identified	<b>22 112 901.77</b>

<b>Bulk containers 811757</b>	<b>(R)</b>
Balance as per Pastel as at 30 June 2008: (Invoices less credit notes)	27 651 582.43
Balance as per SAP as at 30 June 2008:	28 341 195.02
Differences identified	<b>(689 612.59)</b>

#### Root cause

Ongoing monitoring of solid waste (bulk containers and dumping fees) is not undertaken by management to determine whether internal control over financial reporting is present and functioning.

#### Risk

- Overstatement/Understatement of account balance
- Misappropriation of figures
- Errors that occurred will not be timeously detected and corrected.
- VAT forms may be incorrectly stated

#### Recommendation

- Appropriate reconciliations should be performed between the PASTEL ledger accounts and the SAP general ledger accounts.
- Reconciliations should be performed at least on a monthly basis.
- Reconciliations should be dated and signed by the preparer.
- Reconciliations should be reviewed by an independent third party, and the reviewer should sign and date reconciliations after review.

#### Management response

The figures below are the amount that we have on our system for dumping fees and bulk containers. In the audit of the previous financial year our department was instructed to, by Mr Sureshan of the auditor general not to create any invoices for the vehicles that belong to the Waste

management Department Division. Our department was also instructed to reverse the invoices already generated for waste management vehicles up to that stage for 3 months to the amount of R 21 392 443.87. This was done by way of journal.

The cost calculation according to our figures are as follows:

**Dumping fees:**

Summary of dumping fees as per our records:	34 070 251.01
LESS: Waste management invoices reversed:	(21 392 443.87)
NET Income as per our records:	12 677 807.14
Income as per SAP records:	11 957 349.24
<b>Difference:</b>	<b>720 457.90</b>

**Bulk containers:**

Summary of bulk containers as per our records:	27 651 582.43
Totals as per SAP:	28 341 195.02
<b>Difference:</b>	<b>(689 612.59)</b>

The difference in amounts can be attributed to cut-off times when the accounts are closed.

The accounts of Ngema consultants are closed on the 14th of each month.

The Department is also currently performing monthly reconciliations and are also in consultation with the Finance

Division to simplify the reports to ensure that the reconciliations can be done more effectively.

All the reconciliations will be signed and dated by the preparer, Ngema Financial consultants as well as a independent third party.

**Auditor's comments**

Management response noted and followed up. The R21 392 443,87 was in respect of inter-department billings between dumping fees and refuse removal. This was only charged on the PASTEL system and therefore deducted. This was satisfactory tested. The total unreconciled items were (R689 612,59) and R720 457,90 for the financial year under review and will be included in the schedules of possible misstatements. Controls implemented in respect of this will be followed up during the audit of the 2009-10 financial year.

## **38. Limitation of Scope – Fraud investigations (Ex 67)**

### **Audit finding**

During the audit a document request was issued on 19 October 2009 for all internal investigations and fraudulent activities reported to Tshwane in respect of revenue and receivables as well as the progress of follow-up as well as the impact of each case on the financial statements. Management did, however, respond, but only a summary of three isolated incidents was provided and this is thus not sufficient, therefore a limitation of scope arises for the documentation requested as supporting documentation as well as the impact thereof on the financial statements could not be tested.

It could furthermore not be verified if all these cases were reported to the relevant delegated sections, such as internal audit and risks management, to ensure that relevant risks associated with these cases are identified and mitigated by implementation of sufficient controls to ensure that the municipality complies with section 95(c) and (f) of the MFMA.

### **Root cause**

- Management's philosophy and operating style do not promote effective control over financial reporting.
- Actions are not taken to address risks to the achievement of financial reporting objectives.
- Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.

### **Risk**

- Limitation of scope on work performed by auditors
- Fraudulent activities may take place without proper controls to detect and prevent fraudulent financial data being reported in the financial statements of the auditee.

### **Recommendation**

- Information should be provided as soon as possible to the auditors in order to conclude on the regularity audit.
- Proper controls need to be implemented to ensure that registers are kept in respect of the cases received as well as the progress and impact on the financial statements.
- These cases should be communicated to the risk management officer and the internal auditor should monitor the progress of cases reported.

### **Management response**

The cases that we gave you are the cases that have been investigated and criminal cases were opened by Metro Police.

Two Employees resigned with immediate effect and criminal case has been opened against the ex-employee.

One Employee was suspended.

I am not aware of any other cases of fraud that were opened against any employee in Revenue Management thus it is not correct to say that the cases I gave you are isolated.

With the controls in-place we are aggressively investigating an alleged "syndicate" that is "alleged" to be operating in revenue management and we are following all leads.

Until we have concrete evidence we can only report on the cases known.

All these three cases were handed to City of Tshwane Metro Police and South African Police Services, Internal Audit was verbally advised of the known cases.

City of Tshwane's Legal Services Division and Human Resources Division is aware of the cases hence the suspension of one employee.

I don't agree that this was a limitation of scope as we gave you all the information on known investigations were civil cases were opened and internal disciplinary actions are in progress.

If the Office of the Auditor General is aware of any other allegations that need investigation, we will gladly investigate but we can ONLY report on what we know and have taken steps against.

*Name: Andile Dyakala*

*Position: Executive Director*

*Date: 16 November 2009*

#### **Auditor's comments**

1. Based on the mentioned Management response, auditors do not agree with Management response as via verbal communication with the relevant investigator at revenue management it came to our attention that various allegations are currently being investigated. These allegations were not registered to ensure that these allegations are properly addressed.
2. Based on Management response it is furthermore evident that proper policies and procedures do not exist and are not communicated to all sections to ensure that the correct processes are followed in respect of risks management as well as internal investigations being performed.
3. The impact of these alleged allegations currently being investigated by management as well as the impact thereof on amounts included in revenue and debtors were not provided for audit purposes.
4. Controls implemented by management in respect of the mentioned findings will be followed up during the audit of the 2009/10 financial year.



### 39. R&R – Housing and land sales – Land sales transaction has no city council approval (Ex 85)

#### Audit finding

According to section 14(2) of the MFMA a municipality may transfer ownership or otherwise dispose of a capital asset other than the one contemplated in subsection (1), but only after the municipal council, in a meeting open to the public:

1. has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services
2. has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.

The council resolution in respect of the following property that was sold and accounted for as revenue in respect of housing and land sales, was not provided for audit purposes and as a result compliance with the MFMA could not be verified in respect of the above:

ACCOUNT NO.	NAME	SURBURB	ERF NUMBER	DATE	JNL NO	AMOUNT (R)
31519 64200 15023 174942	JABU PROPERTY INVESTMENT (PTY)LTD	MAMELODI	ERF19642	30/07/2008	000006	249 000.00

#### Root cause

Proper reviews of operations, processes and activities are not undertaken by management to ensure that they are in compliance with regulations, policies and procedures, or other requirements.

#### Risk

Limitation of scope in respect of the compliance with section 14 of the MFMA

#### Recommendation

- Policies and procedures related to the alienation of land should be established and communicated throughout the entity.
- The relevant approval from the council needs to be provided for audit purposes to ensure that the municipality complied with section 14 of the MFMA and that the property was sold as per the agreed council resolution.

#### Management response

No transfers have therefore been allowed by this section and therefore council has not suffered any damages. The particular official

Who has signed the contract in 2007 without council a resolution has left the employ of council and no steps has been taken against the official.

*Name: MCR Makopo*

*Position: Executive Manager*

*Date: 02 December 2009*

**Auditor's comments**

Management comment noted. The controls implemented by management will be followed up during the audit of the 2009-10 financial year.

#### **40. R&R : Housing and land sales: The sale of Erf 165 as well as relevant street portions to Lynnwood Junction (PTY) Ltd (Ex 89)**

##### **Audit finding**

According to the inspection of the deeds of sale between the City of Tshwane Metropolitan Municipality and Lynnwood Junction (Pty) Ltd it came to our attention that two transactions occurred as included in clause 2 of the deeds of sale. The one was in respect of the sale of streets to the value of R11,595 million as well as the sale of Erf 165 Lynnwood Manor for an amount of R3,9 million. It also states that the purchase price of the second transaction shall be set off against the cost of the building of the two libraries to the value of R15 million as envisaged in clause 7 of the sale of deeds.

During the audit it came to our attention that the second part of the transaction was not accounted for as revenue in the financial statements for the 2008-09 financial year. It also came to our attention that if the costs of the building of the two libraries are set off against the selling price of R 3, 9 million, Tshwane could be liable for the outstanding balance of R 11,1 million.

This is not in accordance with the council approval of 29 May 2008 or the bid committee resolution, dated 28 November 2008, that recommended the Erf 165, Lynnwood Manor be sold to Lynnwood Junction (PTY) Ltd in exchange for the building of the new, proposed Alkantrant Library on Erf 372, Soshanguve Section X, the value of which will be R15 million in total and subject to the requirements of the Department of Sports and Recreation and Arts and Culture.

It was identified that the selling of the streets to the value of R11 595 000,00 incorrectly recorded as the selling of Erf 165 at a value of R11,595 million.

Both these transactions were sold subject to conditions according to clauses 6 and 12; however, no supporting documentation was provided to ensure that the relevant conditions were met before revenue was accrued in respect of the above.

According to clause 2.1.2 the balance of R10,4355 million in respect of the R11,595 million for the purchase of the sections of streets is interest free for the first 12 months from the date on which the closure certificates were issued where after the balance will be levied at the bank interest rate. The outstanding debt amount was, however, not impaired as prescribed according to GRAP 9 and IAS 36 to ensure that the correct outstanding debt amount is disclosed in the financial statements.

##### **Root cause**

Written procedures, authorisations, record keeping and management reviews are not in place and segregated to prevent incorrect financial data recording.

##### **Risk**

- Possible over- or understating of the revenue and receivables in respect of housing and land sales.
- Possible non-recording of a contingent liability
- Possible irregular expenditure as the erf was sold for less as per the approval of the bid committee as well as the council resolution.

##### **Recommendation**

- Appropriate controls need to be implemented to ensure that transactions are correctly recorded as per supporting documentation the sale of deeds.
- All transactions in respect of the above need to be revised to ensure that all conditions as prescribed according to the deeds of sale are met, before recording of the relevant transactions in the financial statements.
- The sale of deeds needs to be reviewed by the legal section to determine whether the possibility exists in respect of contingent liability and, if so, should the contingent liability be included in the financial statements.

- The outstanding debt amount in respect of the sale of Erf 165 Lynnwood should be impaired as prescribed by GRAP 9 and IAS 36 to ensure that the correct amounts are disclosed in the financial statements.

### **Management response**

#### SET OFF OF PURCHASE PRICE OF THE LIBRARIES

In terms of clause 2.2.1 of the Agreement, the purchase price of erf 165, Lynnwood Manor, is R3 900 000 and in terms of clauses 2.2.2 and 7.2, the cost of these libraries, will be set off against the purchase price. The interpretation of these clauses, both by the CoT as well as the Purchaser, is that instead of paying the purchase price to the CoT, the Purchaser will erect the 2 libraries to the amount of R15 million according to the CoT's specifications. There is no shortfall for the CoT. Instead, the Purchaser shall "overpay" R11,1 million i.e. the difference of the market value of R3 900 000 versus the cost of the libraries, in total R20 000 000 will be spend.

#### SALE OF ERF 165, LYNNWOOD MANOR

In terms of paragraph 1.4 of the CoT's resolution, the CoT resolved to sell erf 165 Lynnwood Manor. In terms of paragraph 1.7 of the CoT's resolution, consent was granted to set off the selling price of erf 165 Lynnwood Manor against the total value of the cost of the libraries, being initially R10 000 000.

The reason being that the Purchaser's name is not specifically mentioned in the CoT's Report, is ascribed to the provisions of Section 117 of the Municipal Finance Management Act, which reads as follows:

- "No councillor of any municipality may be a member of a municipal bid committee or any other committee evaluating or approving tenders, quotations, contracts or other bids, nor attend any such meeting as an observer".
- The final approval of the sale to Lynnwood Junction (Pty) Ltd. was therefore submitted to the Bid Adjudication Committee for approval.
- Kindly note that the Alkantrand Library is re-build on a portion of the Remainder of Erf 398, Lynnwood Manor whilst a new library is being build on Erf 372, Soshanguve Section X.
- In respect of the updated of the CoT's asset register, your enquiry must be referred to the CFO's office.
- In other enquiries can be directed to the office of the Director: Executive Legal Support, F P Coetzee, 20<sup>th</sup> floor, Saambou Building.

*Name: F P Coetzee*

*Position: Director: Executive Legal support*

*Date: 16 November 2009*

### **Auditor's comments**

Management response was noted and the amount will be recorded in the schedule of misstatement.

## 41. R&R – Solid waste – No interest charged on bulk and dumping fees debtors (Ex 91)

### Audit finding

Accounting policy: City of Tshwane, page 242, paragraphs 10.3: Interest on outstanding debtors: Interest on outstanding debtors is recognised on a time proportionate basis, however, in paragraph 15, Account receivable: Account receivable is carried at anticipated realisable value.

GRAP 9 in respect of revenue from exchange transactions states in paragraph 17: "In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. For example, an entity may provide interest free credit to the purchaser or accept a note receivable bearing a below-market interest rate from the purchaser as consideration for the sale of goods. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:

1. The prevailing rate for a similar instrument of an issuer with a similar credit rating; or
2. A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services."

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue in accordance with paragraphs 34 and 35 and in accordance with the relevant Standards of GRAP on Financial Instruments.

Paragraph 34: Revenue arising from the use by others of entity assets yielding interest, royalties and dividends shall be recognised using the accounting treatments set out in paragraph .35 when:

1. It is probable that the economic benefits or service potential associated with the transaction will flow to the entity, and
2. The amount of the revenue can be measured reliably.

Paragraph 35, Revenue shall be recognised using the following accounting treatments:

1. Interest shall be recognised using the effective interest rate method as set out in the Standards of GRAP on Financial Instruments

During the audit of bulk container debtors and dumping fees debtors it was identified that interest is not being charged on outstanding debtors and disclosed in the financial statements. The fair value measurement of revenue was furthermore not considered, as prescribed according to paragraph 17 of GRAP 9, as debtors outstanding existed that is longer than the normal credit terms. The following only serve as an example of our recalculated estimate of revenue not accounted for as interest received:

### Bulk containers age analysis (Annexure A)

Details	Total (R)	Total outstanding for longer than 30 days (R)	Interest recalculation (R)
Pretoria	12 943 635.80	34 124 648.35	426 558.10
Akasia	25 887 271.60	8 200 881.02	102 511.01
	<b>38 830 907.40</b>	<b>42 325 529.37</b>	<b>529 069.12</b>

### Dumping fees age analysis (Annexure B)

Details	Total (R)	Total outstanding for longer than 30 days (R)	Interest recalculation (R)
Derdepoort	4 440 743.22	4 684 673.65	58 558.42
Garankuwa	1 514 660.81	984 851.77	12 310.65
Garskloof	17 742 810.19	15 576 106.49	194 701.33
Hatherley	20 848 347.90	18 113 609.04	226 420.11
Kwaggasrand	22 841 436.42	19 079 429.99	238 492.87
Onderstepoort	13 182 140.26	11 820 314.03	147 753.93
Soshanguve	244, 735.31	245 941.32	3 074.27
Temba	2 777 765.58	2 312 484.03	28 906.05
Valhalla	575 283.28	482 695.14	6 033.69
	<b>84 167 922.97</b>	<b>73 300 105.46</b>	<b>916 251.32</b>

### Root cause

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

### Risk

- Revenue and interest accrued are incorrectly stated in the financial statements.
- Non-compliance with GRAP 9

### Recommendation

- Management should ensure that ongoing monitoring and supervision are undertaken to enable an assessment of the effectiveness of internal control over financial reporting.

### Management response

Management comment still outstanding

Name:

Position:

Date:

### Auditor's comments

Awaiting Management response

## 42. R&R: Accrued income (Ex 150)

### Audit finding

During our audit of revenue received from property rates, water, sanitation, electricity and solid waste the following was identified in respect of accrued income.

- The detail accrued income report obtained on 23 October 2009 differs from the accrued income totals included in the service charges in the financial statements on 30 June 2009. This was due to corrections and accrual updates for the 2008-09 financial year after the reports was run for financial statement purposes. The following are the variances that were identified (A summary of the service charges):

Service charges	Total balance as at 30 June 2009 (R)	Total balance as at 23 October 2009 (R)	Difference (R)
Electricity	209 405 752.92	218 897 470.80	9 491 717.88
Water	62 451 823.14	65 823 402.90	3 371 579.76
Sanitation	17 663 679.04	18 947 571.60	1 283 892.56
Assessment rates	6 779 470.35	6 779 470.40	0.05
Waste management	831 651.65	831 651.70	0.05
<b>Total</b>	<b>297 132 377.10</b>	<b>311 279 567.40</b>	<b>14 147 190.30</b>

- It came to our attention that no provision was made for revenue accrued in respect of prepaid electricity sold during the 2008-08 financial year that was only recorded in the 2009-10 financial year. The following serve as examples:

Assignment	Document no.	Doc. date	Amount (R)	Description
PTS300609001	100000235	02.07.2009	(175.44)	Suprima Tshwane 30062009_PTS 6002 673
PTS300609001	100000235	02.07.2009	(807.06)	Suprima Tshwane 30062009_PTS 6013 723
PTS300609001	100000235	02.07.2009	(2 017.54)	Suprima Tshwane 30062009_PTS 6043 7
PTS300609001	100000235	02.07.2009	(139 046.49)	Suprima Tshwane 29062009_PTS 16253 203
PTS300609001	100000235	02.07.2009	(405 285.61)	Suprima Tshwane 30062009_PTS 16253 203
PTS300609001	100000235	02.07.2009	(70 725.10)	Suprima Tshwane 30062009_PTS 18034 288
PTS300609001	100000235	02.07.2009	(56 304.39)	Suprima Tshwane 30062009_PTS 18035 117
PTS300609001	100000235	02.07.2009	(18 487.17)	Suprima Tshwane 30062009_PTS 18039 646
PTS300609001	100000235	02.07.2009	(15 973.32)	Suprima Tshwane 30062009_PTS 18039 647

PTS300609001	10000235	02.07.2009	(45 211.54)	Suprima 30062009_PTS 18040 376	Tshwane
PTS300609001	10000235	02.07.2009	(20 728.60)	Suprima 29062009_PTS 18041 502	Tshwane
PTS300609001	10000235	02.07.2009	(72 597.13)	Suprima 30062009_PTS 18041 503	Tshwane
PTS300609001	10000235	02.07.2009	(44 282.36)	Suprima 30062009_PTS 18042 12	Tshwane
PTS300609001	10000235	02.07.2009	(14 960.80)	Suprima 29062009_PTS 18046 405	Tshwane
PTS300609001	10000235	02.07.2009	(47 911.82)	Suprima 30062009_PTS 18046 406	Tshwane
PTS300609001	10000235	02.07.2009	(42 608.52)	Suprima 30062009_PTS 18047 419	Tshwane
PTS300609001	10000235	02.07.2009	(42 863.55)	Suprima 30062009_PTS 18048 378	Tshwane
PTS300609001	10000235	02.07.2009	(4 035.09)	Suprima 30062009_PTS 18049 319	Tshwane
PTS300609001	10000235	02.07.2009	(3 621.05)	Suprima 30062009_PTS 18050 165	Tshwane
PTS300609001	10000235	02.07.2009	(34 465.45)	Suprima 30062009_PTS 18052 6	Tshwane
PTS300609001	10000235	02.07.2009	(25 747.82)	Suprima 30062009_PTS 18053 82	Tshwane
PTS300609001	10000235	02.07.2009	(17 219.94)	Suprima 30062009_PTS 18055 101	Tshwane
PTS300609001	10000235	02.07.2009	(19 306.73)	Suprima 30062009_PTS 18057 157	Tshwane
PTS300609001	10000235	02.07.2009	(32 313.56)	Suprima 30062009_PTS 18058 340	Tshwane
PTS300609001	10000235	02.07.2009	(66 866.96)	Suprima 30062009_PTS 18059 292	Tshwane
PTS300609001	10000235	02.07.2009	(40 047.37)	Suprima 30062009_PTS 18061 396	Tshwane
PTS300609001	10000235	02.07.2009	(43 606.88)	Suprima 30062009_PTS 18062 384	Tshwane
PTS300609001	10000235	02.07.2009	(2 701.75)	Suprima 30062009_PTS 18069 266	Tshwane
PTS300709001	100013203	03.08.2009	(2 166.67)	Suprima 29062009_PTS 18003 7	Tshwane
PTS300709001	100013203	03.08.2009	(2 885.96)	Suprima 30062009_PTS 18003 7	Tshwane
PPH300609001	10000235	02.07.2009	(37 601.37)	Suprima 24062009_PPH 16252 860	Powerhouse
PPH300609001	10000235	02.07.2009	(17 371.75)	Suprima 25062009_PPH 16252 860	Powerhouse
PSA010709001	10000948	06.07.2009	(18 933.70)	Suprima	Savaya



				29062009_PSA 16254 461
PSA010709001	100000948	06.07.2009	(98 803.09)	Suprima Savaya 30062009_PSA 16254 461
<b>Total</b>			<b>(1 507 681.58)</b>	

**Root cause**

- Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.
- Management’s philosophy and operating style do not promote effective control over financial reporting.
- The accounting officer/accounting authority does not exercise oversight responsibility over financial reporting and internal control.

**Risk**

- Revenue and debtors are understated in respect of the mentioned findings.
- Revenue in respect of accrued income not recorded in the correct accounting period.

**Recommendation**

- Management should ensure that all reports requested from auditors are available for review as at financial year-end.
- Management should make provision for accruals for all service charges, including prepaid electricity and industrial effluent.
- Due to the fact that these are only examples, management needs to investigate the total population in respect of transactions processed after financial year-end that have an impact on the amounts disclosed in the financial statements and correct the financial statements accordingly.

**Management response**

Management agree with the finding and the financial statements will be adjusted accordingly.

*Name: D Pillay*

*Position: Manager Revenue*

*Date: 24 November 2009*

**Auditor’s comments**

Adjustments will be reviewed to ensure that the amounts are correctly included in the financial statements.

### 43. R&R: Limitation on property transfer clearance memorandum (Ex 186)

#### Audit finding

During the audit of property rates stated as R2 250 051 868 in the statement of financial performance and R2 250 051 868 in note 20 to the financial statements, and property values stated at R285 326 733 313,00 the following was identified:

A document request was issued on 16 September 2008 and 28 October 2008 for clearance certificates. These certificates were not provided within the specified time frame, thus resulting in a limitation of scope on the procedures performed. The table below illustrates clearance certificates requested but not received at the date of finalisation of the component:

Business Partner	Account no.	Giskey	Date clearance memo issued	Date clearance certificate issued	Reference No.	Receipt no.
934934	5004312798	022600011	18/09/2008	22/09/2008	49970	090015/6
842229	5003189013	012800048/1/R	21/08/2008	25/08/2008	200145	750145
444143	2068965851	070000070/R	21/08/2008	21/08/2008	200205	200214

#### Root cause

- Management's philosophy and operating style do not promote effective control over financial reporting.
- Ongoing monitoring on property rates for the above account is not undertaken by management to determine whether internal control over financial reporting is present and functioning.

#### Risk

- Limitation of scope in respect of clearance certificates

#### Recommendation

- Information should be provided to the auditors as soon as possible in order to conclude on the regularity audit.
- All clearance memorandums issued should be conveyed to a senior official.
- The senior official should compare the manual clearance memorandum issued with the ones issued on the system (SAP).
- Missing clearance memorandum should be followed up and appropriate explanations be obtained.
- Clearance memorandums should be stored and safely kept at all times.
- A senior official should scrutinise the clearance memorandum to ensure validity, accuracy and completeness.

#### Management response

The following clearance memo's could not be traced but the certificates were made available for Audit purposes and required amounts for clearance were fully paid:

Business Partner	Reference Number	Amount
842229	46570	R 8 338.30
747696	41866	R 17 368.22

*Name: Sam Chepape*

*Position: Executive Director*

*Date: 03 December 2009*

**Auditor's comments**

Management comment noted. The misstatement does not affect the audit opinion but will be included in the schedule of misstatements for completeness thereof. The controls implemented by management will be followed up during the audit of the 2009-10 financial year.

#### 44. R&R: Limitation of Scope – Notifications (Ex 193)

##### Audit finding

During the audit of notifications a document request was issued on 26 October 2009 for work orders created when the relevant strategic unit attends to a notification. Not all these work orders could be provided for audit purposes, however, the notification indicates that work has already been completed. The following notifications serve as samples selected for the financial year under review not provided up to the date of finalisation of component water and electricity, and as a result could it not be verified if the relevant notifications have been correctly resolved:

Notification			
300300439	300483778	300480296	300479773
300315151	300483911	300480297	300479790
300315513	300483960	300480332	300479792
300326155	300483981	300480357	300479824
300330633	300484027	300480451	300479878
300334016	300484102	300480551	300480036
300366380	300484103	300480589	300480154
300374217	300484266	300480624	300480178
300400021	300484340	300480646	300480233
300409531	300484374	300480649	300480245
300445878	300484441	300480802	300480362
300463075	300484639	300481279	300480367
300467289	300484649	300481431	300480422
300469677	300484678	300481485	300480684
300471407	300484692	300481585	300480689
300473997	300476850	300481782	300480862
300475282	300476959	300481843	300480868
300476102	300477222	300481844	300480871
300476843	300477409	300481864	300480873
300476865	300477697	300481868	300480894
300477083	300477753	300481878	300480900
300477264	300477822	300481911	300480915
300477265	300477826	300481914	300480941
300477352	300477830	300481987	300480951
300477372	300477831	300482024	300481678
300477446	300477834	300482162	300476878
300477529	300477835	300482404	300476903
300477555	300477836	300482412	300476956
300477778	300477837	300482530	300476958
300478007	300477838	300482540	300476969
300478039	300477839	300482554	300477056

300478072	300477840	300482606	300477079
300478084	300477843	300482607	300477096
300478442	300477845	300482746	300477100
300478843	300477846	300482800	300477109
300478874	300477847	300482970	300477127
300478904	300477854	300482998	300477198
300478924	300477859	300483022	300477244
300478936	300477861	300483030	300477309
300478977	300478291	300483048	300477430
300478990	300478308	300483131	300477441
300479526	300478559	300483132	300477452
300479578	300478562	300483174	300477453
300479586	300478569	300483266	300477476
300479597	300478600	300483396	300477501
300479625	300478639	300483398	300477503
300479917	300478732	300483451	300477517
300479984	300478855	300483492	300477519
300479999	300478893	300483614	300477532
300480145	300478914	300477533	
300480163	300478919		
300480180	300479016		
300480192	300479043		
300480294	300479767		

**Root cause**

Actions are not taken to address risks to the achievement of financial reporting objectives.

**Risk**

- Limitation of scope on work performed by auditors
- Fraudulent activities may take place without proper controls to detect and prevent fraudulent financial data being reported in the financial statements of the auditee.

**Recommendation**

- Information should be provided to the auditors as a matter of urgency in order to conclude on the regularity audit.
- All work orders created when a notification is attended to and cleared should be filed for future reference purposes.

**Management response**

Please be informed that all outstanding information from Energy & Electricity shall be forwarded to you by 04/12/2009. For W&S, information shall be made available by 09/12/2009. This is in light with the fact W&S were informed of the query only today.

*Name: Jim Baloyi*

*Position: Deputy Manager*

*Date: 01 December 2009*

**Auditor's comments**

A sample of 226 work orders were requested on the 26 October 2009, however only 19 were provided for audit purposes on the 4<sup>th</sup> of November 2009. While testing those 19 notifications 14 of them had queries (EX 219). A further 16 work orders were provided on the 2<sup>nd</sup> of December 2009 as well as 79 SAP printouts which cannot be used for testing as the work orders for these 79 printouts were not provided. Work is still being performed on the 16 work orders provided as at 2<sup>nd</sup> December 2009. Therefore a limitation of scope still stands on 191 work orders not provided for audit purposes.

## 45. R&R: Transport income: Inadequate controls over ticket sales (Ex 23)

### Audit finding

During the audit of transport income it was discovered that the value of the stock on hand for the tickets purchased was not disclosed in the financial statements. Furthermore, no reconciliations were regularly performed between the quantity of tickets sold and tickets still in hand. We did, however, perform a reasonability test in this regard and identified a variance of R 12 964 500.00 in respect of the possible revenue in respect of the quantity of tickets purchased/issued during the financial year and the rand value of tickets sold by Tshwane during the financial year.

### Root cause

Management has not specified financial reporting objectives to enable the identification of risks to reliable financial reporting.

### Risk

- Completeness and accuracy of transport revenue could not be verified.
- Non-detection of fraud

### Recommendation

- Management should design and implement procedures to perform the manual tickets stock count together with the day ticket sales cash count to ensure that the total sales and the stock on hand agree with what has been handed to the cashier, and variances should be followed up as a matter of urgency.
- All the stock on hand as at financial year-end should be included in the financial statements.

### Management response

Management Comment still outstanding

*Name:*

*Position:*

*Date:*

### Auditor's comments

Awaiting Management response

#### 46. R&R: Prepaid Electricity Variances (Ex 216)

During the audit of water and electricity, we have identified high variances between the SAP system and Suprima system for prepaid electricity. Monthly stat reports were obtained from the Suprima system for individual vendors as well as total prepaid electricity sold for the month, on comparison with SAP, differences were identified. Management had indicated that the stat reports must be compared to the individual vendor general ledger accounts and thereafter traced to the SAP income general ledger account. During alternative procedures performed (tracing stat reports to vendor accounts) differences were still identified and furthermore a difference was identified between SAP vendor general ledger accounts and SAP income general ledger account, no explanations could be obtained. Furthermore we have identified that no monthly reconciliation's are performed between the Suprima system, SAP vendor general ledger accounts (202500, 202501, 202502, 202503, 202504) and SAP income general ledger account (810005). This was also reported in the previous financial year. The table below illustrates the difference in revenue generated between SAP and Suprima that could result in a possible over/understatement of prepaid electricity revenue included in the financial statements:

<b>Total Monthly Sales</b>			
<b>Month</b>	<b>SAP (810005)</b>	<b>Suprima</b>	<b>Difference</b>
July 2008	(50 412 709.62)	(21 006 837.88)	29 405 871.74
August 2008	(13 677 098.95)	(20 580 450.51)	(6 903 351.56)
September 2008	(27 748 208.20)	(19 749 232.31)	7 998 975.89
October 2008	(20 374 749.36)	(20 883 705.66)	(508 956.30)
November 2008	(18 868 419.82)	(20 270 990.04)	(1 402 570.22)
December 2008	(22 693 899.24)	(21 767 016.64)	926 882.60
January 2009	(19 507 905.07)	(20 133 028.14)	(625 123.07)
February 2009	(18 806 672.45)	(19 032 474.46)	(225 802.01)
March 2009	(22 577 364.28)	(22 249 171.59)	328 192.69
April 2009	(21 728 910.08)	(21 343 157.77)	385 752.31
May 2009	(22 526 865.55)	(24 589 520.41)	(2 062 654.86)
June 2009	38 383 876.46	(27 892 771.59)	(66 276 648.05)
	<b>(220 538 926.16)</b>	<b>(259 498 357.00)</b>	<b>38 959 430.84</b>

#### Root Cause

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

#### Risk

- Incorrect classification of required services in the general ledger accounts.
- No monitoring controls present.
- Invalid transactions in the general ledger accounts.
- Possible over/understatement of Prepaid electricity revenue with an unknown amount.



**Recommendation**

- Reconciliation's should be performed between the SAP system and the Suprima systems well as the individual vendor general ledger accounts.
- Reconciliation's should be performed at least on a monthly basis.
- Reconciliation's should be dated and signed by preparer.
- Reconciliation's should be reviewed by an independent third party, reviewer should sign and date reconciliation's after review.

**Management response**

Management Comment still outstanding

*Name:*

*Position:*

*Date:*

**Auditor's comments**

Awaiting Management response

#### 47. R&R: Public contributions – work in progress reporting (Ex 59)

##### Audit finding

GRAP 9 (.20)

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

1. The amount of revenue can be measured reliably.
2. It is probable that the economic benefits or service potential associated with the transaction will flow to the entity.
3. The stage of completion of the transaction at the reporting date can be measured reliably.
4. The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Public contributions are assistance, in monetary value, agreed upon in a service level agreement between the City of Tshwane and the property owner that applied for rezoning.

During the audit of public contributions disclosed on the face of the statement of financial performance, stated at R138 621 636,50, we have identified that the municipality does not raise a debtor for rezoning that were approved and proclaimed by the City of Tshwane.

The following serve as totals as per the rezoning register where rezoning of properties were already approved and proclaimed during the 2008-09 financial year, hence the amount not settled yet, not accrued for as revenue and receivables:

PERIOD	Approved rezoning per the month Amount (R)	Amount Paid (R)	Outstanding Amount (R)
July 2008	25 027 361.26	3 440 556.74	21 586 804.52
August 2008	4 461 415.76	371 402.89	4 090 012.87
September 2008	12 541 813.12	265 282.34	12 276 530.78
October 2008	2 951 856.09	479 788.37	2 472 067.72
November 2008	8 942 155.13	40 764.94	8 901 390.19
December 2008	6 570 988.31	354 412.42	6 216 575.89
January 2009	9 560 239.18	470 305.23	9 089 933.95
February 2009	2 657 751.97	102 176.87	2 555 575.10
March 2009	2 927 664.05	51 883.61	2 875 780.44
April 2009	8 625 933.85	793 208.76	7 832 725.09
May 2009	1 237 947.00	68 062.87	1 169 884.13
June 2009	8 799 567.92	40 697.56	8 758 870.36
<b>Total</b>	<b>94 304 693.64</b>	<b>6 478 542.60</b>	<b>87 826 151.04</b>

The following serve as examples of the outstanding rezoning during July 2008:

Date of Approval	Description	Amount of approved rezoning	Amount paid	Outstanding amount
		(R)	(R)	(R)
16/07/08	Removal & Pta Scheme 12665: Erf 1528, Waterkloof Ridge x2	81 131.78	0.00	81 131.78
16/07/08	Removal & Centurion Scheme 3428CL Erf 681, Lyttelton Manor x1	21 597.26	0.00	21 597.26
16/07/08	Pta Scheme 11995: Holding 71, Bon Accord Agricultural Holdings	22 646.97	6 287.97	16 359.00
16/07/08	Removal & Pta Scheme 11525: Erf 342/R & Erf 343, Menlo Park	154 686.46	0.00	154 686.46
16/07/08	Removal & Pta Scheme 11877: Erf 400, Monumentpark	70 552.37	0.00	70 552.37
16/07/08	Removal & Pta Scheme 11268: Erf 1085, Monumentpark x2	69 423.19	0.00	69 423.19
16/07/08	Removal & Centurion Scheme 1333C: Erf 205, Clubview	35 507.52	0.00	35 507.52
16/07/08	Centurion Scheme 3182C: Erf 1050, Doringkloof	147 580.94	0.00	147 580.94
16/07/08	Removal & Centurion Scheme 3047C: Portion 97/R, Lyttelton 381JR	81 426.16	0.00	81 426.16
16/07/08	Centurion Scheme 3392C: Erf 4033, Rooihuiskraal Noord x25	74 661.92	0.00	74 661.92
16/07/08	Removal & Pta Scheme 12635: Erf 47, Mayville	206 936.10	0.00	206 936.10
23/07/08	Centurion Scheme 3372C: Erf 261, Lyttelton Manor	26 977.23	19 402.04	7 575.19
23/07/08	Pta Scheme 12638: Erven 109 & 724, Waverley	209 856.62	92 568.84	117 287.78
23/07/08	Pta Scheme 12395: Erf 93/R, Mayville	187 050.40	0.00	187 050.40
23/07/08	Pta Scheme 12575: Erf 507/2, Wonderboom South	6 506.74	0.00	6 506.74
23/07/08	Centurion Scheme 3309C: Erf 2121, Highveld x13	5 015 347.73	0.00	5 015 347.73
23/07/08	Centurion Scheme 3210C: Part Erf 114/R/1, Kosmosdal x4	123 109.90	25 073.04	98 036.86
23/07/08	Pta Scheme 12530: Erf 1285, Waterkloof Ridge x2	24 560.72	8 810.70	15 750.02
23/07/08	Pta Scheme 12531: Erf 1286, Waterkloof Ridge x2	24 560.72	8 810.70	15 750.02
23/07/08	Pta Scheme 11567: Erf 1961, Garsfontein x8	31 722.53	0.00	31 722.53
23/07/08	Pta Scheme 12291: Erf 2014, Garsfontein x8	15 599.35	0.00	15 599.35
23/07/08	Centurion Scheme 3158C: Erf 1064, Doringkloof	231 719.72	0.00	231 719.72
23/07/08	Pta Scheme 12351: Erf 732-753, Wingate Park x1	2 195 640.77	842 840.22	1 352 800.55
23/07/08	Pta Scheme 126564: Erf 690-710, Erf 713-731, Erf 755, Wingate Park x1	13 149 357.84	2 354 104.32	10 795 253.52

23/07/08	Pta Scheme 12209: Erf 586/4, Rietfontein	25 681.26	0.00	25 681.26
23/07/08	Pta Scheme 10974: Erf 765, Magalieskruin x39	97 377.56	0.00	97 377.56
23/07/08	Pta Scheme 3129P: Erf 591, Gezina	745 659.55	0.00	745 659.55
30/07/08	Pta Scheme 10887: Portions 2 and 4 of Erf 2300, Pretoria	11 628.00	0.00	11 628.00
30/07/08	Centurion Scheme 3423C: Erf 1232, Eldoraigne x6	41 402.89	0.00	41 402.89
30/07/08	Removal & Centurion Scheme 0894C: Erf 230, Lyttelton Manor	44 494.71	13 894.00	30 600.71
30/07/08	Removal & Centurion Scheme 3426C: Erf 983, Lyttelton Manor x1	8 031.73	0.00	8 031.73
30/07/08	Centurion Scheme 3441C: Erf 1578, Lyttelton Manor x3	203 726.44	0.00	203 726.44
30/07/08	Pta Scheme 12275: Portion 1 of Erf 319, Menlo Park	34 864.27	0.00	34 864.27
30/07/08	Pta Scheme 12566: Erf 505, Newlands x1	20 921.24	0.00	20 921.24
30/07/08	Pta Scheme 12475: Erf 68, Hazelwood	126 195.03	0.00	126 195.03
30/07/08	Removal & Pta Scheme 12490: Portion 1 of Erf 42, Ashlea Gardens	52 250.16	17 274.42	34 975.74
30/07/08	Removal & Pta Scheme 12434: Erf 39, Monumentpark	24 455.22	8 705.20	15 750.02
30/07/08	Removal & Pta Scheme 12180: Erf 212, Murrayfield	43 707.90	0.00	43 707.90
30/07/08	Pta Scheme 12372: Erf 30 & Part of Erf 1839, Waterkloof Ridge	71 092.68	23 842.61	47 250.07
30/07/08	Pta Scheme 12571: Portion 1 of Erf 697, Villieria	10 196.39	8 661.31	1 535.08
30/07/08	Removal & Pta Scheme 12506: Erf 290, Waterkloof Ridge	21 475.71	10 281.37	11 194.34
30/07/08	Pta Scheme 12414: Erf 337, Garsfontein	32 548.56	0.00	32 548.56
30/07/08	Pta Scheme 11684: Erf 902, Garsfontein x4	38 044.67	0.00	38 044.67
30/07/08	Pta Scheme 11569: Erf 1765, Garsfontein	38 316.68	0.00	38 316.68
30/07/08	Removal & Pta Scheme 12631: Erven 589, 590/R, 596/1, Muckleneuk	1 127 129.67	0.00	1 127 129.67
<b>Total</b>		<b>25 027 361.26</b>	<b>3 440 556.74</b>	<b>21 586 804.52</b>

The following receipt in respect of Township Development Contributions (Rezoning) was, furthermore, incorrectly recorded in the clearance certificates general ledger account:

Receipt number	Date of receipt	Amount (R)	Incorrect general ledger	Correct general ledger
510021	26/05/2009	130 256.92	811766	811906

The matter was communicated to the auditee and the journal was only passed in the current financial period (2009-10) and not the 2008-09 financial year. This resulted in an understatement of the general ledger account Township Development Contributions (Rezoning) and an overstatement of general ledger account clearance certificates at financial year-end 2008-09 as

well as an overstatement in the general ledger account clearance certificates and an understatement of the general ledger account Township Development Contributions (Rezoning) for the 2009-10 financial year.

**Public contribution registers are not kept by the municipality in respect of the following:**

1. Agreements entered into
2. Agreement number
3. Developer
4. Services to be rendered
5. Stage of completion of services at financial year-end
6. Date when project commenced and was finalised
7. Date of payments received by developers

**Root cause**

- Management has not specified the financial reporting objectives with sufficient clarity and criteria to enable the identification of risks to reliable financial reporting.
- Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.

**Risk**

- Revenue, receivables are incorrectly stated in the financial statements in respect of public contributions.
- Understatement of public contributions and an overstatement of the clearance certificate general ledger.

**Recommendation**

- Appropriate monitoring controls need to be implemented in respect of the rezoning of properties. This should include proper reviewing of correctional journals. The accruing of properties of which rezoning has been approved should be considered for inclusion in the financial statements.
- Appropriate registers should be kept in respect of public contributions.

**Management response**

R & R Public contributions-work in progress reporting (Ex 59)

Debtor accounts in respect of public contributions not paid as at 30 June 2009 will be raised and levies will be posted to relevant General Ledger. The outstanding debtors as reflected in financial statements as at 30 June 2009 will be adjusted.

Town Development Contribution incorrectly recorded in Clearance Certificate general ledger. The amount in both GL in financial statement will be corrected to reflect correct totals.

**Public Contribution Registers**

An investigation will be conducted regarding the possibility of implementation of the recommendation.

*Name: Sam Chepape*

*Position: Director: Debtors Management*

*Date: 10 November 2009*

**Auditor's response**

Management needs to determine if the amounts included in the financial statements are the only amounts outstanding as prior years need to be reviewed as well. The adjustments on the financial statements still need to be reviewed. If the financial statements are satisfactorily adjusted, the finding will be removed from a qualification to other important matters as the control issue will still stand. Controls implemented to mitigate the relevant risk in this regard will be followed up during the audit of the 2009-10 financial year.

**48. R&R: Other income (Transfer from suspense account to unclaimed income account) (Ex 176)**

**Audit finding**

During the audit of other income we identified that unclaimed moneys to the amount of R38 041 972.29 were transferred from the suspense account: unclaimed moneys older than a certain period (account number: 202107) to unclaimed moneys: revenue account (account number: 811667) via journal number 100410641 resulting in clearing the suspense account (account: 202107) at year-end. The relevant policy was requested for the basis of transferring monies to the relevant revenue account but was not provided for audit purposes. Furthermore, upon scrutiny of these accounts, it came to our attention that most of the transactions that are allocated to the suspense account were not older than three years. This could result in creditors being understated and revenue overstated by the mentioned amount.

During further examination of the unclaimed moneys revenue account it came to our attention that the following transactions were not in respect of unclaimed moneys, but in respect of vendors (expenses). This will therefore result in an overstatement of the relevant expense/creditor as well as an overstatement of other revenue:

Assignment	Document no.	Type	Doc. date	Description	Amount (R)
20090630	100409436	JN	30.06.2009	Vendor 73 Duplicated	(9 520.00)
20090630	100409436	JN	30.06.2009	Vendor 271 Duplicated	(327 995.93)
20090630	100409436	JN	30.06.2009	Vendor 446	(647.78)
20090630	100409436	JN	30.06.2009	Vendor 659	12 995.95
20090630	100409436	JN	30.06.2009	Vendor 738	284.03
20090630	100409436	JN	30.06.2009	Vendor 804	(225.00)
20090630	100409436	JN	30.06.2009	Vendor 1147 Duplicated	(13 473.50)
20090630	100409436	JN	30.06.2009	Vendor 2030 Duplicated	(104 130.00)
20090630	100409436	JN	30.06.2009	vendor 2595	(1 370.00)
20090630	100409436	JN	30.06.2009	vendor 200520	(150.00)
20090630	100409436	JN	30.06.2009	Vendor 200610	(6 678.00)
20090630	100409436	JN	30.06.2009	Vendor 709	(214.49)
20090630	100409436	JN	30.06.2009	Vendor 691	(6 000.00)
20090630	100409436	JN	30.06.2009	Vendor 4946 not Vat registered	(23.73)
20090630	100409436	JN	30.06.2009	Vendor 1081	(3 129.80)
20090630	100409436	JN	30.06.2009	Vendor 2165	(48 735.00)
<b>Total</b>					<b>(509 013.25)</b>

The following sample of amounts included in unclaimed monies revenue account was in respect of unclaimed salaries and wages. These amounts were also not older than three years and no basis existed to reallocate it to other revenue.

Assignment	Document no.	Doc. date	Amount in local cur. (R)	Description
20090428	100309776	28.04.2009	(1 010.42)	Transfer from 203044 to 811667 Persnr 927135
20090428	100309776	28.04.2009	(1 031.07)	Transfer from 203044 to 811667 Persnr 927217
20090428	100309776	28.04.2009	(1 119.53)	Transfer from 203044 to 811667 Persnr 163721
20090428	100309776	28.04.2009	(1 132.37)	Transfer from 203044 to 811667 Persnr 927166
20090428	100309776	28.04.2009	(1 274.49)	Transfer from 203044 to 811667 Persnr 175320
20090428	100309776	28.04.2009	(1 351.28)	Transfer from 203044 to 811667 Persnr 210992
20090428	100309776	28.04.2009	(1 381.00)	Transfer from 203044 to 811667 Persnr 924774
20090428	100309776	28.04.2009	(1 498.40)	Transfer from 203044 to 811667 Persnr 918471
<b>Total</b>			<b>(9 798.56)</b>	

#### Root cause

Ongoing monitoring of other income for the above account is not undertaken by management to determine whether internal control over financial reporting is present and functioning.

#### Risk

- Overstatement/Understatement of account balance
- Misappropriation of figures
- Errors occurred will not be detected and corrected timeously.

#### Recommendation

- Management should keep a written policy that permits/allows responsible senior personnel to transfer transactions older than a specified age from the suspense account to unclaimed income and all classification should be considered when this amount is transferred.
- Personnel or agents responsible for collecting income on behalf of the department should be advised to enquire from the payee what they are paying for in order to limit this problem in future.
- Proper controls should be implemented to ensure that the correct details of clients who make payments by cheque or electronically give as much information as possible to enable the COT to allocate the payment correctly.

#### Management response

Cognisance is taken of the audit findings.



During the audit it was explained to the auditor that the journal to the amount of R 38 041 972.29 done on year end was to transfer all movements on GL 202107. It was also explained that income older than one year and not 3 years are transferred.

Movement on GL 202107 does not included transfer to and from suspense account account. It includes all unallocated amounts older 1 year. An example of stale cheques that are transferred to this account was given to the auditor with relevant cheque lists. Movements on 202107 can also include amounts from vendors and unclaimed salaries.

Although unclaimed amounts are transferred to income, it can still be claimed and allocated when proof is received from the debtor who made the payment.

*Name: Philip Van der Walt*

*Position: Executive Manager*

*Date: 16 November 2009*

**Auditor's comments**

Management comment noted. The misstatement does not affect the audit opinion but will be included in the schedule of misstatements for completeness thereof. The controls implemented by management will be followed up during the audit of the 2009-10 financial year.

#### 49. R&R: Objections not handled for property rates (EX 181)

##### Audit finding

During the audit of property rates stated as R2 250 051 868 in the statement of financial performance and as R2 250 051 868 in note 20 to the financial statements, and property values stated as R285 326 733 313 the following was identified:

A valuation roll effective 1 July 2008 until 30 June 2011 was published to the public and 1 613 objections were logged from the public. It came to our attention that out of the 1 613 properties objected, 230 objections were not handled at financial year end 2008-09. It is also noted that there are no market values or expected values as per the person objected. The impact of these objections on the financial statements for the 2008-09 financial year could not be determined as no estimation calculations were performed by management. The following are examples of the properties with objections not dealt with:

OBJECTION FILE NO.	ERF NO.	TOWNSHIP	GISKEY	Functional Key
12	1501	ANNLIN	000801501	GEOSS022
14	100	ANNLIN WES	011000100	PV000000
129	487	BON ACCORD AH	005800000/487	PV000000
202	152	CONSTANTIA PARK	011600152	PV000000
203	192	CONSTANTIA PARK	011600192	PV000000
204	204	CONSTANTIA PARK	011600204	GEOSS001
205	860	CONSTANTIA PARK	011600204	PV000000
206	884/4	CONSTANTIAPARK	011600884/4	PV000000
226	00000/267	DERDEPOORT 326JR	015600000/267	PV000000
228	00000/270	DERDEPOORT 326JR	015600000/270	PV000000
229	00000/604	DERDEPOORT 326JR	015600000/604	PV000000
230	00000/14/R	DERDEPOORT 327JR	01600000/14/R	PV000000
236	383	DIE HOEWES	016500383	PV000000
303	3402/1	ELDORAIGNE	020503402/1	GEOSS001
304	3402/1	ELDORAIGNE	020503402/1	GEOSS002
305	3402/1	ELDORAIGNE	020503402/1	GEOSS003
306	3402/1	ELDORAIGNE	020503402/1	GEOSS004
307	3402/1	ELDORAIGNE	020503402/1	GEOSS005
308	3402/1	ELDORAIGNE	020503402/1	GEOSS006
309	3402/1	ELDORAIGNE	020503402/1	GEOSS007
310	3402/1	ELDORAIGNE	020503402/1	GEOSS008
311	3402/1	ELDORAIGNE	020503402/1	GEOSS009
312	3402/1	ELDORAIGNE	020503402/1	GEOSS010
313	3402/1	ELDORAIGNE	020503402/1	GEOSS011
314	3402/1	ELDORAIGNE	020503402/1	GEOSS012
315	3402/1	ELDORAIGNE	020503402/1	GEOSS013

316	3402/1	ELDORAIGNE	020503402/1	GEOSS014
317	3402/1	ELDORAIGNE	020503402/1	GEOSS015
318	3402/1	ELDORAIGNE	020503402/1	GEOSS016
319	3402/1	ELDORAIGNE	020503402/1	GEOSS017
320	3402/1	ELDORAIGNE	020503402/1	GEOSS018
321	3402/1	ELDORAIGNE	020503402/1	GEOSS019
322	3402/1	ELDORAIGNE	020503402/1	GEOSS020
323	3402/1	ELDORAIGNE	020503402/1	GEOSS021
324	3402/1	ELDORAIGNE	020503402/1	GEOSS022
325	3402/1	ELDORAIGNE	020503402/1	GEOSS023
326	3402/1	ELDORAIGNE	020503402/1	GEOSS024
327	3402/1	ELDORAIGNE	020503402/1	GEOSS025
328	3402/1	ELDORAIGNE	020503402/1	GEOSS026
329	3402/1	ELDORAIGNE	020503402/1	GEOSS027
330	3402/1	ELDORAIGNE	020503402/1	GEOSS028
331	3402/1	ELDORAIGNE	020503402/1	GEOSS029
332	3402/1	ELDORAIGNE	020503402/1	GEOSS030
333	3402/1	ELDORAIGNE	020503402/1	GEOSS031
334	3402/1	ELDORAIGNE	020503402/1	GEOSS032
335	3402/1	ELDORAIGNE	020503402/1	GEOSS033
336	3402/1	ELDORAIGNE	020503402/1	GEOSS034
337	3402/1	ELDORAIGNE	020503402/1	GEOSS035
338	3402/1	ELDORAIGNE	020503402/1	GEOSS036
339	3402/1	ELDORAIGNE	020503402/1	GEOSS037
340	3402/1	ELDORAIGNE	020503402/1	GEOSS038
341	3402/1	ELDORAIGNE	020503402/1	GEOSS039
342	3402/1	ELDORAIGNE	020503402/1	GEOSS040
343	3402/1	ELDORAIGNE	020503402/1	GEOSS041
344	3402/1	ELDORAIGNE	020503402/1	GEOSS042
345	3402/1	ELDORAIGNE	020503402/1	GEOSS043
346	3402/1	ELDORAIGNE	020503402/1	GEOSS044
347	3402/1	ELDORAIGNE	020503402/1	GEOSS045
348	3402/1	ELDORAIGNE	020503402/1	GEOSS046
349	3402/1	ELDORAIGNE	020503402/1	GEOSS047
350	3402/1	ELDORAIGNE	020503402/1	GEOSS048
351	3402/1	ELDORAIGNE	020503402/1	GEOSS049
352	3402/1	ELDORAIGNE	020503402/1	GEOSS050
353	3402/1	ELDORAIGNE	020503402/1	GEOSS051
354	3402/1	ELDORAIGNE	020503402/1	GEOSS052

355	3402/1	ELDORAIGNE	020503402/1	GEOSS053
356	3402/1	ELDORAIGNE	020503402/1	GEOSS054
357	3402/1	ELDORAIGNE	020503402/1	GEOSS055
358	3402/1	ELDORAIGNE	020503402/1	GEOSS056
359	3402/1	ELDORAIGNE	020503402/1	GEOSS057
360	3402/1	ELDORAIGNE	020503402/1	GEOSS058
361	3402/1	ELDORAIGNE	020503402/1	GEOSS059
362	3402/1	ELDORAIGNE	020503402/1	GEOSS060
363	3402/1	ELDORAIGNE	020503402/1	GEOSS061
364	3402/1	ELDORAIGNE	020503402/1	GEOSS062
365	3402/1	ELDORAIGNE	020503402/1	GEOSS063
366	3402/1	ELDORAIGNE	020503402/1	GEOSS064
367	3402/1	ELDORAIGNE	020503402/1	GEOSS065
368	3402/1	ELDORAIGNE	020503402/1	GEOSS066
369	3402/1	ELDORAIGNE	020503402/1	GEOSS067
370	3402/1	ELDORAIGNE	020503402/1	GEOSS068
371	3402/1	ELDORAIGNE	020503402/1	GEOSS069
372	3402/1	ELDORAIGNE	020503402/1	GEOSS070
373	3402/1	ELDORAIGNE	020503402/1	GEOSS071
374	3402/1	ELDORAIGNE	020503402/1	GEOSS072
375	3402/1	ELDORAIGNE	020503402/1	GEOSS073
390	327/2	ELOFFSDAL	020400327/2	PV000000
391	327/77	ELOFFSDAL	020400327/77	PV000000
526	00000/16	GROOTVLEI 272JR	085400000/16	PV000000
528	00000/288	GROOTVLEI 272JR	085400000/288	PV000000
529	00000/289/R	GROOTVLEI 272JR	085400000/298/R	PV000000
530	00000/292	GROOTVLEI 272JR	085400000/292	PV000000
531	00000/293	GROOTVLEI 272JR	085400000/293	PV000000
532	00000/294	GROOTVLEI 272JR	085400000/294	PV000000
533	00000/296	GROOTVLEI 272JR	085400000/296	PV000000
534	00000/297	GROOTVLEI 272JR	085400000/297	PV000000
535	00000/298	GROOTVLEI 272JR	085400000/298	PV000000
536	00000/299	GROOTVLEI 272JR	085400000/299	PV000000
537	00000/300	GROOTVLEI 272JR	085400000/300	PV000000
538	00000/301	GROOTVLEI 272JR	085400000/301	PV000000
539	00000/318	GROOTVLEI 272JR	085400000/31/8	PV000000
540	00000/302	HAAKDOORNBOOM 267JR	090500000/302	PV000000
544	00000/102/R	HARTEBEESTFONTEIN 324JR	028000000/102/R	PV000000
560	651	HATFIELD	027200651	PV000000

572	54	HERMANSTAD	029600054	PV000000
573	73	HERMANSTAD	029600073	PV000000
574	376	HERMANSTAD	029600376	PV000000
575	379/1	HERMANSTAD	029600379/1	PV000000
576	379/R	HERMANSTAD	029600379/R	PV000000
577	398	HERMANSTAD	029600398	PV000000
579	514	HERMANSTAD	029600514	PV000000
599	117	HILLCREST	030000117	PV000000
600	150	HILLCREST	030000150	PV000000
601	155	HILLCREST	030000155	PV000000
740	250	MAGALIESKRUIN	039300250	PV000000
741	466	MAGALIESKRUIN	039300466	PV000000
751	791	MAGALIESKRUIN	039300791	GEOSS015
754	791/23	MAGALIESKRUIN	039300791/23	PV000000
773	867/16	MAGALIESKRUIN	039300867/16	PV000000
781	867/9	MAGALIESKRUIN	0393000867/9	PV000000
785	32/5/R	MAYVILLE	04120032/5/R	PV000000
808	2172	MONTANA	043402172	PV000000
809	2173/7	MONTANA	043402173/7	PV000000
810	254	MONTANA AH	043600254	PV000000
812	778	MONTANA PARK	000500778	PV000000
815	1826	MONTANA PARK	000501826	PV000000
816	2171	MONTANA PARK	000502171	GEOSS001
817	2234	MONTANA PARK	000502234	PV000000
818	2281	MONTANA PARK	000502281	GEOSS00A
819	2281	MONTANA PARK	000502281	PV000000
821	2304	MONTANA PARK	000502304	PV000000
824	48	MONTANA TUINE	044200048	PV000000
825	247	MONTANA TUINE	044200247	PV000000
826	248	MONTANA TUINE	044200248	PV000000
830	516/13	MONTANA TUINE	044200516/13	PV000000
835	968	MONTANA TUINE	044200968	PV000000
839	1255	MONTANA TUINE	044201255	PV000000
840	1422	MONTANA TUINE	044201422	PV000000
841	1423	MONTANA TUINE	044201423	PV000000
843	1451	MONTANA TUINE	044201451	PV000000
844	T/SHIP RE	MONTANA TUINE	T/SHIP RE	PV000000
852	142	MORELETAPARK	046600142	PV000000
853	170	MORELETAPARK	046600170	PV000000

854	200	MORELETAPARK	046600200	PV000000
855	217	MORELETAPARK	046600217	PV000000
856	503	MORELETAPARK	046600503	GEOSS008
860	897	MORELETAPARK	046600897	PV000000
861	926	MORELETAPARK	046600926	PV000000
863	1094	MORELETAPARK	046601094	PV000000
864	1154	MORELETAPARK	046601154	PV000000
865	1197	MORELETAPARK	046601197	PV000000
866	1300	MORELETAPARK	046601300	PV000000
867	1418/120	MORELETAPARK	046601418/120	PV000000
868	2214	MORELETAPARK	046602214	PV000000
872	2438	MORELETAPARK	046602438	GEOSS001
873	2795	MORELETAPARK	046602795	PV000000
875	3342/2	MORELETAPARK	046603342/2	PV000000
876	4460	MORELETAPARK	046604460	PV000000
877	4461	MORELETAPARK	046604461	GEOSS001
880	5967	MORELETAPARK	046605967	PV000000
882	6301 + 6302	MORELETAPARK	046606301	PV000000
883	6498	MORELETAPARK	046606498	PV000000
884	6536	MORELETAPARK	046606536	GEOSS010
885	6540	MORELETAPARK	046606540	GEOSS025
886	6622	MORELETAPARK	046606622	PV000000
887	6833	MORELETAPARK	046606833	PV000000
888	6834	MORELETAPARK	046606834	PV000000
889	7179	MORELETAPARK	046607179	GEOSS017
890	613	MOUNTAIN VIEW	046800613	PV000000
916	72	NEWLANDS	049600072	PV000000
917	128	NEWLANDS	049600128	PV000000
918	136	NEWLANDS	049600136	PV000000
919	579/3	NEWLANDS	049600579/3	GEOSS081
922	750	NEWLANDS	049600750	GEOSS014
923	750	NEWLANDS	049600750	GEOSS020
924	750	NEWLANDS	049600750	GEOSS062
925	750/51	NEWLANDS	049600750/51	PV000000
926	750/69	NEWLANDS	049600750/69	PV000000
944	34	ONDERSTEOPOORT AH	001800034	PV000000
1002	653	PRETORIA NORTH	053200653	PV000000
1066	253	PRETORIUSPARK	055000253	PV000000
1067	255	PRETORIUSPARK	055000255	PV000000

1069	315	PRETORIUSPARK	055000315	PV000000
1070	340	PRETORIUSPARK	055000340	PV000000
1071	353	PRETORIUSPARK	055000353	PV000000
1072	427	PRETORIUSPARK	055000427	PV000000
1073	465	PRETORIUSPARK	055000465	PV000000
1074	466	PRETORIUSPARK	055000466	PV000000
1076	496	PRETORIUSPARK	055000496	PV000000
1080	700	PRETORIUSPARK	055000700	PV000000
1081	734	PRETORIUSPARK	055000734	PV000000
1084	833	PRETORIUSPARK	055000833	PV000000
1086	1118	PRETORIUSPARK	055001118	PV000000
1087	1616	PRETORIUSPARK	055001616	PV000000
1088	1641/12	PRETORIUSPARK	055001641/12	PV000000
1102	00000/2	RENBAAN 117JR	024500000/2	PV000000
1103	00000/R	RENBAAN 117JR	024500000/R	PV000000
1145	111	ROSSLYN	097700111	PV000000
1152	1962/R	SILVERTON	062801962/R	PV000000
1158	199	SINNOVILLE	064000199	PV000000
1162	1793	SINNOVILLE	064001793	GEOSS001
1163	1793	SINNOVILLE	064001793	GEOSS002
1167	2322	SINNOVILLE	064002322	PV000000
1168	891/R	SINNOVILLE	06400891/R	PV000000
1170	00000/33	SJAMBOK ZIJN OUDE KRAAL 258JR	025700000/33	PV000000
1177	10	SUNDERLANDRIDGE	065900010	PV000000
1180	122	SUNDERLANDRIDGE	065900122	PV000000
1181	124	SUNDERLANDRIDGE	065900124	PV000000
1182	149	SUNDERLANDRIDGE	065900149	PV000000
1183	163	SUNDERLANDRIDGE	065900163	PV000000
1184	249	SUNDERLANDRIDGE	065900249	PV000000
1185	253	SUNDERLANDRIDGE	065900253	PV000000
1186	264	SUNDERLANDRIDGE	065900264	PV000000
1187	265	SUNDERLANDRIDGE	065900265	PV000000
1262	10/R	SUNSET VIEW AH	066200010/R	PV000000
1346	139	WATERKLOOF GLEN	072600139	PV000000
1348	228	WATERKLOOF GLEN	072600228	PV000000
1349	811/5	WATERKLOOF GLEN	072600811/5	PV000000
1350	814	WATERKLOOF GLEN	072600814	GEOSS006
1400	123/1	WAVERLEY	075200123/1	PV000000

1403	383/R	WAVERLEY	075200383/R	PV000000
1404	549/1	WAVERLEY	075200549/1	PV000000
1516	00000/101	WITFONTEIN 301JR	077400000/101	PV000000
1523	80	WODERBOOM AH	078400080	PV000000
1524	7/1	WOLMARHANSPOORT AH	077600007/1	PV000000
1525	276/R	WOLMER	078000276/R	PV000000
1533	13	WONDERBOOM AH	078400013	PV000000
1538	109	WONDERBOOM AH	078400109	PV000000
1561	00000/4	KOEDOESPOORT 325JR	032000000/4	PV000000
1580	376	HERMANSTAD	029600376	PV000000

**Root cause**

Ongoing monitoring of property rates for the above account is not undertaken by management to determine whether internal control over financial reporting is present and functioning.

**Risk**

- Possible over-/under-statement of revenue in respect of property rates as disclosed in the statement of financial performance, the property values as disclosed in note 20 to the financial statements as well as consumer debtors.
- Controls are not monitored to guarantee their effectiveness on reliable financial reporting.

**Recommendation**

- Management should ensure that the objections register indicates the market value that is being objected.
- Controls need to be designed and developed to ensure revenue protection.
- Senior officials should ensure effective implementation of monitoring controls.
- Controls must be monitored to ensure that they are working as intended by management.
- Estimations need to be determined in respect of the possible effect on revenue and receivables, as well as amounts disclosed in the financial statements to ensure that these amounts will not have a material impact on the financial statements.

**Management response**

Relevant information on all appeals was provided to the auditors. Hereunder the calculated estimate adjustments that needs to be made in respect of property values as well as property rates. Amounts in respect of property values as per valuation roll and Appeal Board decision are included in the attached schedules.

$$\frac{R2,250,051,868 (X)}{R285,326,733,313(Y)} \times R1,116,407,229 (Z) = R8,803,851 (A)$$

$$(X) / (Y) * (Z) = (A)$$

Where (X) = Net Income from Property Rates  
(Y) = Total Market Value on SAP



(Z) = Variance on Objections (Valuation Roll & VAB)  
(A) = Estimated Adjustment on the  
disclosures

R 2,250,051,868 (J) X R 55,370,000 (L) = R 436,641 (M)  
R285,326,733,313(K)

*Name:* Isaac Lehobye

*Position:* Head Property Valuation

*Date:* 1 December 2009

**Auditor's comments**

Based on the meeting had with Mr Dyakala, all properties were dealt with according to the Appeal board after the financial year under review. Information was provided for audit purposes and tested accordingly and agrees with management provision. The adjustments will be reviewed in the financial statements.

**50. R&R: Objections for property rates (EX 135)**

**Audit finding**

During the audit of property rates stated as R2 250 051 868 in the statement of financial performance and as R2 250 051 868 in note 20 to the financial statements, and property values stated as R285 326 733 313,00 the following were identified:

A valuation roll effective 1 July 2008 until 30 June 2011 was published to the public and there were 1 613 properties with a market value of R4 807 769 038 for which objections were logged from the public. A sample of 190 objections with a market value of R196 388 300.00 was selected and tested for the financial period 2008-09. Based on the execution process it came to our attention that 28 objections logged out of 190 were not updated on PROV and SAP.

The following serve as examples of objections not updated on PROV and SAP:

Market value not updated on PROV and SAP:

OBJECTION FILE NO.	ERF NO.	TOWNSHIP	GISKEY	FUNCTIONAL KEY	VALUE VALUATION 2008 (R)	IN ROLL VALUE VALUER (R)	APPROVED BY PER SAP (R)	AMOUNT AS PRO-V AND Variance (R)	Calculated impact on revenue
7	760/2	ANNLIN	000800760/2	PV000000	800 000.00	720 000.00	800 000.00	(80 000.00)	(3 919.50)
150	826/3	BROOKLYN	006800826/3	PV000000	2 400 000.00	2 160 000.00	2 400 000.00	(240 000.00)	(12 343.50)
159	87	CAPITAL PARK	008400087	PV000000	550 000.00	500 000.00	550 000.00	(50 000.00)	(2 632.50)
160	545	CAPITAL PARK	008400545	PV000000	580 000.00	530 000.00	580 000.00	(50 000.00)	(2 808.00)
161	576	CAPITAL PARK	008400576	PV000000	575 000.00	530 000.00	575 000.00	(45 000.00)	(2 808.00)
208	238/4	DASPOORT	012800238/4	PV000000	810 000.00	730 000.00	810 000.00	(80 000.00)	(13 140.00)
2	39	AMANDASIG	097100039	PV000000	500 000.00	500 000.00	730 000.00	(230 000.00)	(2 632.50)
164	720	CELTISDAL	008500720	PV000000	550 000.00	550 000.00	2 050 000.00	(1 500 000.00)	(2 925.00)
185	207	CLUBVIEW	010900207	PV000000	700 000.00	700 000.00	1 400 000.00	(700 000.00)	(3 802.50)
192	805/3	CLUBVIEW	010900805/3	PV000000	750 000.00	675 000.00	710 000.00	(35 000.00)	(3 656.25)
195	945/22	CLUBVIEW	010900945/22	PV000000	4 200 000.00	1 150 000.00	1 000 000.00	150 000.00	(6 435.00)

198	945/25	CLUBVIEW	010900945/25	PV000000	4 200 000.00	1 300 000.00	1 100 000.00	200 000.00	(7 312.50)
280	235	ELDORAIGNE	020500235	PV000000	1 000 000.00	1 000 000.00	750 000.00	250 000.00	(5 557.50)
433	369	FAERIE GLEN	022600369	PV000000	1 000 000.00	1 100 000.00	1 350 000.00	(250 000.00)	(6 142.50)
434	530/36	FAERIE GLEN	022600530/36	PV000000	645 000.00	645 000.00	1 000 000.00	(355 000.00)	(3 480.75)
<b>Total</b>					<b>19 260 000.00</b>	<b>12 790 000.00</b>	<b>15 805 000.00</b>	<b>(3 105 000.00)</b>	<b>(79 596.00)</b>

Market value updated on ProV but not updated on SAP:

OBJECTION FILE NO.	ERF NO.	TOWNSHIP	GISKEY	FUNCTIONAL KEY	VALUE VALUATION ROLL 2008 (R)	INAPPROVED VALUE VALUER (R)	MARKET VALUE AS PER SAP (R)	VARIANCES (R)	Calculated impact on revenue
29	1044	ARCADIA	002001044	GEOSS005	250 000.00	160 000.00	250 000.00	(90 000.00)	(643.50)
130	51	BOOYSENS	006000051	PV000000	675 000.00	620 000.00	675 000.00	(55 000.00)	(3 334.50)
153	1/4	BRUMERIA	007200001/4	GEOSS001	1 450 000.00	1 200 000.00	1 450 000.00	(250 000.00)	(6 727.50)
154	1/4	BRUMERIA	007200001/4	GEOSS002	1 450 000.00	1 200 000.00	1 450 000.00	(250 000.00)	(6 727.50)
155	1/5	BRUMERIA	007200001/5	GEOSS002	1 450 000.00	1 030 000.00	1 450 000.00	(420 000.00)	(5 733.00)
156	1/4	BRUMERIA	007200001/4	GEOSS003	1 450 000.00	1 200 000.00	1 450 000.00	(250 000.00)	(6 727.50)
275	1191	ELARDUSPARK	020001191	PV000000	940 000.00	850 000.00	940 000.00	(90 000.00)	(4 680.00)
288	994	ELDORAIGNE	020500994	PV000000	1 100 000.00	1 600 000.00	1 100 000.00	500 000.00	(9 067.50)
290	1069	ELDORAIGNE	020501069/R	PV000000	1 000 000.00	1 500 000.00	1 000 000.00	500 000.00	(8 482.50)
291	1069/1	ELDORAIGNE	020501069/1	PV000000	1 000 000.00	1 500 000.00	1 000 000.00	500 000.00	(8 482.50)
404	295	ERASMIA	021600295	PV000000	693 000.00	693 000.00	770 000.00	(77 000.00)	(3 761.55)
415	482	ERASMUSKLOOF	022100482	PV000000	955 000.00	880 000.00	955 000.00	(75 000.00)	(4 855.50)
417	62	ERASMUSRAND	022400062	PV000000	2 800 000.00	1 450 000.00	2 800 000.00	(1 350 000.00)	(2 6100.00)
<b>Total</b>					<b>34 573 000.00</b>	<b>26 573 000.00</b>	<b>31 095 000.00</b>	<b>(1 407 000.00)</b>	<b>(95 323.05)</b>

### Root cause

- Ongoing monitoring on property rates for the above account is not undertaken by management to determine whether internal control over financial reporting is present and functioning.
- Management's philosophy and operating style do not promote effective control over financial reporting.
- The accounting officer/accounting authority does not exercise oversight responsibility over financial reporting and internal control.

### Risk

- Possible understatement of revenue in respect of property rates, property values as disclosed in note 20 of the financial statements and consumer debtors.
- Controls are not monitored to guarantee their effectiveness on reliable financial reporting.
- Information on the valuation system (Pro-V) does not reconcile with information on the billing system (SAP), which leads to incorrect billing data.

### Recommendation

- Data from the valuation system should be updated continuously on the billing system.
- Controls need to be designed and developed to ensure revenue protection.
- Senior officials should ensure effective implementation of monitoring controls.
- Controls must be monitored to ensure they are working as intended by management.
- Effective dates should be checked on Pro-V to ensure the reliability of billing.

### Management response

Relevant information on all appeals was provided to the auditors. Hereunder the calculated estimate adjustments that needs to be made in respect of property values as well as property rates. Amounts in respect of property values as per valuation roll and Appeal Board decision are included in the attached schedules.

$$\begin{array}{r} \underline{R2.250.051,868 (X)} \\ R285,326,733,313(Y) \end{array} \quad \times \quad \begin{array}{r} R1,116,407,229 \\ (Z) \end{array} \quad = \quad \underline{R8,803,851 (A)}$$

$$(X) / (Y) * (Z) = (A)$$

Where (X) = Net Income from Property Rates  
(Y) = Total Market Value on SAP  
(Z) = Variance on **Objections** (Valuation Roll & VAB)  
(A) = Estimated Adjustment on the disclosures

$$\underline{R 2,250,051,868 (J)} \quad \times \quad R 55,370,000 (L) \quad = \quad \underline{R 436,641 (M)}$$

R285,326,733,313(K)

$$(J) / (K) * (L) = (M)$$

Where (J) = Net Income from Property Rates

(K) = Total Market Value on SAP

(L) = Variance on **Appeals** (Valuation Roll & VAB)

**(M)** = Estimated Adjustment on the disclosures

*Name:* Isaac Lehobye

*Position:* Head Property Valuation

*Date:* 1 December 2009

**Auditor's comments**

Based on the meeting had with Mr Dyakala, all properties were dealt with according to the Appeal board after the financial year under review. Information was provided for audit purposes and tested accordingly and agrees with management provision. The adjustments will be reviewed in the financial statements.

**51. R&R: Property rates – Properties on ProV not on SAP and SAP not on ProV (EX 205)**

**Audit finding**

During the audit of property rates stated as R2 250 051 868 in the statement of financial performance and as R2 250 051 868 in note 20 to the financial statements, and property values stated as R 285 326 733 313.00 the following were identified:

Variances were noted in the exception report for properties on ProV not on SAP and properties on SAP not on ProV and no provision was made by management.

No. of properties			Market value		
SAP properties not on ProV (R)	ProV properties not on SAP (R)	Variances (R)	SAP properties not on ProV (R)	ProV properties not on SAP (R)	Variances (R)
24 761	28 842	-4 081	9 743 208 615.00	9 61 742 881.00	-132 465 734.00

The following is our calculation of impact on revenue for the above exception report:

No. of properties			Market value			Calculation of rates			
SAP properties not on ProV (R)	ProV properties not on SAP (R)	Variances (R)	SAP properties not on ProV (R)	ProV properties not on SAP (R)	Variances (R)	Rate category for residential property	Average market value per property (R)	Average rates per property (R)	Extrapolated calculated impact on revenue (R)
24 761	28 842	-4081	9 743 208 615.00	9 61 742 881.00	-132 465 734	0.009	32 459.14	292.13	-1 192 191.6

Ongoing monitoring of property rates for the above account is not undertaken by management to determine whether internal control over financial reporting is present and functioning.

**Risk**

Possible misstatement of revenue property rates and consumer debtors

**Recommendation**

- Controls need to be designed and developed to ensure that provisions are correctly calculated and provided for in respect of unrecorded property rates.
- Management should make a provision for rates on the exceptions report and correctly and accurately calculate the rates.
- Senior officials should ensure effective implementation of monitoring controls.
- Controls must be monitored to ensure that they are working as intended by management.

**Management response**

- After performing the match and Reconciliation between and Pro-V and SAP exception reports were generated.
- Properties on Pro-V and not on SAP and on SAP not on Pro-V were some of the exception files generated
- Properties on Pro-V and not on SAP are properties that could not be traced on SAP billing system and should be created on the billing system with retrospective adjustments done based on the effective date.
- Properties on SAP and not on Pro-V are historical properties that are inactive on Pro-V but are still active on SAP. These properties should be deactivated on the SAP Billing system with adjustments based on the effective date and should be marked for deletion.
- Properties on SAP and not on Pro-V were investigated and tracked back to the Pro-V as historical properties as requested and the findings were confirmed with the auditor.
- Based on the extrapolation, the calculation below indicates that there was an overbilling of R 3 028 641.61 for the financial year 2008/2009

NO. OF PROPERTIES			MARKET VALUE			AVERAGE MARKET VALUE			AVERAGE RATE PER ANNUM		
SAP Properties not on ProV	ProV Properties not on SAP	Variance	SAP Properties not on ProV (R)	ProV Properties not on SAP (R)	Variance (R)	SAP Properties not on ProV (R)	ProV Properties not on SAP (R)	Variance (R)	SAP Properties not on SAP (R)	ProV Properties not on sap (R)	Variance (R)
24761	28842	-4081	9 610 742 881	9 610 742 881	132 465 734.00	393 490.11	333 220.40	60 269.71	3 091	2,548.98	542.43

TOTAL RATE PER ANNUM		
SAP Properties not on ProV (R)	ProV Properties not on SAP (R)	Variance (R)
76 546 427.54	73 517 785.93	3 028 641.61

*Name: Andile Dyakala*

*Position: Executive Manager*

*Date: 25 November 2009*

**Auditor's comments**

Based on the audit work performed as well as the sample selected it was confirmed that properties on SAP not on ProV were in respect of historical properties such as rezoned and needs to be deleted from the SAP system and properties on ProV not on SAP still needs to be included on SAP. Based on the calculations audited, a total variance of R 3 028 641.61 exists and the adjustment included in the financial statements will be reviewed. Controls implemented by management to rectify the relevant individual properties on SAP as well as ProV will be followed up during the audit of the 2009/10 financial year. However, according to section 64(2)(a) of MFMA states that the accounting officer or municipality shall take all reasonable steps to ensure that the municipality have effective revenue management systems consistent with section 95 of the Municipal Systems Act. Section 95(e) states that the municipality should ensure that persons liable for payments receive regular and accurate accounts that indicate the basis for calculating the amounts due as various reconciling differences were identified in respect of variances between the ProV and the SAP billing system resulting in individual accounts not timely and accurately billed. Based on the mentioned findings it is evident that individuals liable for payment are not receiving regular and accurate accounts.



## 52. R&R: Property rates – 5 573 properties with difference in market value (EX 140)

### Audit finding

During the audit of property rates stated as R2 250 051 868 in the statement of financial performance and as R2 250 051 868 in note 20 to the financial statements, and property values stated at R285 326 733 313,00 the following were identified:

1. A total of 5 573 properties were identified by management with differences in market value between ProV and SAP; however, during the performance of the recalculation a variance of R5 471 521,43 was identified. This serves as an example of variances identified between management and our calculation:

Quantification of the differences in market value on revenue	Rate	Total No of Properties	Market value-SAP (R)	Market value-PROV (R)	Sample No of Properties	Unwilling value of sample (R)	Sample investigated	Calculated impact on revenue (R)	Recalculated impact on revenue (R)	Variances (R)
<b>Rating categories</b>										
Residential properties	0.009	4 830	1 600 989 419.00	2 216 487 446.00	2,153	4 932 810.00	44.58%	11 066 174.00	11 066 173.85	-0.15
Vacant land	0.040	467	245 367 003.00	173 359 671.00	135	1 929 196.00	28.91%	1 829 163.00	6 673 589.13	4 844 426.13
Business and commercial properties	0.018	128	426 624 390.00	253 936 049.00	52	482 143.00	40.63%	352 335.00	1 186 813.54	834 478.54
Agricultural	0.009	38	29 432 000.00	53 259 302.00	21	164 793.00	55.26%	290 350.00	298 196.86	7 846.86
Industrial properties	0.018	37	89 544 000.00	72 863 003.00	9	135 064.00	24.32%	480 227.00	555 263.11	-1 035 490.11
Sate-owned properties/Government	0.018	32	13 071 000.00	30 280 001.00	23	391 250.00	71.88%	221 141.00	544 347.83	-765 488.83
Public service infrastructure	0.000	13	0.00	3 481 000.00	0	0.00	0.00%	0.00	0.00	0.00
Agricultural vacant	0.040	12	6 930 000.00	6 295 001.00	8	87 076.00	66.67%	108 845.00	130 614.00	21 769.00
Illegal use	0.045	10	37 450 000.00	11 170 000.00	8	158 660.00	80.00%	79 330.00	198 25.00	118 995.00
Municipal property (ratable)		4	3 500 000.00	7 310 000.00		63 372.00	75.00%	42 248.00	84 96.00	42 248.00

	0.018				3						
Municipal property (not ratable)	-	2	100 000.00	195 000.00	0.00	0.00	0.00%	0.00	0.00	0.00	
<b>Grand total</b>		<b>5 573</b>	<b>2 453 007 812.00</b>	<b>2 828 636 473.00</b>	<b>2 412</b>	<b>7 291 736.00</b>	<b>487.24%</b>	<b>13 067 076.00</b>	<b>18 538 597.43</b>	<b>5 471 521.43</b>	

2. A sample of 30 properties was selected in respect of properties already investigated by management and as a result we identified 19 properties with variances between management's calculations and our calculations. If we extrapolate the error identified based on the total 5 573 properties the extrapolated error is R207 162 940,86. The following properties serve as an example of variances noted on 5 573 properties with difference in market value:

As per PROV		As per Exception report						Auditors Recalculations				
Giskey	functional key	Market value as per SAP (R)	Market value as per Prov (R)	RATES DUE SAP (R)	RATES DUE ProV (R)	Monthly rates difference (R)	Managements Yearly rates difference (R)	Recalculati on as per SAP (R)	Recalculati on as per PROV (R)	Variance (R)	Auditors Recalculation Yearly rates difference (R)	Variance (R)
019500000/R	PV0000000	5,930,000.00	1 200 000.00	8 895.00	18 000.00	-9 105.00	-109 260.00	8 895.00	1 800.00	7 095.00	85 140.00	(24 120.00 )
071200095	PV0000000	6,700,000.00	1	10 050.00	0	10 050.00	120 599.98	10 050.00	1 312.50	8 737.50	104 850.00	(15 749.98)
029500648	PV0000000	3,800,000.00	1	5 700.00	0	5 700.00	68 399.98	5 700.00	1 050.00	4 650.00	55 800.00	(12 599.98)
037600928	PV0000000	11,300,000.00	1	5 484.38	0	5 484.38	65 812.50	5 484.38	316.88	5 167.50	62 010.00	(3 802.50)
038800559/1	PV0000000	365,000.00	1 100 000.00	153.56	0	153.56	1 842.75	153.56	511.88	358.31	-4 299.75	(6 142.50)
038800559/7	PV0000000	345,000.00	1 100 000.00	143.81	0	143.81	1 725.75	143.81	511.88	-368.06	-4 416.75	(6 142.50)
038800559/2	PV0000000	380,000.00	1 400 000.00	160.88	0	160.88	1 930.50	160.88	658.13	-497.25	-5 967.00	(7 897.50)
038800565/13	PV0000000	380,000.00	1 450 000.00	160.88	0	160.88	1 930.50	160.88	682.5	-521.63	-6 259.50	(8 190.00)
038800565/6	PV0000000	390,000.00	1 600 000.00	165.75	0	165.75	1 989.00	165.75	755.63	-589.88	-7 078.50	(9 067.50)
038800565/32	PV0000000	335,000.00	1 250 000.00	138.94	0	138.94	1 667.25	138.94	585	-446.06	-5 352.75	(7 020.00)
068802021	GEOSS0014	0.00	250 000.00	0.00	0.00	0.00	0.00	-24.38	97.5	-121.88	-1 462.50	(1 462.50)
068802021	GEOSS0012	0.00	250 000.00	0.00	0.00	0.00	0.00	-24.38	97.5	-121.88	-1 462.50	(1 462.50)
068802021	GEOSS0005	0.00	145 000.00	0.00	0.00	0.00	0.00	-24.38	46.31	-70.69	-848.25	(848.25)

057200126	GEOSS0001	0.00	515 000.00	0.00	0.00	0.00	0.00	-24.38	226.69	-251.06	-3 012.75	(3 012.75)
078000322	GEOSS0009	325,000.00	430 000.00	0.00	0.00	0.00	0.00	134.06	185.25	-51.19	-614.25	(614.25)
078000322	GEOSS0024	325,000.00	430 000.00	0.00	0.00	0.00	0.00	134.06	165.75	-31.69	-380.25	(380.25)
078000322	GEOSS0002	290,000.00	390 000.00	0.00	0.00	0.00	0.00	117	165.75	-48.75	-585	(585)
052800000/8/R	PVDIF0001	0.00	7 000 000.00	0.00	105 000.00	-105 000.00	-1 260 000.00	0.00	10 500.00	-10 500.00	-126 000.00	1 134 000.00
073200000/1/R	PV0000000	0.00	26 200 000.00	0.00	12 748.13	-12 748.13	-152 977.50	0.00	39 300.00	-39 300.00	-471 600.00	(318 622.50)
<b>Total</b>							<b>-1 037 819.29</b>				<b>-331 539.75</b>	<b>706 279.54</b>

3. No provision was made in respect of the mentioned R13 067 076 identified in the reconciliation between SAP and ProV with regard to the variances of market value between SAP and ProV.

**Root cause**

- Ongoing monitoring of property rates for the above account is not undertaken by management to determine whether internal control over financial reporting is present and functioning.
- Management’s philosophy and operating style do not promote effective control over financial reporting.
- The accounting officer/accounting authority does not exercise oversight responsibility over financial reporting and internal control.

**Risk**

- Possible misstatement of revenue property rates and consumer debtors

**Recommendation**

- Appropriate controls need to be designed and developed to ensure that accurate provisions are made for revenue and receivables.
- Management should assign the responsibility to review the work performed, spot check the exceptions report, and correctly and accurately calculate the rate

**Management response**

1. Provision for Difference in Market Values

- a) Provision of the Market value differences between Property Valuation system and the SAP billing system was calculated based on the sample size investigated.
- b) The provision has been recalculated and confirmed with the Auditor, and will be adjusted accordingly in the Financial Statement as agreed.

Quantification of the difference in Market values on revenue	Rate	Total No of Properties	Market Value-SAP (R)	Market Value-PROV (R)	Sample No of Properties	Unbilling value of Sample (R)	Sample investigated	Calculated impact on revenue (R)
<b>Rate Category</b>								
Residential Properties	0.009	4830	1 600 989 419.00	2 216 487 446.00	2153	4 932 810.00	44.58%	11 066 173.85
Vacant Land	0.04	467	245 367 003.00	173 359 671.00	135	1 929 196.00	28.91%	6 673 589.13
Business and commercial properties	0.018	128	426 624 390.00	253 936 049.00	52	482 143.00	40.63%	1 186 813.54
Agricultural	0.009	38	29 432 000.00	53 259 302.00	21	164 793.00	55.26%	298 196.86
Industrial properties	0.018	37	89 544 000.00	72 863 003.00	9	135 064.00	24.32%	555 263.11
State-owned properties/Government	0.018	32	13 071 000.00	30 280 001.00	23	391 250.00	71.88%	544 347.83
Public service Infrastructure	0.00	13	0.00	3 481 000.00	0	0	0.00%	0.00
Agricultural vacant	0.04	12	6 930 000.00	6 295 001.00	8	87 076.00	66.67%	130 614.00
Illegal use	0.045	10	37 450 000.00	11 170 000.00	8	158 660.00	80.00%	198 325.00
Municipal Properties(Rateable)	0.018	4	3 500 000.00	7 310 000.00	3	63 372.00	75.00%	84 496.00
Municipal Properties(Non Rateable)	0.00	2	100 000.00	195 000.00	0	0	0.00%	0.00
		<b>5573</b>	<b>2 453 007 812.00</b>	<b>2 828 636 473.00</b>	<b>2412</b>	<b>8 344 364.00</b>		<b>20 737 819.31</b>

Name: Andile Dyakala

Position: Executive director

Date: 25 November 2009

#### Auditor's comments

Management response noted recalculations audited and agree with management's recalculations. Adjustments on the financial statements will be reviewed. Controls implemented by management to rectify the individual billings of these properties will be followed up during the audit of the 2009/10 financial year. However, according to section 64(2)(a) of MFMA states that the accounting officer or municipality shall take all reasonable steps to ensure that the municipality have effective revenue management systems consistent with section 95 of the Municipal Systems Act. Section 95(e) states that the

municipality should ensure that persons liable for payments receive regular and accurate accounts that indicate the basis for calculating the amounts due as various reconciling differences were identified in respect of variances between the ProV and the SAP billing system resulting in individual accounts not timely and accurately billed. Based on the mentioned findings it is evident that individuals liable for payment are not receiving regular and accurate accounts.

## RECEIVABLES

### 53. R&R Other debtors – Reconciliations not compiled. (Ex 108)

#### Audit finding

Section 64(2)(h) of the MFMA states that the accounting officer of municipal entity shall take all reasonable steps to ensure that all revenue by the entity, including the collecting agency on its behalf, is reconciled on a weekly or more regular basis.

However, during the audit of other debtors it came to our attention that no reconciliations were compiled between the system used at the licensing department in Akasia and the general ledger account on SAP in respect of account number 149012 (dishonoured cheques Akasia licences) valued at R1 021 357,26 for the financial year 2008-09. Reasons as well as supporting documentation were not provided in respect thereof as well as reasons why the suspense account was not cleared at the financial year-end.

#### Root cause

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

#### Risk

- Possible fraudulent transactions
- Limitation of scope
- Variances will not be detected and followed up promptly, which might result in information not being recorded completely
- Non-compliance with the MFMA

#### Recommendation

- Management should ensure that ongoing monitoring and supervision are undertaken to enable an assessment of the effectiveness of internal control over financial reporting.
- Proper reconciliations should be performed and suspense accounts should be followed up and cleared on a monthly basis.

#### Management response

We are not in agreement with the statement made by the Auditor General that weekly reconciliations were not compiled. However, we do agree and take cognisance of the fact that the GL149003 was reconciled instead of 149012.

This error occurred due to the fact that 149003 (RD cheques) was used to record RD cheques received by Licensing stations. From January 2008 RD cheques were then recorded in GL149012. The manager responsible for the reconciliation of GL accounts at that time erroneously continued with the reconciliation of the GL149003 which was no longer in use but still "live" on SAP.

A complete set of monthly reconciliations of the GL149003 over and above the other GL accounts that reflect Licensing activities has already been submitted to the auditors when their audit commenced. We therefore did comply with the MFMA in terms of monthly reconciliations.

Corrective measures:

- A request will be submitted to the CoT Finance Department as well as the SAP system administrators in order to determine the possibility of closing the GL149003 completely on SAP in order to avoid any future erroneous reconciliations of this account.
- Reconciliation of the GL149012 will be done in the 2009/2010 financial year on a monthly/regular basis in accordance with section 64(2)(h) of the MFMA.
- Completed reconciliations will continue to be submitted to the municipal finance department as well as the responsible Directors for approval

*Name: MA MMutle*

*Position: Executive Manager*

*Date: 10 November 2009*

**Auditor's comments**

On management comment, it is evident that weekly reconciliations were not compiled on all revenue accounts. Controls implemented by management will be followed up during the audit of the 2009/10 financial year.

#### 54. R&R: Long-term receivables (Ex 198)

##### Audit finding

##### 1. The in duplum rule is not applied consistently. (Ex 198)

This was largely due to the finance department applying the in duplum rule (interest cannot exceed the capital sum) when a customer wants to make an arrangement on arrear amounts. Interest is accrued on a monthly basis to all accounts elevating the balance outstanding, no information processing controls are available to stop the system from accruing interest when the capital balance is exceeded, however, when the finance department applies the in duplum rule, all interest exceeding the capital amount is written back. Alternative procedures performed (requests from legal section on the application of the in duplum rule) indicated that the neither the MFMA nor legislature indicated that the in duplum rule has been abolished and therefore the rule still applies, hence interest exceeding the capital sum cannot be claimed. On further investigations, we have identified that interest exceeds the capital sum for numerous accounts and the municipality will not be able to claim such amounts. In addition, the figure in the financial statements includes balances where interest exceeds the capital sum. Furthermore., in some cases the in duplum rule was applied, but not consistently.

Please refer to the table below for an indication of accounts verified where interest has exceeded the capital sum.

No.	Name	Account no.	Purchase date as per BH44 report	Purchase price (R)	Closing balance as at 30 June 2009 (R)	Cannot be claimed by the municipality if in duplum rule is applied (R)
1	Bhoora Lealawant	40501 07000 02023 056524	1992/06/02	34 942.09	205 709.45	135 825.27
2	R Swarts	31400 07900 03023 050223	1994/03/04	35 000.00	108 871.61	38 871.61
3	Y Sikander	31400 27300 03023 089023	1994/03/31	35 000.00	175 946.46	105 946.46
4	A Fisher	31400 29500 03023 093423	1994/03/31	35 000.00	141 076.84	71 076.84
5	KA Kopane	31401 12200 03023 058824	1994/01/06	35 000.00	158 116.36	88 116.36
6	PM Singh	31401 00200 03023 034824		35 000.00	114 671.78	44 671.78
7	SH Parthan	31400 23700 03023 081823	1994/03/17	35 000.00	118 472.85	48 472.85
8	KA Kopane	31401 12200 03023 058824	1994/01/06	35 000.00	158 116.36	88 116.36
9	JJ Krope	41538 22000 01023	1994/04/01	21 909.09	75 039.43	31 221.25



		086561						
10	LC Holworthy	31505 182528	66000	19023	2002/01/01	600 000.00	1 225 521.86	25 521.86
11	S Lobai	41346 106369	28000	09023	1983/07/08	19 710.95	62 593.52	23 171.62
12	F Consalves	41343 115366	31000	12023	1985/03/08	17 000.00	51 470.20	17 470.20
13	CR Africa	41346 245369	96000	12023	1987/02/02	17 000.00	47 035.42	13 035.42
14	JT Mnisi	40511 166534	62000	02023	1994/11/14	35 000.00	86 829.77	16 829.77
15	R Jairam	40509 088532	23000	02023	1992/07/02	34 574.96	91 333.83	22 183.91
16	MAKOLA D	31510 234733	94100	15023	1998/01/15	100 200.95	442 654.81	24 252.91
17	SPJ van Nierkerk - ERF 3803/R GARSFONTEIN X15 EDMS BK	315038030001023193126			1996/05/05	130 000.00	353 489.85	93 489.85
<b>TOTAL</b>							<b>1 106 274.32</b>	

2. No contracts on debtors file (Ex 198)

During the audit signed contracts for the sample selected were requested from management but not yet received. As indicated in prior years information on housing loans was destroyed in the fire. Management has, however, not implemented sufficient back-up controls or communication controls to obtain copies of the signed agreements between the relevant debtor and the CoT. The table below illustrates a sample of debtors where signed contracts are not available for audit purposes and for these same accounts were interest and administrative charges have accrued on a monthly basis but no payment has been received from the debtor for the full financial year or subsequent periods. We were therefore unable to confirm the existence, rights and valuation of these debtors due to a lack of information (contracts not available).

No.	Name	Account no.	Closing balance as at 30 June 2009 (R)
1	SH Parthan	31400 23700 03023 081823	118 472.85
2	PM Singh	31401 00200 03023 034824	114 671.78
3	Doringkloof Tennisklub	31600 28100 07023 094823	144 222.70
<b>TOTAL</b>			<b>377 367.33</b>

3. During the audit we have identified that the following debtor has not yet been issued an invoice for the year but is included on the BH44

No.	Name	Account no.	Closing balance as at 30 June 2009 (R)
1	Doringkloof Tennisklub	316002810007023094823	144 222.70

4. Debtors with no payments for the year under review or subsequent period

During the audit we have identified that the following debtors made no payments for the year under review and subsequent periods. Furthermore, since January 2009, no interest, instalments and administration fees were levied on their invoices. We were therefore unable to confirm the existence, rights and valuation of these debtors due to a lack of payments. The fact that since January 2009 the relevant expenses were not levied by the City of Tshwane might be an acknowledgement that the debt is irrecoverable. It also came to our attention interest and levying of administration fees are not applied to all the debtors of Lotus Gardens.

No.	Name	Account no.	Closing balance as at 30 June 2009 (R)
1	Bhoora Lealawant	40501 07000 02023 056524	205 709.45
2	R Swarts	31400 07900 03023 050223	108 871.61
3	Y Sikander	31400 27300 03023 089023	175 946.46
4	A Fisher	31400 29500 03023 093423	141 076.84
5	KA Kopane	31401 12200 03023 058824	158 116.36
6	JT Mnisi	40511 62000 02023 166534	86 829.77
7	R Jairam	40509 23000 02023 088532	91 333.83
8	JP KRUGER	30435 81118 02023 194694	68 139.76
9	MAKOLA D	31510 94100 15023 234733	442 654.81
10	TONET PROPERTY HOLDINGS	31502 35400 03023 105325	2 034 255.46
11	FIRE REVIVAL COMMUNITY CHURCH	31527 65400 15023 177350	27 853.89
12	SPJ van Nierkerk - ERF 3803/R GARSFONTEIN X15 EDMS BK	31503 80300 01023 193126	353 489.85
<b>TOTAL</b>			<b>3 894 278.09</b>

## **Root cause**

Management has not specified financial reporting objectives to enable the identification of risks to reliable financial reporting.

## **Risk**

- In duplum rule was not applied.
- Possible overstatement of long-term receivables
- No contracts
- If no signed contracts are in place, the municipality may find it difficult to claim the right to the asset.
- Debt will not be collected from the original purchasers where houses have been sold.
  
- Long-term receivables might be overstated by an unknown amount.
- Invoice not yet issued
- If no invoices are issued to the debtor, the municipality may find it difficult to recover any outstanding debt.
- Long-term receivables might be overstated by an unknown amount.
- Debtors with no payments
- If no expenses are levied on monthly invoices to the debtors, the municipality may find it difficult to recover any outstanding debt.
- Non-regular payments from debtors indicate that the provision for bad debt must increase and the actual writing off of debt will be required.
- Long-term receivables might be overstated by an unknown amount.

## **Recommendation**

- The in duplum rule needs to be applied.
- Appropriate controls need to be implemented to ensure that the in duplum rule is correctly and consistently applied.
- The total population needs to be reviewed and the financial statements adjusted to ensure that amounts are reflected in the financial statements.
- The municipality should review debtors files where no contracts are in place. A team should be assigned to physically visit premises and locate the debtor or determine if the house has been illegally sold or leased.
- Where debtors are located, both parties to the agreement should sign new contracts.
- Where debtors are not located and cannot be traced, provision should be made to write off debt.
- Interest and administrative costs should stop accruing to accounts that are identified as dormant (no payments received) as this might impact on the reliability and relevance of the financial statements.
- Invoice not yet issued
- The municipality should review debtors files where no contracts are in place. A team should be assigned to physically visit premises and locate the debtor or determine if any property has been illegally sold or leased.

- Where debtors are located both parties to the agreement should sign new contracts.
- Where debtors are not located and cannot be traced, provision should be made to write off debt.
- Interest and administrative costs should stop accruing to accounts that are identified as dormant (no payments received) as this might impact the reliability and relevance of the financial statements.
- Accurate invoices must be issued on a monthly basis to debtors.
- Reminders must be sent out to debtors regarding outstanding debt.
- Debtors with no payments made
- The municipality should review debtors files where no contracts are in place. A team should be assigned to physically visit premises and locate the debtor or determine if any property has been illegally sold or leased.
- Where debtors are located, both parties to the agreement should sign new contracts.
- Where debtors are not located and cannot be traced, provision should be made to write off debt.
- Interest and administrative costs should stop accruing to accounts that are identified as dormant (no payments received) as this might impact on the reliability and relevance of the financial statements.
- Accurate invoices must be issued to debtors on a monthly basis.
- Regular reminders must be sent out to debtors regarding outstanding debt.
- A meeting must be held with all the relevant role players in the CoT regarding long-term debtors (Housing-, Legal-, Section, Finance-, ASD Social Department - Poorest of the Poor) and a strategy must be developed on how to solve dormant debt even if it is required to make a recommendation to the city council that all debt must be written off and the property regarding purchases of houses to be transferred to the debtors. Especially regarding Lotus Gardens' wards where the houses were received from the provincial government on a free basis.

### **Management response**

Your audit on the above mentioned and the request for management comment refers:

1. In du plum rule is not applied consistently.

The application of the In Du Plum rule resulted in a few unanswered questions still pending from the auditors when a bulk transaction on the said was processed last year. See attached query. We concur with your findings on the attached list and will apply the rule consistently once clarity on the issues in the letter is provided.

2. No contracts on debtors files.

I am not in agreement with your finding as the client's mentioned in your query has signed agreements that can be made available for scrutiny. Kindly note that the Doornkloof Tennis clubs outstanding amount is R 84,764.15 and not as indicated in the query.

4. No payments received.

We do concur with your finding that no payments were received from the majority of the accounts listed as they are ALL from the LOTUS GARDENS with the exception of:

- JP Kruger 30435 81118 02023 R68 139.76 [handed over to Legal Department
- TONET PROP 31502 35400 03023 R2, 034,255.46 [with legal for opinion on the development of the property and content of the agreement]

- FIRE REVIVAL 31527 65400 15023 R27,853.89 [to be handed over to legal
- COMM. CHURCH Dept.]
- SPJ van Niekerk 30503 80300 01023 R 353,489.85 [with Legal for opinion on the Erf 3803/R application of the closure and the amendment scheme of the Garsfontein agreement.X15 EDMS Bk

*Name: Gerald Julius*

*Position: Deputy Director*

*Date: 25 November 2009*

### **Auditor's comments**

1. The in du plum needs to be applied to all accounts and management needs to provide the auditors of a total amount in respect of the total population to be included in the statement of misstatements to ensure the financial statements are correctly updated.
2. The limitation has been resolved as files were made available for audit purposes.
3. Due to the fact that no interest is charged and no payments are received the estimated recoverability of the amount needs to be reconsidered on the total population and a provision needs to be created. If no provision are calculated on the basis that the houses serves as security and no interest are charged, the amount in respect of the mentioned needs to be impaired to present value at financial statement date and the amount needs to be included in the statements of misstatements.

## 55. R&R: Interest not charged on long-outstanding debtors (Ex 155)

### Audit finding

Accounting policy: City of Tshwane, paragraph 10.3 Interest on outstanding debtors: Interest on outstanding debtors is recognised on a time proportionate basis and paragraph 15, Account receivable: Account receivable is carried at anticipated realisable value.

GRAP 9 – Revenue from exchange transactions state in paragraph 17. In most cases the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. For example, an entity may provide interest-free credit to the purchaser or accept a note receivable bearing a below-market interest rate from the purchaser as consideration for the sale of goods. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:

1. the prevailing rate for a similar instrument of an issuer with a similar credit rating
2. a rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue in accordance with paragraphs 34 and 35 and in accordance with the relevant Standards of GRAP on Financial Instruments.

Paragraph 34, Revenue arising from the use by others of entity assets yielding interest, royalties and dividends shall be recognised using the accounting treatments set out in paragraph .35 when:

1. it is probable that the economic benefits or service potential associated with the transaction will flow to the entity
2. the amount of the revenue can be measured reliably.

Paragraph 35, Revenue shall be recognised using the following accounting treatments:

1. Interest shall be recognised using the effective interest rate method as set out in the Standards of GRAP on Financial Instruments

During the audit of other debtors, e.g. housing rentals, ambulance services, etc. it was identified that interest is not being charged on long-outstanding debtors as disclosed in the financial statements. The fair value measurement of revenue and receivables was not considered, as prescribed according to paragraph 17 of GRAP 9, as debtors outstanding existed that are longer than the normal credit terms. The following only serve as an example of our recalculated estimate of revenue not accounted for as interest received:

Details	Total (R)	Total outstanding (>30 days) (R)	Estimated Charge (R)	Interest
Sundry Rentals	433 078 356.07	412 032 060.77		5 150 400.76
White Economic Letting	52 041 156.08	47,367,290.97		592 091.14
Sub Economic Letting	105 642 457.69	104 513 141.01		1 306 414.26

Encroachment on council property	919 525.64	903 307.64	11 291.35
Government Projects	79 659 599.60	78 782 042.81	984 775.54
Eersterust Economic Rentals	25 850 608.13	25 844 502.45	323 056.28
Eersterust Sub-Economic Rentals	15 586 155.45	15 576 175.77	194 702.20
Eersterust Economic Flats	118 992 479.84	118 988 923.84	1 487 361.55
Claremont Rentals	1 259 749.55	1 222 629.61	15 282.87
Debtors: Control Sundries	78 132 200.40	69 242 532.99	432 765.83
<b>Total</b>	<b>911 162 288.45</b>	<b>874 472 607.86</b>	<b>10 498 141.77</b>

### Root cause

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

### Risk

- Non-compliance with laws and regulations
- Understatement of other income in the financial statements

### Recommendation

- Management should ensure that ongoing monitoring and supervision are undertaken to enable an assessment of the effectiveness of internal control over financial reporting.

### Management response

Your audit on the above mentioned and the request for management comment refers:

A discussion with the Housing Department revealed that no interest has ever been levied on arrear Housing rental, as no clause within the Rental agreement makes provision for the levy of interest on arrear outstanding Rental balances.

If as per your references to GAMAP needs to be applied, then an addendum needs to be attached to ALL individual agreements that rent units from the CoT which in turn will increase the outstanding debt which, in the first place is uncollectable. This would entail that the provision for bad debt will have to be increased based on the new interest that will be levied on outstanding Rental arrears.

Kindly advise if this is a financially viable preposition and as from when does it need to be applied and at what interest rate?

If according to you, there is a misstatement, it will have to be investigated and be corrected; otherwise the status quo needs to remain as is.

*Name: Andile Dyakala*

*Position: Executive Manager Revenue*

*Date: 01 December 2009*

**Auditor's comments**

Due to the fact that no interest is charged and no payments are received the estimated recoverability of the amount needs to be reconsidered on the total population and a provision needs to be created. No interest are charged, the amount in respect of the mentioned needs to be impaired to present value at financial statement date and the amount needs to be included in the statements of misstatements.



## **56. R&R: Consumer debtors: Bad debts: Council approval not provided (Ex 179)**

### **Audit finding**

During the audit of bad debts written off in the financial statements it came to our attention the amount of R161 074 460 for bad debt: contribution and R165 228 232 for bad debts: written off – consumer and sundry debtors were disclosed in the statement of financial performance as at 30 June 2009. However, no supporting documentation was provided that the council approved the write-off of the mentioned amounts as disclosed on in note 16 to the consolidated financial statements. The note to the consolidated financial statements is as follows:

The council approved an amount of R187 730 810 (inclusive of VAT) to be written off for the parent, however, only a total amount of R165 228 232 (2008: R100 732 978) was written off as bad debt by the parent municipality. This represents 1.33 % (2008: 0.99 %) of the total operating income for the year.

### **Root cause**

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

### **Risk**

The occurrence of the amount included in the financial statements could not be verified as a result of a limitation of scope.

### **Recommendation**

- The relevant approvals from the council should be obtained to ensure that the council approved the amounts to be written off before amounts are written off.
- Monitoring and supervision controls should furthermore be implemented to ensure that the council approves amounts to be written off before the write-off thereof.

### **Management response**

During the 2008/09 financial year there was no approved write off report by Council. The only write off that took place was as a result of approved indigent. With the Indigent Policy you don't need a report, the system writes off automatically upon approval of the indigent. This is in line with the council approved indigent policy

*Name:* Andile Dyakala

*Position:* Executive Director: Revenue Management

*Date:* 11 November 2009

### **Auditor's comments**

The policy for indigent debtors was inspected, as well as the calculation for the bad debts written off. The council approved that the indigent debtors as well as the long outstanding debt less than R3 000.00 be written off at the discretion of the chief financial officer, and the amount of bad debts was made of indigent and long outstanding debts less than R 3 000.00. However, the financial statements state that the council approved the amount written off. Therefore the statement on the financial statements as indicated on Note 15 should be modified, as the council did not approve

any bad debts written off. Adjustments made by management will be followed up to ensure that the descriptive information included in the financial statement reflect a fair presentation.

## PERFORMANCE INFORMATION

### 57. Performance information: Inadequate explanation of reported achievements (Ex 50)

#### Audit finding

Based on the review of the reported performance information in the annual report, it was noted that the performance information was not presented in a simple, accessible format, relevant and useful to the intended reader, and/or in accordance with the relevant preparation guides applicable to the annual reports for the financial year-end. It was difficult to determine how the reported achievements were calculated, especially when attempting to reconcile the achievements in the city scorecard as per the IDP to the achievements on the city scorecard as per the SDBIP.

The following indicators/measures of the listed KPIs evaluated were not clear or well defined to allow for targets and achievements to be sufficiently and consistently compared:

KPI	TARGET - IDP	DISCREPENCY
(1) Public transport: number of trips per capita (total passenger/population) p.a. on public buses	Maintain or increase baseline of 14 279 $126/2\ 345\ 908 = 6.1$	The formula used to determine the KPI in the IDP differs from the formula used to determine the KPI in the SDBIP.  The consistency of the targets can therefore not be determined.
(2) Percentage of uninsured households with access to PHC within 5 km of their homes.	98%	The correlation between the target in the IDP and the targets in the SDBIP could therefore not be determined.
(3) Rands spent per capita on sports and recreation facilities and services.	Maintain or improve baseline of R40 086 $456/R2\ 345\ 908 = R17.08$ per annum.	The KPIs in the IDP differ from the KPIs in the SDBIP. It is therefore not possible to determine the consistency of the targets.

The following target evaluated in the IDP was not consistent with the targets in the annual performance report:

KPI	TARGET - IDP	TARGET - ANNUAL PERFORMANCE REPORT
(4) Km of road as a proportion of square km of proclaimed area in the city of Tshwane.	11.56km	11.56 changed to 18,60km as per the departmental plan.

The division does not have any documentation reflecting the change on this target. It can therefore be assumed that the change was not approved.

### Risk

The value that the information presented in the report adds to the decision-making process of its users may be negatively affected.

### Recommendation

Explanations (e.g. footnotes) should be added to the city scorecards in the performance report (as per the IDP and the SDBIP) to give a clearer understanding of how the figures included in the targets and achievements were derived.

### Management response

Response on indicators/measures of the listed KPIs evaluated that were not clear or well defined to allow for targets and achievements to be sufficiently and consistently compared:

KPI	TARGET - IDP	DISCREPANCY	CoT response
(1) Public transport: number of trips per capita (total passenger/population) p.a. on public buses.	Maintain or increase baseline of 14 279 126/2 345 908 = 6.1	The formula used to determine the KPI in the IDP differs from the formula used to determine the KPI in the SDBIP.  The consistency of the targets can therefore not be determined.	The IDP KPI is at a strategic level. It measures access to public transport (buses) by the public. Departments translate the KPIs into deliverables as per the SDBIP, and in this case, the three areas of measure that impact on the access to public transport of public transportation are:  1.8.1.1, 1.8.1.2 and 1.8.2.1 on the SDBIP level.  1.8.1.1 measures the operations of the buses, in that it indicates how many people travelled per trip, whereas the IDP level measures of the total population, how many use the buses (therefore an outcome measure)

KPI	TARGET - IDP	DISCREPENCY	CoT response
(2) % of uninsured households with access to PHC within 5km of their homes.	98%	The correlation between the target in the IDP and the targets in the SDBIP could therefore not be determined.	<p>The KPI used in the IDP differs from the KPIs used in the SDBIP</p> <p>Yes the indicators are different: on the operational SDBIP level PHC is measured by number of people who used the clinics, and availability of medicine. On the city scorecard level, We measure outcomes, and the outcome of our interventions on the SDBIP level is that 98% of people have access to PHC.</p> <p>These are two separate measures. The IDP level is based on location.</p>
(3) Rands spent per capita on sports and recreation facilities and services.	Maintain or improve baseline of R40 086 456/R2 345 908 = R17.08 per annum.	The KPIs in the IDP differ from the KPIs in the SDBIP. It is therefore not possible to determine the consistency of the targets.	<p>The KPI on the IDP measures the amount of money spent per total population on sports and recreation facilities. At an outcome level it indicates access via budget allocation to sports and recreation facilities. It helps us to benchmark ourselves, to see whether sufficient budget is allocated for sports facilities, compared to the norm.</p> <p>On the SDBIP level we measure occupation levels and programmes offered. Occupation levels give a good indication of the take up/ use of sports facilities by people. High occupation levels might indicate a good take up, but also a need to budget for more sports facilities to improve access.</p>

Response on the target evaluated in the IDP that was not consistent with the targets in the annual performance report:

KPI	TARGET - IDP	TARGET – ANNUAL PERFORMANCE REPORT	CoT Response
(4) Km of road as a proportion of square km of proclaimed area in the city of Tshwane.	11.56km	11.56 changed to 18,60km as per the departmental plan.	<p>Changing of targets by departments is informed by various factors, e.g. availability of funds, performance and priorities. When a department increases its target it is also informed by achievement made in the previous financial year, month or quarter, and is informed by the approval processes of the City.</p> <p>This target was an increase. Performance of the department outstripped the original target, and it therefore did not necessarily require an explicit approval, especially since the department did not require additional funds. The implication was that more services were provided to the community than originally planned for, which reflects positively from a developmental perspective.</p>

I am not in agreement with the finding for the reasons supplied above.

*Name: N Lukhwareni*

*Position: Service Delivery Coordinator*

*Date: 16 October 2009*

**Auditor’s comments**

- (1) Public transport – Management’s comment is noted and the explanation is acceptable.
- (2) Provide health care services – The KPIs used in the SDBIP should inform or support the KPIs used in the IDP. Management has stated that the two measures are separate, which emphasises the point that there is no correlation between the key performance indicator in the IDP and those in the SDBIP. The KPIs in the SDBIP do not give an indication of whether or not the municipality has made any headway in improving accessibility to public health care facilities.
- (3) Provide sports and recreation facilities and services to communities – Management’s comment is noted and the explanation is acceptable.
- (4) Provide health care facilities – Based on annexure A of the information received on 17 September 2009 (ref PWIDAEX0021), the division does not have any documentation reflecting the change to the target. If the target is to be changed it should still undergo the proper approval processes, irrespective of whether it is increased or decreased.

## **58. Performance information: Lack of standard documented and approved internal policies and procedure for programme (Ex70)**

### **Audit finding**

As reported in the previous financial year inadequate monitoring and evaluation of the performance information were also identified in the current year's audit. Documentation of processes and procedures was requested for all the selected objectives' key performance indicators. On some of the system documentation that was received for the selected key performance indicators nothing showed that the processes are based on relevant policies and procedures and that proper review is done of the reports, follow-up and rectification of discrepancies on a timely basis.

This following serves as an example:

For the KPI on solid waste removal services the bins were delivered to the locations, the delivery registers were available but the completeness of those registers could not be verified. These were entered into the SAP system using the order numbers, no reports were generated from the SAP system to substantiate the number of bins that were reported in the performance report. No evidence of review of the SAP reports could be seen to properly control the issuing of bins. The audit trail could not be followed on these.

### **Risk**

The lack of standard documented and approved internal control policies and procedures may lead to the following:

- In the event of the loss of key management personnel responsible for performing the relevant processes, proper process may not be followed, which may lead to non-compliance with applicable legislation.
- Ineffective and inconsistent management of the processes pertaining to the performance management
- Inaccurate or invalid information may be reported in the annual performance report.

### **Recommendation**

We recommend that standard internal control measures and operating procedures pertain to the monitoring and evaluation of the performance management environment be developed, approved, and implemented as a matter of urgency.

### **Management response**

I am in partial agreement with the finding for the following reasons:

-Issues I disagree on:

- Reports are developed based on guidelines submitted by the CM office each quarter. Proper review of the reports takes place on a quarterly basis. Internal audit audits all reports together with evidence submitted by all departments. Reports serve at Top Management where reasons for underperformance are engaged with and actions decided. Further one on one coaching sessions takes place between the CM (or his representative) and the SED's on a regular basis to correct poor performance.

- Issues I agree on:

There is inadequate monitoring and evaluation done by departments. The City of Tshwane is currently in the process of developing standardised procedures and guidelines. Due to the City being large in size, with very distinct and complex departments, it has been a time consuming process. The draft procedures are scheduled to go to MAYCO by the end of the 09/10 financial year, with implementation in the 10/11 financial year. We need to also improve on filling the vacancies in the BPME division, which could not be completed due to financial constraints. Sufficient people are required to work with departments to ensure procedures are finalised and implemented.

*Name: Ndivho Lukhwareni*

*Position: Service Delivery Coordinator*

*Date: 03 November 2009*

**Auditors comments**

Management should tighten controls in the performance information area so that valid, accurate and complete information is reported on.



## **59. Performance information: No applicable KPIs (Ex 98)**

### **Audit finding**

Some of the KPIs were found not to be applicable for the CoT for the year under review as nothing could be done by the CoT to achieve those key performance indicators.

The example of such is the KPI on the promotion of environmental sustainability.

Percentage of conservation areas proclaimed is not applicable for the year under review because:

- The Provincial Nature Conservation (GDARD) has to be replaced by "Area Protected Act" which has not yet been promulgated.
- All proclamation applications have been put on hold until the promulgation.
- The Nature Conservation and Resorts section did not receive feedback pertaining to some of the applications for approval of untamed areas made five years ago.
- Nature Conservation and Resorts section of the CoT has no control over the number of proclamations approved.

According to regulation 11 of the Municipal Planning and Performance Management Regulations, 2001, a municipality must review its key performance indicators annually as part of the performance review process. This review should ensure that no performance indicators are not applicable for the year and that all the KPIs can be controlled/achieved by the municipality.

### **Risk**

The key KPI might not be relevant to the city for the year leading to non-achievability of the target.

### **Recommendation**

Proper review of the key performance indicators should be done yearly.

### **Management response**

- I am in agreement with the finding.
- This will be considered in the adjustment of the SDBIP in 09/10 in line with the adjustments budget.

*Name: N Lukhwareni*

*Position: Service Delivery Coordinator*

*Date: 3 November 2009*

### **Auditor's comments**

As only one KPI was found not to be applicable from all the reported objectives in the performance report, will be not be reported upon. This matter will be followed up in the next financial year.

## **ANEXURE C: ADMINISTRATIVE MATTERS**

### **PROPERTY PLANT AND EQUIPMENT**

#### **1. PPE – No controls over master file amendments (Ex 78)**

##### **Audit finding**

During the audit of assets it was found that WBS's numbers could be amended after they have been created. A sample of additions was selected and it was found that for WBS 9.710860.1.004.F.9.MAM no transactions were recorded on the system; however, the SAP population showed an amount of R1 553 097,33. Upon scrutiny of SAP it was found that the expenditure incurred had been recorded under WBS 9.710860.1.004.F.0.MAM. The WBS element number had been changed.

##### **Root cause**

Written procedures, authorisations, record keeping, management reviews and asset safeguards are not segregated to prevent fraudulent financial data and asset misappropriation.

##### **Risk**

Unauthorised master file amendments could be effected.

##### **Recommendation**

Proper controls over master file amendments should be implemented and adhered to. Changes to the master file should be reviewed regularly and any unauthorised changes should be followed up.

##### **Management response**

We agree with the finding. This was a system error and this was already addressed to prevent such changes to wbs elements.

*Name: Philip van der Walt*

*Position: Executive Director: Treasury Officer*

*Date: 16 November 2009*

##### **Auditor's comments**

Management response noted. This matter relates to a control issue and from the sample only this one instance have been noted.

## **REVENUE (AG)**

### **2. No supporting documentation for bus rentals (Ex 17)**

#### **Audit finding**

Supporting documentation on some selected items of bus rentals could not be found or confirmed by the supervisor Jakkie Roelofse.

No standard lease agreement/contract between the CoT and the following entities:

- Unisa
- CSIR
- Transvalia
- Nuwe wending
- Service Products

#### **Root cause**

Policies relating to reliable financial reporting are not established and communicated throughout the entity, and do not have corresponding procedures that result in management directives being carried out.

#### **Risk**

- Possible litigations against the CoT on infringement or offense caused by the lessee
- Possible loss of income
- Possibility of understatement of income

#### **Recommendation**

Draft standard contracts for all lease agreements entered into by the CoT and its clients.

#### **Management response**

The division is currently developing a benchmark contract that will enable this fraternity to manage its resources effectively and efficiently.

Name: Choene Mokwatedi

*Position: Accountant*

Date: 20 July 2009

#### **Auditor's comments**

From Management response no contracts have been provided for audit purposes. This matter will be reported on in the management report under administrative matters, as there is a control issue regarding bus rentals and the contracts of these rentals.

## REVENUE A2A

### 3. R&R: Fresh Produce Market\Debtors are understated (Ex 7)

#### Audit finding

During the audit of the Fresh Produce Market: Debtors for the financial year ended 30 June 2009, it was identified that debtors existed with credit balances on the age analysis. These debtors were not reallocated as creditors in the financial statements of the municipality. This resulted in an understatement of other debtors as well as creditors for the financial year. The following amount was recalculated from 30 June 2009 customer age analysis:

Account	Understated Account (R)	Debtors	Understated Account (R)	Creditors
<b>Market Tenants</b>				
ANF001 – An Fresh Produce		(76.60)		(76.60)
BRO003 – Brooklyn Fruit Market		(6.23)		(6.23)
DAN001 – Danbro		(1.42)		(1.42)
DEJ002 – Ruilongueira		(0.03)		(0.03)
DZI001 – Dzichi Projects Management and Property		(0.04)		(0.04)
FNB001 – First Rand Bank Limited FNB Pta Fresh Produce		(2 894.14)		(2 894.14)
FRE003 – Freshmark (Agents)		(20 410.41)		(20 410.41)
LYT001 – Lyttelton Fresh Produce		(0.01)		(0.01)
MAD001 – Madhav K		(2.00)		(2.00)
MOT001 – Motopi		(3.43)		(3.43)
SOU001 – De Souza AA		(2.76)		(2.76)
SPL001 – Splended Investments T/A Supa VEG		(0.01)		(0.01)
<b>Marabastad Tenants</b>				
ESS001 – Essop N		(3 886.18)		(3 886.18)
VAL – Vally EE		(2 268.80)		(2 268.80)
<b>Market Trolley</b>				
AGR001 – Agrico Farming Ent		(4.62)		(4.62)
ALV001 – Abrue Alvara		(8.64)		(8.64)
BES001 – Best End Fruits and Veggies		(261.00)		(261.00)
CAC001 – Cactus Creek Restaurant		(119.38)		(119.38)

COL001 - Colbyn	(3.36)	(3.36)
COO001 – C.O.	(4.88)	(4.88)
EMM001 – Excelsior mini	(1.80)	(1.80)
FRE001 - Freshways	(0.88)	(0.88)
FRU002 – Fruit Basket	(6.00)	(6.00)
GAB001 – Gaby’s Kwikspar	(1.80)	(1.80)
GEM001 – Gems Fruit and Veg CC	(0.72)	(0.72)
JAG001 – JAG Foods	(8.00)	(8.00)
JUM001 – Jumbo Fruit & Veg	(3.80)	(3.80)
LAN001 - Lantern	(5.80)	(5.80)
LDS001 – “LDS” Brooklyn	(6.42)	(6.42)
MAB001 – Mabuza Fruit	(9.18)	(9.18)
MAR002 – Marula supermarket	(3.20)	(3.20)
MAW001 – Maweza Klasman	(5.60)	(5.60)
MGA001 – Mgagula P	(0.48)	(0.48)
PER002 – Perreira AN	(4.00)	(4.00)
PGF002 – P G Farm	(3.00)	(3.00)
PHA001 – Phalatse Fresh Produce	(1.80)	(1.80)
SCM001 – Senandile Charles Mahlangu	(2.24)	(2.24)
SSG001 – Sunnyside Green Grocer	(236.00)	(236.00)
STU001 – Sturgess Michael Andrew	(269.78)	(269.78)
SUN001 – Sunnypark	(22.08)	(22.08)
SWA001 – Swartklip Café	(2.80)	(2.80)
TON001 – Tony’s open market	(1.32)	(1.32)
VAS001 – Vasco da gama	(280.22)	(280.22)
VIC001 – Victoria Trading Store	(2.44)	(2.44)
VIN001 – Vinstra Café	(1.64)	(1.64)
<b>Other</b>		
SAL001 – SA Litchi Growers Ass	(0.01)	(0.01)
<b>Staff Parking</b>		
AVD001 – AV Merww A	(69.14)	(69.14)
DOD001 - DODDST	(15.92)	(15.92)
DOL001 – Olivier D	(62.98)	(62.98)
EMO001 – Mohr E	(0.07)	(0.07)

FKN001 – Knowles CF	(44.67)	(44.67)
GEE001 – Geers CR	(62.87)	(62.87)
GEY001 – Geyer G	(10.72)	(10.72)
GRO001- Groenewald C	(0.19)	(0.19)
JHP001 – Pretorius JH	(73.66)	(73.66)
MAT001 – Matsie O	(5.85)	(5.85)
MOF001 – Mofokeng S	(59.85)	(59.85)
MPR001 – Prinsloo M	(44.67)	(44.67)
PFE001 – Pfeil C	(40.27)	(40.27)
RVZ001 – van Zyl R	(181.69 )	(181.69 )
SED001 – Sedutla S	(5.85)	(5.85)
STE001 – Steenkamp J	(62.85)	(62.85)
STR001 – Struwig S	(0.04)	(0.04)
SWO001 – Wolfaardt S	(236.62)	(236.62)
WOL001 – Sandra Wolfaardt	(131.98)	(131.98)
<b>Total</b>	<b>(31 944.84)</b>	<b>(31 944.84)</b>

#### **Root cause**

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

#### **Risk**

Understatement of debtors and creditors by the above amounts.

#### **Recommendation**

Management should ensure that ongoing monitoring and supervision are undertaken to enable an assessment of the effectiveness of internal control over financial reporting.

#### **Management response**

Fresh Produce Market: Debtors (144100)

A monthly review of all control accounts including the detail composition thereof takes place, therefore the root cause is not agreed with. A monthly journal will be processed in future to reallocate any debtor balances that are in credit to the creditors control account and vice versa.

*Name: Christo Groenewald*

*Position: Executive Director*

*Date: 13 October 2009*

**Auditor's comments**

Management comment noted. The misstatement identified will not have a material impact on the financial statements, but will be included in the schedule of misstatements for completeness purposes. Controls implemented by management will, however, be followed up during the audit of the 2009-10 financial year.

#### **4. R&R: Policies and procedures for transport income (Ex 9)**

##### **Audit finding**

During the audit of transport income approved policies and procedure manuals were requested, but could not be provided for audit purposes. From discussions with management it was identified that policies and procedures are still in draft format. This is a recurrence from prior year.

##### **Root cause**

Policies and procedures related to financial reporting are not established and communicated, and recommendations of prior year audit queries are not implemented in time.

##### **Risk**

- No guidelines for the recording of revenue
- Non-adherence to laws and regulations

##### **Recommendation**

Management should ensure that documented and approved policies and procedures are implemented to ensure compliance with applicable laws and regulations.

##### **Management response**

Procedure manual for cashiers has been provided by the auditee.

*Name: Choene Mokwatedi*

*Position: Accountant*

*Date: 25 September 2009*

##### **Auditor's comments**

Received and reviewed the procedure manual for cashiers. However, the following issues are not covered:

1. Purchasing of tickets by the CoT from Jacaranda Printers
2. Handing over of tickets by the senior administrator to the chief cashier
3. Recording of tickets purchased and the safe keeping of tickets/stock on hand
4. Monthly reconciliation between the ticket sales and the SAP system
5. Monthly reconciliation between the tickets on hand and tickets sold

The relevant controls, as well as the updating of the procedural manual, will be reviewed during the audit of the 2009-10 financial year.



## 5. R&R: Housing and land sales: Duplicate land sales transaction (Ex 84)

### Audit finding

During the audit of housing and land sales the following duplicate journals were identified in respect of the period from 1 July 2008 to 30 June 2009 and were not corrected during the financial year under review.

ACCOUNT NO	NAME	SURBURB	ERF NUMBER	DATE	JNL NO	AMOUNT (R)
31512 06200R 09023 052935	SETSHEDI	MABOPANE	ERF 12062	26/06/2009	000001	657.90
31512 06200R 09023 052935	SETSHEDI	MABOPANE	ERF 12062	26/06/2009	000038	750.00

### Root cause

Control activities are not selected and developed to mitigate risks over financial reporting.

### Risk

Duplication of transactions will result in an overstatement of amounts included in the financial statements.

### Recommendation

- Proper controls need to be implemented to ensure that risks are mitigated.
- The transaction to the value of R657,90 must be reversed because a journal in respect of output VAT has already been performed.
- Management should identify duplicate transactions and process corrective journals accordingly.

### Management response

Management response still outstanding

*Name:*

*Position:*

*Date:*

### Auditor's comments

Awaiting Management response

## **6. R&R: Consumer deposits – Control weakness (Ex 90)**

### **Audit finding**

During the audit of consumer deposits disclosed in the statement of financial performance as R282 724 743,37, it was identified that management does not keep a register of all application and termination forms that should be processed on the SAP system, therefore we could not obtain assurance on the completeness, valuation, and rights and obligations of amounts disclosed in the financial statements.

### **Root cause**

Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.

### **Risk**

- Misstatement of consumer deposits
- Not all application/termination forms could be recorded on the SAP system and therefore completeness could not be verified.
- Limitation of scope

### **Recommendation**

Appropriate controls need to be developed and implemented that include appropriate registers of application and termination forms received during the financial year. A senior official should review these registers and accounts on SAP to ensure that all termination and application forms are correctly uploaded onto the SAP system.

### **Management response**

There is daily SAP report in respect of application and termination forms that are captured onto system. The report is issued for balancing of physical applications to report generated from SAP to ensure that all forms have captured and such report is generated at the end of the financial year for all forms captured for the whole year. The report is automated.

*Name: Sam Chepape*

*Position: Executive director*

*Date: 03 December 2009*

### **Auditor's comments**

Management comment noted. The controls implemented by management will be followed up during the audit of the 2009-10 financial year.

**7. R&R: Public contributions – Amount recorded in the incorrect general ledger account (Ex 101)**

**Audit finding**

While performing the cut-off procedures in respect of public contributions the following amounts for the 2009-10 financial year were selected from the general ledger 811900 to ensure that these amounts were recorded and accounted for in the correct financial year. However, no supporting documentation could be provided for audit purposes and as a result we could not verify that the amounts were recorded and accounted for in the correct financial year. The following sample selected could not be provided for audit purposes:

Assignment	Document no.	Text	Doc. date	Amount (R)
225020709001	100000949	225 02072009_02/07/09Doreen0118250134	2009/07/06	(592.80)
276030709001	100001349	276 03072009_03/07/09Conny0019760019	2009/07/07	(592.80)
276060709001	100001350	276 06072009_06/07/09Conny0001760001	2009/07/07	(592.80)
294020709001	100000949	294 02072009_02/07/09Simon0020940020	2009/07/06	(592.80)
294010709001	100000236	294 01072009_01/07/09Simon0020940020	2009/07/02	(564.30)
294030709001	100001349	294 03072009_03/07/09Simon0014940014	2009/07/07	(28.50)
<b>Total</b>				<b>(2 964.00)</b>

After scrutinising the relevant account in respect of similar transactions, the following similar transactions were identified for the 2009-10 financial year and the 2008-09 financial year.

**GL 811900 financial period 09/10**

Assignment	Document no.	Text	Doc. date	Amount (R)
225070709001	100003168	225 07072009_07/07/09Doreen0007250011	2009/07/10	(592.80)
225090709001	100004284	225 09072009_09/07/09Doreen0058250073	2009/07/14	(592.80)
225090709001	100004284	225 09072009_09/07/09Doreen0110250128	2009/07/14	(592.80)
225230909001	100059596	225 23092009_23/09/09Doreen0040250047	2009/09/28	(592.80)
225260809001	100035263	225 26082009_26/08/09Doreen0032250038	2009/09/01	(592.80)
275010909001	100037339	275 01092009_01/09/09DesmondS0053750058	2009/09/03	(592.80)
275040809001	100016971	275 04082009_04/08/09DesmondS0122750138	2009/08/11	(592.80)
275070809001	100019495	275 07082009_07/08/09DesmondS0130750168	2009/08/13	(592.80)
276010909001	100037339	276 01092009_01/09/09Conny0014760014	2009/09/03	(592.80)
276070809001	100019496	276 07082009_07/08/09Conny0148760182	2009/08/13	(592.80)
276130709001	100005115	276 13072009_13/07/09Conny0055760055	2009/07/16	(592.80)
292030809001	100014698	292 03082009_03/08/09GivenM0174920252	2009/08/05	(592.80)

292070709001	100003169	292 07072009_07/07/09GivenM0077920088	2009/07/10	(592.80)
294030809001	100014698	294 03082009_03/08/09Simon0004940004	2009/08/05	(592.80)
294030909001	100044128	294 03092009_03/09/09Simon0005940005	2009/09/08	(592.80)
294090909001	100047419	294 09092009_09/09/09Simon0006940006	2009/09/11	(592.80)
294150709001	100005148	294 15072009_15/07/09Simon0013940013	2009/07/16	(592.80)
294160909001	100053878	294 16092009_16/09/09Simon0013940014	2009/09/21	(592.80)
294170709001	100007498	294 17072009_17/07/09Simon0020940020	2009/07/21	(592.80)
294210909001	100054995	294 21092009_21/09/09Simon0008940008	2009/09/23	(592.80)
275050809004	100016972	275 05082009_05/08/09DesmondS0029750031	2009/08/11	(592.00)
275130709001	100005115	275 13072009_13/07/09DesmondS0012750014	2009/07/16	(592.00)
292170809001	100023693	292 17082009_17/08/09GivenM0093920108	2009/08/19	(592.00)
<b>Total</b>				<b>(13 632.00)</b>

**GL 811900 financial period 2008-09**

Assignment	Document no.	Text	Doc. date	Amount (R)
254080509001	100328210	254 08052009_08/05/09RieksB0014540015	2009/05/12	(621.80)
294280509001	100346916	294 28052009_28/05/09Simon0019940019	2009/06/01	(621.30)
294190509001	100339503	294 19052009_19/05/09Simon0004940005	2009/05/25	(621.30)
233120509001	100329308	233 12052009_12/05/09CollenM0044330050	2009/05/13	(621.30)
275110509001	100329307	275 11052009_11/05/09DesmondS0083750097	2009/05/13	(621.30)
294020409001	100297409	294 02042009_02/04/09Simon0015940015	2009/04/08	(621.30)
233230309001	100273862	233 23032009_23/03/09CollenM0010330010	2009/03/25	(621.30)
276090309001	100264645	276 09032009_09/03/09Conny0009760010	2009/03/16	(621.30)
234041108001	100125030	234 04112008_04/11/08Natasja0045340047	2008/11/10	(614.04)
294030409001	100297412	294 03042009_03/04/09Simon0030940032	2009/04/08	(564.60)
294100209001	100228447	294 10022009_10/02/09Simon0005940005	2009/02/11	(564.60)
276300609001	100403175	276 30062009_30/06/09Conny0004760004	2009/07/01	(564.30)
294230609001	100394313	294 23062009_23/06/09Simon0021940021	2009/06/25	(564.30)
275170609001	100387173	275 17062009_17/06/09DesmondS0011750018	2009/06/19	(564.30)

275150609001	100385873	275 15062009_15/06/09DesmondS0051750218	2009/06/18	(564.30)
292150609001	100385830	292 15062009_15/06/09GivenM0192920332	2009/06/18	(564.30)
225090609001	100379629	225 09062009_09/06/09Doreen0008250009	2009/06/11	(564.30)
294090609001	100379630	294 09062009_09/06/09Simon0007940007	2009/06/11	(564.30)
294080609001	100377810	294 08062009_08/06/09Simon0020940020	2009/06/10	(564.30)
276040609001	100374830	276 04062009_04/06/09Conny0006760006	2009/06/08	(564.30)
276010609001	100357169	276 01062009_01/06/09Conny0023760024	2009/06/04	(564.30)
276020609001	100357173	276 02062009_02/06/09Conny0005760005	2009/06/04	(564.30)
276260509001	100343501	276 26052009_26/05/09Conny0102760119	2009/05/28	(564.30)
225130509001	100333146	225 13052009_13/05/09Doreen0012250012	2009/05/18	(564.30)
225140509001	100333148	225 14052009_14/05/09Doreen0017250017	2009/05/18	(564.30)
294060509001	100325065	294 06052009_06/05/09Simon0048940052	2009/05/08	(564.30)
276040509001	100316260	276 04052009_04/05/09Conny0021760024	2009/05/06	(564.30)
294040509001	100316261	294 04052009_04/05/09Simon0001940001	2009/05/06	(564.30)
294040509001	100316261	294 04052009_04/05/09Simon0031940032	2009/05/06	(564.30)
225300409001	100315008	225 30042009_30/04/09Doreen0024250025	2009/05/05	(564.30)
275300409001	100315008	275 30042009_30/04/09DesmondS0031750035	2009/05/05	(564.30)
294300409001	100315008	294 30042009_30/04/09Simon0038940039	2009/05/05	(564.30)
225280409001	100311162	225 28042009_28/04/09Doreen0006250006	2009/04/29	(564.30)
294230409001	100311161	294 23042009_23/04/09Simon0002940002	2009/04/29	(564.30)
276200409001	100307583	276 20042009_20/04/09Conny0004760004	2009/04/23	(564.30)
294070409001	100298829	294 07042009_07/04/09Simon0014940014	2009/04/09	(564.30)
276010409001	100297407	276 01042009_01/04/09Conny0047760054	2009/04/08	(564.30)
276020409001	100297408	276 02042009_02/04/09Conny0032760034	2009/04/08	(564.30)
276060409001	100297413	276 06042009_06/04/09Conny0004760004	2009/04/08	(564.30)
294030409001	100297412	294 03042009_03/04/09Simon0034940036	2009/04/08	(564.30)
215270309001	100276875	215 27032009_27/03/09GrannyM0057150065	2009/03/30	(564.30)
294200309001	100273862	294 20032009_20/03/09Simon0005940005	2009/03/25	(564.30)
294170309001	100270339	294 17032009_17/03/09Simon0007940007	2009/03/20	(564.30)
276130309001	100264648	276 13032009_13/03/09Conny0011760013	2009/03/16	(564.30)
292090309001	100260600	292	2009/03/11	(564.30)

		09032009_09/03/09GivenM0103920164		
294060309001	100259065	294 06032009_06/03/09Simon0005940005	2009/03/10	(564.30)
294030309001	100257941	294 03032009_03/03/09Simon0031940032	2009/03/09	(564.30)
294040309001	100257942	294 04032009_04/03/09Simon0023940024	2009/03/09	(564.30)
294040309001	100257942	294 04032009_04/03/09Simon0026940027	2009/03/09	(564.30)
264030309001	100254869	264 03032009_03/03/09KgomotsoS0009640011	2009/03/05	(564.30)
292020309001	100246656	292 02032009_02/03/09GivenM0035920049	2009/03/03	(564.30)
294270209001	100246656	294 27022009_27/02/09Simon0007940007	2009/03/03	(564.30)
294170209001	100235422	294 17022009_17/02/09Simon0011940011	2009/02/18	(564.30)
294060209001	100227533	294 06022009_06/02/09Simon0018940018	2009/02/10	(564.30)
233050209001	100226113	233 05022009_05/02/09CollenM0098330112	2009/02/09	(564.30)
294020209001	100222328	294 02022009_02/02/09Simon0009940009	2009/02/04	(564.30)
294020209001	100222328	294 02022009_02/02/09Simon0034940034	2009/02/04	(564.30)
294030209001	100222329	294 03022009_03/02/09Simon0035940036	2009/02/04	(564.30)
292171208001	100170509	292 17122008_17/12/08GivenM0018920035	2008/12/19	(545.00)
225101108004	100127831	225 10112008_10/11/08Doreen0053250054	2008/11/13	(545.00)
233150109001	100201255	233 15012009_15/01/09CollenM0011330011	2009/01/19	(495.61)
279290109001	100215442	279 29012009_29/01/09FaniK0092790107	2009/02/02	(495.00)
254210109001	100206946	254 21012009_21/01/09RieksB0048540067	2009/01/23	(495.00)
276150109001	100201256	276 15012009_15/01/09Conny0010760010	2009/01/19	(495.00)
258080109004	100196292	258 08012009_08/01/09FelicityM0064580072	2009/01/12	(495.00)
215171208001	100170509	215 17122008_17/12/08GrannyM0037150053	2008/12/19	(495.00)
292101208001	100164613	292 10122008_10/12/08GivenM0003920003	2008/12/12	(495.00)
264030309001	100254869	264 03032009_03/03/09KgomotsoS0091640102	2009/03/05	(0.50)
<b>Total</b>				<b>(37,792.40)</b>

#### Root cause

Ongoing monitoring on public contributions for the above account is not undertaken by management to determine whether internal control over financial reporting is present and functioning.

**Risk**

Limitation of scope that could result in:

- possible overstatement of public contributions
- incorrect classification
- recorded in the incorrect financial year.

**Recommendation**

- Monthly reconciliations should be performed with supporting documentation and compared to the relevant general ledger accounts.
- Differences should be followed up and appropriate explanations obtained for differences.
- A senior official should also select a sample of transactions and physically verify the supporting documentation to the reconciliations to ensure the correctness and occurrence thereof before signing the reconciliations as reviewed and that differences are followed up and cleared timeously.

**Management response**

Management comment still outstanding

*Name:*

*Position:*

*Date:*

**Auditor's comments**

Awaiting Management response

## 8. R&R. Other income: Cheques returned (Ex 102)

### Audit finding

During the audit of other income we identified that the following returned/rejected cheques have been debited from sale of stone general ledger account (811780) and credited from the return of cheque general ledger account (140810). A debtor should have been raised, instead of reducing revenue.

This will result in understatement of revenue (other income).

The following journals were identified during our audit:

General ledger account	Document number	Journal number	Type	Document date	Amount in rand
811780	20090226	100242246	JN	26.02.2009	2,887.00
811780	20090226	100242246	JN	26.02.2009	4,310.00
811780	20090226	100242246	JN	26.02.2009	14,613.23
811780	20090226	100242246	JN	26.02.2009	1,600.00
<b>Total</b>					<b>R 23 410,23</b>

### Root cause

Ongoing of monitoring on other income for the above accounts is not undertaken by management to determine whether internal control over financial reporting is present and functioning.

### Risk

- Understatement of sale of stone account balance (811780)
- Misappropriation of figures
- Errors occurred will not be timeously detected and corrected.

### Recommendation

- Management should create a debtor for all cheques that are not honoured by the bank and do a follow-up on them.
- Proper controls should be implemented to ensure that the correct details of clients who make payments with cheques are kept in order for management to traced clients in case the cheques are returned.

### Management response

Your audit on the above mentioned and the request for management comment refers:

We concur with your findings and recommendations from a financial view point. Under normal financial procedures it is expected that debtor accounts should be opened in the name of ALL R/D cheques received on the proviso that the Department provided that service, is in a position to provide ALL the relevant information on request, to open such account. It is also imperative that the "Department" (cashiers) or where the deposits are made, should also see to that certain information i.e. ID number or a relevant address appear on the cheque prior to accepting it. In this instance, none of the above happened.



After consultation with department that provided the services, it was decided that the misstatement (reversal) will not be corrected due to the following reasons:

- The Department that acted as service provider could not provide this Section with the relevant documentation to create the necessary Debtors.
- The returned cheques only had names of the companies to whom a service was rendered and communication with the Department to provide other needed information to trace the debtors once they are created was fruitless.
- If debtors are created without the necessary information, accounts cannot be delivered, the debt will be uncollectable and we will therefore eventually seek permission that it will be written off as bad debt.

*Name: Gerald Julius*

*Position: Sundry Debtors & Municipal Property Revenue Management.*

*Date: 08 November 2009*

**Auditor's comments**

Although the amount is not material, it will be included in the statement of misstatements. Controls implemented in this regard will, however, be followed up during the audit of the 2009-10 financial year.

**9. R&R: Transport income: GL not traced to cashiers' books (Ex 27)**

**Audit finding**

During the audit of transport income transactions were selected from the general ledger and traced to the receipts and deposit slips. However, the following amounts as per the general ledger were not the same as the deposit slips:

No.	Assignment no.	Document no.	Date as per GL	Amount as per GL (R)	Amount as per supporting document (R)	Difference (R)
8.	080010409001	100298830	2009/04/09	34 832.16	34 871.16	( 39.00)
9.	080020209001	100226113	2009/02/09	90 536.75	90 661.55	( 124.80)
10.	080020708001	100000996	2008/07/14	133 862.30	161 353.28	( 27 490.98)
11.	080020908001	100069878	2008/09/26	135 424.49	147 135.80	( 11 711.31)
12.	080030309001	100260601	2009/03/11	154 434.16	154 351.16	83.00
14.	080040708001	100000996	2008/07/14	86 575.34	86 754.34	( 179.00)
15.	080040908001	100069878	2008/09/26	71 452.08	94 011.14	( 22 559.06)
16.	080050309001	100260601	2009/03/11	83 235.95	83 458.25	( 222.30)
17.	080050808001	100028812	2008/08/15	191 302.69	196 717.59	( 5 414.90)
18.	080060109001	100199459	2009/01/15	92 942.01	92 779.51	162.50
19.	080071008001	100095197	2008/10/17	122 578.79	130 908.29	( 8 329.50)
20.	080080908001	100069878	2008/09/26	216 560.72	219 845.30	( 3 284.58)
22.	080100309001	100267376	2009/03/18	82 762.12	82 801.12	( 39.00)
23.	080110509001	100333149	2009/05/18	88 422.66	88 500.66	( 78.00)
24.	080121108001	100137274	2008/11/21	106 787.60	110 071.5	( 3 283.90)
25.	080140808001	100035239	2008/08/25	107 450.84	129 120.60	( 21 669.76)
<b>Total</b>				<b>1 799 160.66</b>	<b>1 903 341.25</b>	<b>( 104 180.59)</b>

**Root cause**

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

**Risk**

- Fictitious figures being recorded/captured on the system
- The accuracy and occurrence of transactions could not be verified

**Recommendation**

- The accountant should ensure that all the transactions that took place as per the cashiers' books and deposit slips are correctly and timely captured on the SAP system.
- All the supporting records should be properly stored in one safe storeroom for future audit and/or reviewing purposes.
- Reasons for variances should be provided for audit purposes to ensure the verification of the accuracy as well as occurrence of amounts recorded in the general ledger.

**Management response**

- The division agree to the findings as the amount in the deposit slip and receipts is the daily collection from the sales of tickets, sales of time tables and collection from daily bus rental in which the differences are allocated to different GL such as 811809 and 811774
- The matter will be investigated and corrected

*Name: Choene Mokwatedi*

*Position: Accountant*

*Date: 19 October 2009*

**Auditor's comments**

The supporting information was subsequently submitted for audit purpose. The issue has been resolved, however management should ensure that the information requested is readily available for audit purposes. The matter will be followed up in the 2009/10 financial year.

**10. R&R: Transport income: General ledger v/s batches/cashiers' books (Ex 30)****Audit finding**

During the audit of transport income transactions were selected from the general ledger and traced to the receipts, deposit slip and the cashiers' books. However, the following amounts as per the general ledger and the deposit slips could not be traced to the cashiers' books:

No.	Assignment no.	Document no.	Date as per GL	Amount as per GL (R)
1.	066030209001	100226113	2009/02/09	117 078.00
2.	066031008001	100090716	2008/10/14	48 926.00
3.	066040808001	100028811	2008/08/15	63 888.00
4.	066060109001	100196293	2009/01/12	107 508.00
5.	066100109001	100201256	2009/01/19	53 305.00
6.	066111108001	100137272	2008/11/21	87 132.50
7.	066170209001	100240023	2009/02/24	94 632.00
8.	080010409001	100298830	2009/04/09	34 832.16
9.	080020209001	100226113	2009/02/09	90 536.75
10.	080020708001	100000996	2008/07/14	133 862.30
11.	080020908001	100069878	2008/09/26	135 424.49
12.	080030309001	100260601	2009/03/11	154 434.16
13.	080040509001	100327106	2009/05/11	17 002.00
14.	080040708001	100000996	2008/07/14	86 575.34
15.	080040908001	100069878	2008/09/26	71 452.08
16.	080050309001	100260601	2009/03/11	83 235.95
17.	080050808001	100028812	2008/08/15	191 302.69
18.	080060109001	100199459	2009/01/15	92 942.01
19.	080071008001	100095197	2008/10/17	122 578.79
20.	080080908001	100069878	2008/09/26	216 560.72
21.	080090109001	100201256	2009/01/19	32 178.22
22.	080100309001	100267376	2009/03/18	82 762.12
23.	080110509001	100333149	2009/05/18	88 422.66
24.	080121108001	100137274	2008/11/21	106 787.60
25.	080140808001	100035239	2008/08/25	107 450.84
<b>Total</b>				<b>2 524 990.00</b>

**Root cause**

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

**Risk**

- Possible incomplete records
- Possible incorrect and incomplete recording of transport income
- Possibility of fraud/theft

**Recommendation**

- The accountant should ensure that all the transactions that took place as per the cashiers' books and deposit slips are correctly and timeously captured onto the SAP system.
- All the supporting records should be properly stored in one safe storeroom for future audit and/or reviewing purposes.
- Reasons for variances should be provided for audit purposes to ensure the verification of the accuracy as well as occurrence of amounts recorded in the general ledger.

**Management response**

1. The division agree to the findings as the amount in the deposit slip and receipts is the daily collection from the sales of tickets, sales of time tables and collection from daily bus rental in which the differences are allocated to different GL such as 811809 and 811774.
2. The matter will be investigated and corrected.

*Name: Choene Mokwatedi*

*Position: Accountant*

*Date: 19 October 2009*

**Auditor's comments**

The supporting information was subsequently submitted for audit purpose. The issue has been resolved, however management should ensure that the information requested is readily available for audit purposes. The matter will be followed up in the 2009/10 financial year.

## 11. R&R: Consumer Debtors – Inactive Accounts (Ex 208)

### Audit Finding

During the audit on consumer debtors, we have identified inactive accounts that were active when performing subsequent events testing which was after 3 months from 30/06/09. When an account is closed on SAP, the administrative clerk will complete all service charges and the account will be flagged as inactive. However on inspection of a sample of accounts, we have identified that these accounts are flagged as inactive but movements in accounts were identified subsequent to year-end. If accounts are incorrectly classified, this will impact the provision calculated by management, as the amount of inactive accounts taken into account when calculations are performed will be inaccurate. The table below illustrates a sample of accounts that were identified as inactive but the auditors have identified subsequent transactions. The following serve as examples:

No.	Contract Account	Inactive Date	Amount on report	Amount on SAP	Variance	Subsequent Movement	
						Date	Amount
1	2014144690	07/05/2008	19,951.06	8,975.53	(10,975.53)	19/09/2008	(2,000.00)
2	2014431160	11/06/2009	10,461.67	-111.97	(10,573.64)	03/07/2009	6,731.00
3	2014901492	14/05/2009	10,393.31	0.00	(10,393.31)	23/06/2009	(200.00)
4	2018971338	10/08/2008	15,066.97	8,392.65	(6,674.32)	02/02/2009	(4,000.00)
5	2013262088	14/03/2009	12,007.11	9,198.98	(2,808.13)	03/04/2009	209.60
6	2014191932	21/06/2009	31,386.81	31,186.69	(200.12)	13/07/2009	3,419.95
7	2018663855	09/12/2006	20,571.74	20,571.74	-	01/02/2007	167.43
8	2017293613	12/06/2008	48,698.66	48,698.66	-	04/07/2008	318.08
9	2015244843	13/09/2007	169,727.46	169,727.46	-	05/11/2007	148,512.01
10	2018135769	13/03/2009	43,486.18	43,486.18	-	06/04/2009	197.20
11	2013584289	12/07/2007	46,670.96	46,670.96	-	07/08/2007	157.42
12	2016218128	17/02/2009	14,306.29	14,306.29	-	09/03/2009	1,421.19
13	2018680513	13/02/2009	14,002.05	14,002.05	-	09/03/2009	1,267.44
14	2013659387	19/06/2008	24,738.34	24,738.34	-	11/07/2008	1,140.57
15	2018507739	17/02/2007	13,268.52	13,268.52	-	12/03/2007	3,317.13
16	2014039138	25/06/2008	91,080.07	91,080.07	-	16/07/2008	1,610.17
17	2013297299	15/04/2005	20,468.11	20,468.11	-	21/01/2008	(407.00)
18	2013779374	14/10/2007	12,447.60	12,447.60	-	23/11/2007	550.80
19	2018840901	10/11/2006	68,832.44	68,832.44	-	30/04/2007	7,797.44
20	2015055951	01/03/2004	12,767.75	12,767.75	-	30/07/2008	(2,000.00)
21	2017037624	10/08/2008	15,396.52	15,396.92	0.40	01/09/2008	355.85

### Details of extrapolation

Total sample size	9,678,784.56
Total error on sample selected	168,566.28
Percentage of error on the	2%

sample	
Total population	166,394,956.87
Total error on the total population	2,897,944.34

### Root Cause

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

### Risk

- Provision for bad debt may be over or under estimated by management due to incorrect classification of inactive accounts.
- Controls designed are not working as intended by management.
- Poor IT controls may incorrectly flag an account as inactive.
- Accounts are flagged as inactive but still consuming municipal services, which may lead to a loss of revenue.

### Recommendation

- Management needs to re-visit all accounts identified as inactive and perform follow up controls to ensure account is inactive.
- Monitoring controls need to be implemented on account inactive.
- Management should draw monthly reports on inactive accounts and request supporting documentation to ensure account is inactive.
- These reports will also enable management to monitor accounts and check for subsequent events after being reported as inactive.
- All accounts identified as inactive but where subsequent events have been identified, should be followed up immediately to ensure no loss of revenue to the municipality.

### Management response

The table below confirms that amounts on Audit client report agrees to the outstanding balance on SAP statement of accounts. Attached herewith the two examples:

Contract Account	Balance Outstanding as per Age Analysis	Balance Outstanding as per SAP	Difference
2010597278	R 88 472.5	R 88 472.5	00.0
2014144690	R 19 951.06	R 19 951.06	00.0

*Name: Sam Chepape*

*Position: Manager Revenue*

*Date: 03 December 2009*

### Auditor's comments

Management comment not sufficient . The misstatement identified will not have a material impact on the financial statements, but will be included in the schedule of misstatements for completeness purposes. Controls implemented by management will, however, be followed up during the audit of the 2009-10 financial year.

**12. R&R: Property rates – Rate category (Ex 202)**

**Audit finding**

During the audit of property rates stated as R2 250 051 868 in the statement of financial performance and as R2 250 051 868 in note 20 to the financial statements, and property values stated as R285 326 733 313,00 the following were identified:

During the audit of the rates category that effects the tariffs used as well as the calculation of properties rates it came to our attention that eight of the 30 selected for testing as per the exception report in respect of the reconciliation the rate categories as per ProV are incorrectly recorded as vacant. This will therefore result in the fact that the provision calculated in respect of vacant land is incorrectly calculated. We could furthermore not verify whether the valuation of the properties was correctly done as per the valuation roll as no supporting documentation exists to determine if these properties are valued as vacant land or land with improvements thereon. The following serve as examples where properties are incorrectly classified.

As per PROV					LIS MAPS (physically verified via the air photos)	
Giskey	functional key	Township	Rate Category	Market Value (R)	Giskey	Rate category
066705267	PV0000000	THE REEDS	Vacant Land	5 913 600.00	066705267	RES- OTHER
097700976	PV0000000	ROSSLYN X 18	Vacant Land	86 000.00	097700976	RES-OTHER
097700900	PV0000000	ROSSLYN X 18	Vacant Land	86 000.00	097700900	RES-OTHER
080200448	PV0000000	MONAVONI X6	Vacant Land	380 000.00	080200448	RES-OTHER
050508263	PV0000000	OLIEVENHOUTBOS	Vacant Land	242 000.00	050508263	RES-OTHER
098006247	PV0000000	THE ORCHARDS X47	Vacant Land	85 000.00	098006247	RES-OTHER
031000798/15	PV0000000	KIRKNEY X12	Vacant Land	115 000.00	031000798/15	RES-OTHER
050509024	PV0000000	OLIEVENHOUTBOS x 36	Vacant Land	67 000.00	050509024	RES-OTHER
<b>Total</b>				<b>6 974 600.00</b>		



A sample of 50 vacant properties was selected and tested from SAP in respect of properties that were matched between SAP and ProV, and as a result nine properties were identified where the rates category were not correct on ProV as well as SAP as per LIS air photos. This will therefore result in the fact that the rates in respect of properties are incorrectly calculated as the vacant land rates were used to calculate these properties. We could furthermore not verify whether the valuation on the properties was correctly done as per the valuation roll as no supporting documentation exists to determine whether these properties are valued as vacant land or land with improvements thereon. The following serve as examples where properties are incorrectly classified:

As per PROV				LIS MAPS	
Giskey	functional key	Rate Category	Market Value (R)	Giskey	Rate category
016601219/9	PV0000000	VAC-RES	715 000.00	016601219/9	RES-OTHER
016601219/6	PV0000000	VAC-RES	715 000.00	016601219/6	RES-OTHER
016601219/4	PV0000000	VAC-RES	715 000.00	016601219/4	RES-OTHER
016601219/13	PV0000000	VAC-RES	715 000.00	016601219/13	RES-OTHER
016601219/11	PV0000000	VAC-RES	715 000.00	016601219/11	RES-OTHER
027200662	PV0000000	VAC-RES	40 000 000.00	027200662	COM-OTHER
029802998	PV0000000	VAC-RES	40 000 000.00	029802998	COM-OTHER
055000984	PV0000000	VAC-RES	575 000.00	055000984	RES-OTHER
055001095	PV0000000	VAC-RES	530 000.00	055001095	RES-OTHER
<b>Total</b>			<b>84 680 000.00</b>		

#### Root cause

Ongoing monitoring of property rates for the above account is not undertaken by management to determine whether internal control over financial reporting is present and functioning.

#### Risk

- Possible misstatement of revenue in respect of property rates and consumer debtors
- Values of properties are incorrectly disclosed in the notes to the financial statements.

#### Recommendation

- Appropriate monitoring controls need to be implemented to ensure that the valuations of properties are properly documented as well as the relevant category thereof.

- All properties that are currently recorded as vacant land, as well as the valuation thereof, should be followed up as a matter of urgency to ensure that they are correctly categorised and valued. Relevant adjustments need to be calculated and adjusted accordingly to ensure that the relevant amounts included in the financial statements corrected accordingly.

### Management response

Herewith management response in relation to your audit finding on the abovementioned matter.

The categories of properties for the purpose of levying different rates, as captured in our current valuation roll and the valuation system (Pro-V) are informed by the status of the particular property during the general valuation process that was based on the date of valuation being 1 July 2007, and also the presentation of an Occupancy Certificate.

During our general valuation process, most of the properties in the selection you provided were in the new development schemes that were still under way, and the improvements as they now appear on the aerial photos on our LIS maps were in some cases not yet erected or they were still not completed for occupation. It is the general rule that before any category change can be effected on a property from vacant to improved, an occupancy certificate must first be issued, then an inspection of the property is made for confirmation of new value.

Occupancy Certificate provides the valuer with important information such as the date on which it was issued, to serve as the effective date of the supplementary valuation incidental to the process, and also the size of the improvements that is crucial in the determination of value.

Hereunder are remarks for each of the 17(seventeen) properties that were selected during the audit and reflect to be incorrectly categorised as vacant as per Pro-V and SAP while LIS aerial photos show improvements:

GISKEY	PRO-V RATE CATEGORY	MARKET VALUE (R)	LIS - MAPS	COMMENT
066705267	Vacant	5 913 600	Res-Other	Parent property of SS still vacant during GV-process (occupation certificate submitted only on enquiry)
097700976	Vacant	86 000	Res-Other	Vacant during GV- No Occupation Certificate
097700900	Vacant	86 000	Res-Other	Vacant during GV- No Occupation Certificate
080200448	Vacant	380 000	Res-Other	Incomplete bldg- No Occupation Certificate
050508263	Vacant	242 000	Res-Other	SS in process - No OC
098006247	Vacant	85 000	Res-Other	Vacant during GV-No Occupation Certificate
031000798/15	Vacant	115 000	Res-Other	Vacant during GV-No Occupation Certificate
050509024	Vacant	67 000	Res-Other	Vacant during GV-No Occupation Certificate
016601219/9	Vac-Res	715 000	Res-Other	No Occupation Cert.
016601219/6	Vac-Res	715 000	Res-Other	No Occupation Cert.
016601219/4	Vac-Res	715 000	Res-Other	No Occupation Cert.
016601219/13	Vac-Res	715 000	Res-Other	No Occupation Cert.
016601219/11	Vac-Res	715 000	Res-Other	No Occupation Cert.

027200662	Vac-Res	40 000 000	Res-Other	Category rectified with Suppl Val - change to Business-Commercial
029802998	Vac-Res	40 000 000	Res-Other	Category rectified with Suppl Val - change to Business-Commercial
055000894	Vac-Res	575 000	Res-Other	No Occupation Cert.
055001095	Vac-Res	530 000	Res-Other	No Occupation Cert.

*Name: T.I. Lehobye:*

*Position: Head: Property Valuation*

*Date: 24 November 2009*

**Auditor's comments**

Still waiting for occupation certificates.

## RECEIVABLES

### 13. R & R Other Debtors GL accounts not in use (Ex 142)

#### Audit finding

During the audit of other debtors it came to our attention that no evidence could be provided that follow-ups have been performed since the 2004-05 and 2006-07 financial years in respect of the accounts below to ensure that these outstanding accounts are cleared and followed up.

Account number	Account description	Date of last movement	Balance outstanding (R)
149009	RD Cheques: Centurion Traffic	2006/07	44 230.20
202068	CBD Taxi Operations	2004/05	354 541.90
<b>Total</b>			<b>398 772.10</b>

Furthermore, no provision for bad debts was made in respect of the mentioned accounts. As a result, the fairness of the valuation and accuracy in respect of the mentioned accounts cannot be determined.

#### Root cause

Actions are not taken to address risks to the achievement of financial reporting objectives.

#### Risk

- Possible fraudulent activities
- Possible overstatement of other debtors

#### Recommendation

- Management should ensure that actions are taken to address all risks to the achievement of financial reporting objectives.
- These accounts should be followed up on a regular basis as prescribed according to the MFMA and if the need arises should management propose to the council to write off the mentioned amounts.
- Relevant provisions for bad debts need to be reviewed to ensure that provisions are made in respect of the mentioned amounts if management will not be able to collect the relevant amounts.

#### Management response

Awaiting Management response

Name:

Position:

Date:

**Auditor's comments**

Awaiting Management response

#### 14. Variances on commission (Ex 144)

##### Audit finding

During the audit of other debtors it came to our attention that variances were identified between the amount calculated by the provincial licensing department and the municipality with regard to the commission due to the municipality. Refer to the following variances as identified:

Account no.	Description	Period	Amount as per Tshwane (R)	Amount as per Provincial Licensing Department (R)	Variance (R)
149100	Licensing Provincial Administration	2008/09	81 103 837.17	80 707 669.36	396 167.81
<b>Total</b>					<b>396 167.81</b>

##### Root cause

Ongoing monitoring on other income for the above account is not undertaken by management to determine whether internal control over financial reporting is present and functioning.

##### Risk

Possible overstatement of other debtors and revenue included in the financial statements.

##### Recommendation

Management should ensure that ongoing monitoring and supervision are undertaken to enable an assessment of the effectiveness of internal control over financial reporting and that relevant variances identified between reconciliations are followed up and cleared on a monthly basis.

##### Management response

Management agree with the finding and investigations have been conducted in this regards and the commission differences is now deducted from revenue.

*Name: MA MMutle*

*Position: Executive Manager*

*Date: 10 November 2009*

**Auditor's comments**

Management comment noted. The misstatement does not affect the audit opinion but will be included in the schedule of misstatements for completeness thereof. The controls implemented by management will be followed up during the audit of the 2009-10 financial year.

## 15. R&R Other Debtors : Bursary repayment terms (Ex 147)

### Audit finding

During the audit of other debtors it came to our attention that the bursary repayment terms for Lesiba Piet Mokonyane, personnel number 72238, were not appropriate. The capital deduction is less than the interest charged on this account. Refer to the table below.

Personnel No.	Name of Employee	Month	Opening Balance (R)	Capital Deduction (R)	Interest Charged (R)	Closing Balance (R)
72238	Lesiba Piet Mokonyane	June 2009	R 169 319.83	R 957.09	R 2 157.09	R 170 276.92

### Root cause

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

### Risk

- Continuous escalation of the debt, which will result in the overstatement of debtors.
- Possible disputes between the employee and the municipality

### Recommendation

Management should ensure that ongoing monitoring and supervision are undertaken to enable an assessment of the effectiveness of internal control over financial reporting.

### Management response

The above has been referred to the H/R Department for the relevant comment. We also requested documentation that led to the deduction as we are of the opinion that this was an arbitrary settlement effected on SAP between the CoT and the employee, with no substantiating documentation forwarded to this section? We will officially respond once we receive documentation to the effect.

*Name: Gerald Julius*

*Position: Deputy Manager*

*Date: 26 November 2009*

### Auditor's comments

Awaiting management response.

## 16. R&R: Debtors with credit balances (Ex 169)



### **Audit finding**

During the execution phase of **other debtors** it came to our attention that debtors existed with credit balances on the age analysis. These debtors were not reallocated as creditors in the financial statements of the municipality. This resulted in an understatement of other debtors and creditors for the financial year. The following amount appears as follows on the customers' age analysis at financial year-end:

<b>Debtor</b>	<b>Account no.</b>	<b>Amount (R)</b>
KOTZE	5000557887	(12,721.71)
PHETLA Z D	9000187198	(1,983.00)
TELKOM SA LTD	5000531950	(22,725.95)
Thari Bus Services	5000655103	(8,578.58)
Mogale A	5000267544	(3,004.00)
	<b>Total</b>	<b>(49 013.24)</b>

### **Root cause**

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

### **Risk**

The financial statements are understated in respect of debtors and creditors.

### **Recommendation**

Management should ensure that ongoing monitoring and supervision are undertaken to enable an assessment of the effectiveness of internal control over financial reporting. Management should review all debtors with credit balances at financial year-end in respect of other debtors and reallocate it accordingly.

### **Management response**

The above relates to rental units with credit balances. These cannot be refunded or transferred as discussed with the auditors. No formal query has been submitted for a formal response, but due to the fact that it appears as an outstanding item we will respond as explained to the auditors. These are debtors in ward 301 of our Rental schemes.

*Name: Gerald Julius*

*Position: Deputy Manager*

*Date: 02 December 2009*

### **Auditor's comments**

Management comment noted. The misstatement does not affect the audit opinion but will be included in the schedule of misstatements for completeness thereof. The controls implemented by management will be followed up during the audit of the 2009-10 financial year.

### **17. R&R: Account with credit balance included in other debtors (Ex 188)**

**Audit finding**

During the execution phase of other debtors it came to our attention that general ledger 142010 has a credit balance amounting R41 820,00. This amount was, however, directly deducted from the debtor amount disclosed in the financial statements not recorded as a creditor.

**Root cause**

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

**Risk**

The debtors and creditors might be understated by the mentioned balance.

**Recommendation**

Management should ensure that ongoing monitoring and supervision are undertaken to enable an assessment of the effectiveness of internal control over financial reporting.

**Management response**

I am not in agreement with your finding as these are Council Employee deductions that appear under G/L 142010 Doubtful Debtors. A possible solution to this problem not to reoccur during the next audit is to change the name of the G/L to Employee Deductions or any other relevant title that would not cause confusion.

*Name: Gerald Julius*

*Position: Deputy Manager*

*Date: 01 December 2009*

**Auditor's comments**

Management comment noted. The estimated misstatement does not affect the audit opinion but will be included in the schedule of misstatements for completeness thereof. The controls implemented by management will be followed up during the audit of the 2009-10 financial year.

## **18. Fresh Produce Market: Debtors (144100) (Ex. 5)**

### **Audit finding**

Accounting policy: City of Tshwane, page 242, paragraph 10, Revenue recognition, states that revenue is derived from a variety of sources which include rate levied, grants from other tiers of government and revenue from trading activities and other services provided. Revenue is recognised when it is probable that future economic benefits or service potential will flow to the municipality and those benefits can be measured reliably.

Paragraph 10.3, Interest on outstanding debtors: Interest on outstanding debtors is recognised on a time proportionate basis and paragraph 15, Account receivable: Account receivables are carried at anticipated realisable value.

GRAP 9 in respect of revenue from exchange transactions states in paragraph 17: In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. For example, an entity may provide interest-free credit to the purchaser or accept a note receivable bearing a below-market interest rate from the purchaser as consideration for the sale of goods. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:

- (a) the prevailing rate for a similar instrument of an issuer with a similar credit rating; or
- (b) a rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue in accordance with paragraphs 34 and 35 and in accordance with the relevant Standards of GRAP on Financial Instruments.

Paragraph 34 states that revenue arising from the use by others of entity assets yielding interest, royalties and dividends shall be recognised using the accounting treatments set out in paragraph 35 when:

- (a) it is probable that the economic benefits or service potential associated with the transaction will flow to the entity
- (b) the amount of the revenue can be measured reliably.

Paragraph 35 also states that revenue shall be recognised using the following accounting treatments:

- (a) Interest shall be recognised using the effective interest rate method as set out in the Standards of GRAP on Financial Instruments.

During the audit of revenue from the Fresh Produce Market it was identified that interest is not charged on outstanding debts. The fair value measurement of revenue was not considered, as prescribed according to paragraph 17 of GRAP 9, as debtors outstanding existed that are older than the normal credit terms. The following only serve as an example of our recalculated estimate of revenue not accounted for as interest received:

Months	Monthly balances as per customer age analysis					Total (R)	Total outstanding for longer than 30 days (R)	Interest recalculations (R)	Interest Rate (Market related)	
	120day (R)	90days (R)	60days (R)	30days (R)	Current (R)					
Jul-08	94,675.39	0	6,006.58	767.44	634,603.89	736,053.30	101,449.41	1,268.12	15%	
Aug-08	73,987.00	5,828.30	0	45,651.59	620,551.47	746,018.36	125,466.89	1,568.34	15%	
Sep-08	69,189.53	0	9,437.35	22,579.21	692,268.89	793,474.98	101,206.09	1,265.08	15%	
Oct-08	65,849.88	9,217.79	9,278.06	44,338.88	739,273.41	867,958.02	128,684.61	1,608.56	15%	
Nov-08	64,452.45	18,768.43	5,534.81	88,814.62	685,835.96	863,406.27	177,570.31	2,219.63	15%	
Dec-08	84,976.01	0	45,249.84	100,948.96	719,245.06	950,419.87	231,174.81	2,889.69	15%	
Jan-09	53,076.64	0	17,402.27	191,214.75	503,768.55	765,462.21	261,693.66	3,271.17	15%	
Feb-09	42,733.92	16,477.26	155,103.12	0	523,667.18	737,981.48	214,314.30	2,678.93	15%	
Mar-09	53,964.76	101.99	0	18,619.20	576,667.67	649,353.62	72,685.95	908.57	15%	
Apr-09	15,995.84	0	1,865.07	35,155.77	593,134.36	646,151.04	53,016.68	662.71	15%	
May-09	16,960.42	372.76	1,581.57	16,069.08	604,595.78	639,579.61	34,983.83	437.30	15%	
Jun-09	7,492.28	1,550.55	1,479.90	43,745.62	585,634.12	639,902.47	54,268.35	678.35	15%	
<b>Total</b>							<b>1,556,514.89</b>	<b>19,456.44</b>		

### Root cause

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

### Risk

- Fresh produce revenue and interest accrued are incorrectly stated in the financial statements.
- Non-compliance with GRAP 9

**Recommendation**

- Management should ensure that ongoing monitoring and supervision are undertaken to enable an assessment of the effectiveness of internal control over financial reporting.
- Management should consider revising the amounts disclosed in the financial statements in respect of fresh produce market fees.

**Management response**

Fresh Produce market: Interest charged on outstanding rental debtors (144100)

The rental accounts are strictly monitored and appropriate credit control measures are followed to collect arrear accounts and the root cause is therefore not agreed with. Furthermore your calculation incorrectly includes amounts reflected under 30 days which are not in arrears as such amounts represent municipal rates and taxes that are charged at the end of the previous period but are due with the rentals.

Interest charges will be implemented on arrear rental accounts in future, however, it is believed that the added cost of administration and collection will greatly exceed the "realisable value" as stated.

*Name:*

*Position:*

*Date:*

**Auditor's comments**

Management comment noted. The estimated misstatement does not affect the audit opinion but will be included in the schedule of misstatements for completeness thereof. The controls implemented by management will be followed up during the audit of the 2009-10 financial year.

## 19. R&R: Other debtors unexplained variances (Ex 107)

### Audit finding

During the execution phase of other debtors unexplained variances were identified between the opening balances on SAP and the debtors age analysis. Refer to the following variances identified:

Opening balances			
GL	SAP (R)	Debtors listing (R)	Difference (R)
140700	35,130,467.61	35,183,786.52	(53,318.91)
142004	69,263.37	70,409.37	(1,146.00)
142005	6,644,691.76	6,656,097.67	(11,405.91)
149300	2,203,651.66	1,609,397.30	594,254.36
149300	2,838,463.65	2,258,256.35	80,207.30
<b>Total</b>			<b>609 725.38</b>

### Root cause

Ongoing monitoring on other income for the above account is not undertaken by management to determine whether internal control over financial reporting is present and functioning.

### Risk

- Possibility of over-/understatement of other debtors in the financial statements
- Limitation of scope

### Recommendation

- Management should ensure that ongoing monitoring and supervision are undertaken to enable an assessment of the effectiveness of internal control over financial reporting.
- Proper explanations need to be provided to ensure that amounts disclosed in the financial statements are accurate and complete.

### Management response

Your audit on the above mentioned and the request for management comment refers:

The differences referred to in the query emanates from figures taken from reconciliation documentation and not considering adjustments and corrections that were made on the differences identified during the reconciliations of period 13 of 2008/09.

The following has bearing: **OPENING BALANCES. [HOUSING] Scheme:**

- 313a. 140700 Book Total difference [System problem that has been reported to IT]
- 317b. 142004 Book Total difference [System problem that has been reported to IT]
- 320c. 142005 Book Total difference [System problem that has been reported to IT]

The above will be discussed with management for solutions on similar differences occurring in the future.

*SUNDRY DEBTORS:*

149300: The difference of R594, 254.36 can be attributed to:

- a. Conversion differences that cannot be affected to Individual accounts within Sundry Debtors, and
- b. The created Loan account of Simon Tshepo Chakane by H/R of R205,300.96 which is a fictitious employee, which has been referred to the SAPS for investigation by H/R. H/R should provide information on the progress of the investigation.

143900: The R80, 207.30 misstatement is under investigation and further comment will be rendered on the way forward.

**Auditor's comments**

Controls implemented by management to address the relevant risks will be followed up during the audit of the 2009-10 financial year.

## PERFORMANCE INFORMATION

### 20. Performance information: Insufficient comparisons of actual performance with targets (Ex64)

#### Audit finding

Section 46(1)(b) of the MSA requires that "a municipality must prepare for each financial year a performance report reflecting a comparison of the performances referred to in paragraph (a) with targets set for and performances in the previous financial year". Paragraph (a) of section 46(1) states that "a municipality must prepare for each financial year a performance report reflecting the performance of the municipality and of each external service provider during that financial year".

A comparison of performance targets and achievements for the previous financial year (2007-08) was not disclosed in the annual performance report.

#### Risk

The value of the information to the users of the report may be negatively affected by the fact that the performance report does not provide adequate information to make appropriate comparisons.

#### Recommendation

Management should ensure that the municipality's annual performance report complies with all applicable laws and regulations. The inclusion of the previous financial year's performance targets and achievements contributes to the usefulness of the report as it allows the users to make comparisons of, and note trends in, the performance of the municipality, particularly concerning service delivery.

#### Management response

I am not in agreement with the finding for the following reasons:

- There is comparison of performance between the FY 06/07, FY07/08 and FY 08/09 on the City Scorecard in the Performance report in the Annual report. (section 5.6 of the Annual performance report)
- There is comparison of performance between FY06/07, FY07/08 and FY 08/09 on the Municipal scorecard in the Annual performance report (section 5.8 of the Annual performance report). Please refer to the column titled `Baseline 07/08`.
- Should the AG require, the targets for the 07/08 year can be added on for the final annual report submission since they are in approved IDP and SDBIP documents.

*Name: N Lukhwareni*

*Position: Service Delivery Coordinator*

*Date: 16 October 2009*

#### Additional Management response



Kindly find attached example of the updates of targets that is being implemented. The final annual report that will serve at Council will include all targets on the city scorecard and the SDBIP (relating to the 07/08 year).

**Auditor's comments**

Management's response is noted. Inclusion of the previous financial year's targets (i.e. 2007-08) is required by section 46(1)(b) of the MSA. Non-adherence to laws and regulations will be reported in the audit report.

The example of the updated report has been seen and is satisfactory. This will not be taken to the audit report but will remain as an administrative issue as the final annual report is not yet out.

**ANNEXURE D1: SAP basis review**

AUDITOR-GENERAL OF SOUTH AFRICA

INFORMATION SYSTEMS AUDIT OF THE BASIS CONTROLS SURROUNDING THE  
REVENUE AND RECEIVABLES CYCLES AT THE CITY OF TSHWANE METROPOLITAN  
MUNICIPALITY: 2008-09

MANAGEMENT REPORT

*JUNE 2009*

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### ANNEXURE A

The detailed audit findings, risks and recommendations as well as Management response are included in the annexure.

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**A. MANAGEMENT OVERVIEW**

**1. PURPOSE**

An information systems (IS) audit was carried out in terms of section 188(1) of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996).

The purpose of this management letter is to disclose the findings and conclusions arising from the IS review of the Systems, Applications and Products (SAP) basis controls surrounding the revenue and receivables cycles at the City of Tshwane Metropolitan Municipality (municipality) and to serve as a basis for comments and corrective steps.

**2. RESPONSIBILITY**

2.1 The audit was carried out in accordance with the International Auditing and Assurance Standards Board (IAASB) standards of auditing and the Standards for Information Systems Auditing of the Information Systems Audit and Control Association (ISACA).

2.2 The audit was planned and performed to obtain reasonable assurance that, in all material respects, fair presentation is achieved and that the relevant laws and regulations have been adhered to. The matters mentioned in this letter are therefore those that were discovered through tests considered necessary for the purpose of the audit. There may, however, be other matters and/or weaknesses that were not identified. However, the annual financial management and the maintenance of effective control measures remain the responsibility of the entity's management.

2.3 This report has been prepared for the management of the municipality. The contents of the report are therefore intended solely for the use of management and should as such be disclosed on a need-to-know basis only.

**3. SCOPE AND OBJECTIVE**

3.1 During the planning phase of the audit the following components were identified as focus areas:

- Key basis settings related to user and system access
- Client-specific parameters
- User access to key sensitive basis transactions
- Review of the SAP change management process
- Authorisations and segregation of duties testing of critical billing and revenue transactions

3.2 The SAP basis review at the municipality was performed through system testing, testing of documentation and discussions with key personnel.

3.3 The audit tests were performed at the Premos site of the municipality.

#### 4. AUDIT FINDINGS

The complete audit findings, risks and recommendations are included in the annexure. The basis used to determine the risk assessment indicated in respect of the audit findings in the annexure is explained in section 5 below.

#### 5. RISK ASSESSMENT

##### 5.1 LEGEND

The legend below explains the icons used to indicate the level of adequacy of the user account management controls implemented:

Level of adequacy of controls	Key
Adequate	☺
Fairly adequate but could be improved	☹
Inadequate	⊖

In order to assist management in allocating resources to address the weaknesses and improve controls in the IS control environment, risk ratings have been assigned to the findings. The key to these ratings is as follows:

CLASSIFICATION	DESCRIPTION
High	Weaknesses that could seriously compromise the system of internal control and data integrity and should therefore be addressed as soon as possible.
Medium	Matters that are important to the system of internal control and the reduction of overall risk but do not require immediate attention.
Low	Suggested improvements that would enhance internal control or efficiency but are not vital to the

	control system.
--	-----------------

5.2 The table below provides a summary of the findings with the risk ratings assigned to them.

<u>FINDING</u>	<u>ANNEXURE</u>	<u>RISK RATING</u>	<u>ADEQUACY OF CONTROLS</u>
<u>BASIS REVIEW</u>			
Ineffective password system parameter settings	Annexure A par. 1.1	Medium	☹
Customised ABAP programs not appropriately secured	Annexure A par. 1.2	Low	☺
Redundant users in the production system	Annexure A par. 1.3	Medium	☹
Developer keys in the production system	Annexure A par. 1.4	High	☹
<b><u>Change control management inadequate</u></b>	Annexure A par. 1.5	Medium	☹
<b><u>High number of users with access to sensitive basis transactions</u></b>	Annexure A par. 1.6	Medium	☹
<u>AUTHORISATIONS</u>			
High number of users with access to high-risk transactions	Annexure A par. 2.1	Medium	☹
<b><u>Inadequate segregation of duties</u></b>	Annexure A par. 2.2	Medium	☹

## 6. CONCLUSION

The IS audit indicated inefficiencies in several areas of the SAP basis environment at the municipality. The weaknesses identified could compromise data integrity and should therefore be addressed as soon as possible. The existing high-risk matters would require management's urgent attention to ensure the integrity and security of all business and financial transactions captured for processing and to provide a sound, secure and well-managed IS capability that consistently contributes towards attaining the municipality's business objectives.

The above matters are to be reported at the next audit committee meeting and will be communicated to the regularity auditors for possible inclusion in the annual report.

**7. APPRECIATION**

We would like to express our appreciation for the courtesy extended to us and the assistance rendered by the management, staff and consultants at the municipality during the audit.



**AUDITOR - GENERAL  
SOUTH AFRICA**

*Auditing to build public confidence*

*ANNEXURE A of Annexure D1*

INFORMATION SYSTEMS AUDIT OF THE BASIS CONTROLS SURROUNDING THE  
REVENUE AND RECEIVABLES CYCLES AT THE CITY OF TSHWANE METROPOLITAN  
MUNICIPALITY: 2008-09



1. BASIS REVIEW

1.1 INEFFECTIVE PASSWORD SYSTEM PARAMETER SETTINGS

Risk rating
Low

**Audit finding**

The key security parameters were tested and the following weaknesses were identified:

- *Login/min\_password\_diff* – The parameter was not set. This parameter allows the administrator to specify how many characters in a new password should differ from those in the old password.
- *Login/min\_password\_specials* – The parameter was not set. This parameter sets the minimum number of special characters the password has to contain. This parameter is valid both for assigning new passwords and for changing and resetting passwords.

**Risk**

Users might reuse their old passwords when they are prompted by the system to change their passwords. Also, if passwords are not required to have special characters, weaker passwords might be used, which would increase the probability of unauthorised access being gained to the system.

**Recommendation**

The *Login/min\_password\_diff* and *Login/min\_password\_specials* system parameters should be maintained/set to enhance the security of the system.

**Management response**

We acknowledge that the proposed parameters are not set; however, the risk/implication raised is factually incorrect. The default settings for a dialog user in SAP prevents users from reusing their last five previously used passwords. The current parameters that are set within the system are listed below.

- Minimum Password Length = 5 characters (**login/min\_password\_lng = 5**)
- Number of passwords before you can re-use the 1st password = 5 cycles (**System Default**)
- Minimum number of digits (0-9)in passwords = 2 Digits (**login/min\_password\_digits = 2**)
- Minimum number of letters (A-Z) in passwords = 2 characters (**not case sensitive**) (**login/min\_password\_letters = 2**)
- Number of days after which passwords must be changed = 30 Days (**login/password\_expiration\_time = 30 days**)
- Number of unsuccessful logon attempts before the system terminates the SAPGUI session = 2 attempts (**login/fails\_to\_session\_end = 2**)

- vii. Number of unsuccessful password-based logon attempts allowed before the system locks the user = **3 attempts (login/fails\_to\_user\_lock = 3)**
- viii. Maximum idle time allowed for a user before the system terminates the = 15 Minutes (**rdisp/gui\_auto\_logout = 15 minutes**)
- ix. Patterns of words that cannot be used in passwords are as follows;
  - a. **JAN, FEB, MAR, APR, MAY, JUN, JUL, AUG, SEP, OCT, NOV, DEC, OITPS, SAP, CTMM, CoT.**
  - b. Parameter is set not to auto unlock users daily. (**login/failed\_user\_auto\_unlock =0**)
  - c. Parameter has been set in production to disable the automatic SAP\* (**login/no\_automatic\_user\_sapstar = 1**)
  - d. **login/password\_max\_reset\_valid = 7**and
  - e. **login/password\_max\_new\_valid = 7**

*Login/min\_password\_diff* and *Login/min\_password\_specials* will be discussed with the Tshwane security administrators to assess the need for these new parameters. If it is deemed necessary, these parameters will be tested in the development and QA environments to ensure that all impacts are addressed and if they are approved for implementation they will be implemented in production when the next planned maintenance is undertaken.

**Responsible person:** Andrew Gall/Steve Baker

**Implementation date:** To be confirmed

## **1.2 CUSTOMISED ABAP PROGRAMS NOT APPROPRIATELY SECURED**

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<b>Risk rating</b>
Medium

### **Audit finding**

Sixty-one customised reports had been created within the period under review. From a sample of six customised reports tested it was ascertained that:

- none of the six customised ABAP reports tested had been assigned to authorisation groups
- Three of the six customised ABAP reports had not been linked to a transaction code.

### **Risk**

Users could run programmes erroneously due to inappropriate naming conventions or inappropriate authority checks being built into such programmes, which would affect the financial information of the municipality.

### **Recommendation**

For all customised programmes the development standards should include the following:

- Authorisation check definitions
- Reports to be linked to transaction codes

These standards should be confirmed by business to ensure that the standards are applied.

### **Management response**

As agreed with program management, customised programs and tables will not be assigned to authorisation groups as the support centre users will be the only users that have access to the transactions that allow for maintenance of tables or the calling of programs directly. The transactions that are allocated to the support centre resources are: SE16, SE16n, SM30, SM31, SE38 and SA38.

We will ensure that program naming standards are adhered to for all new developments or that existing programs are amended when there are developments changes to the programs.

The actions that will be taken by the support centre as an ongoing activity will be to ensure that all new developments or changes to existing codes comply with the set

development standards. As documented in the Management response, we will not introduce authorisation groups into existing programs for the following reasons:

- There is no risk of unauthorised execution of these reports.
- Current roles defined in the system would be affected by the introduction of authorisation groups.

**Responsible person:** Andrew Gall/Steve Baker

**Implementation date:** Ongoing

### **1.3 REDUNDANT USERS IN PRODUCTION**

<b>Risk rating</b>
Medium

#### **Audit finding**

It was established that 190 users had not logged on to the system for periods in excess of 90 days: Of the 190 users:

- 40 had never logged on to the system
- 42 had not logged on in 90 – 120 days
- 104 had not logged on in 120 – 360 days
- 4 had not logged on for more than 360 days.

It was also noted that inactive and dormant users were last reviewed in November 2008.

#### **Risk**

Inactive user accounts might have a cost implication for the municipality as unnecessary licence fees might be paid in respect of accounts that are no longer used. Inactive user accounts that are not well managed and controlled also create opportunities for unauthorised access to be gained to the system.

#### **Recommendation**

In terms of the policy and procedure inactive user accounts should be locked to reduce the risk of unauthorised access being gained to the system. Accounts that are no longer in use should be deleted. A review of inactive and dormant users should also be undertaken on a regular basis.

It is also recommended that the access management policy and procedure document be revised regarding the monitoring of inactive and dormant users. The current policy allows inactive users to remain unlocked on the system after the email notification if the users have responded to confirm that they require access. However, should a user remain inactive/dormant for an unreasonably length of time, the user account should be locked. It is also suggested that an intermediate plan be put in place for the management of inactive user accounts while the municipality is in the process of changing IT service providers.

## Management response

We acknowledge the finding and have provided a response below.

- The exercise for inactive/dormant users was resumed on 22 June 2009.
- Inactive/dormant users are de-profiled on a daily basis according to the Access Management Policy (through notices from departments, monthly reports from HR and if the user did not attend SAP training after being invited twice to do so).
- The exercise for inactive/dormant users was temporarily postponed in January 2009 because of the handover to a new service provider and would have been attended to as part of the handover. The handover was then moved to February 2009 and the exercise was postponed accordingly. The same happened in March 2009. Lack of capacity caused it to be postponed again during year-end and preparations for handover.
- Users who have never logged into SAP might have been role-mapped only recently and still need to attend training (Access Management Policy).

**Responsible Person:** G du Toit

**Implementation date:** 22 June 2009

## 1.4 DEVELOPER KEYS IN PRODUCTION ENVIRONMENT

Risk rating
High

### Audit finding

One user was found to have developer keys in the production environment.

### Risk

A user with such critical access to the production environment could make unauthorised changes to data and/or programs (i.e. bypassing the agreed change control procedures), thereby impacting the integrity of data and/or availability of the system.

### Recommendation

Developer keys should be removed from the production environment.

### Management response

The user specified in the list is a SAP basis administrator. When we apply support packages to the production environment we are required to return advanced corrections (SAP notes) or system modifications to the SAP standard. This process then records the name of the Basis resource that is performing this task into this table and requires the developer key for this process. Developers do not have access to the production environment and with the system and client settings the way they are set there is no risk of any development being conducted in the production environment. Detailed change control is followed for any changes that are required to the system, and the approved SDLC, change control and transport processes are

followed, which dictate how changes are migrated through the environment, as well as the testing and sign-off processes and, ultimately, the approval for migration to production.

The technical team has removed this developer key entry from the production system. It will, however, be required for the next support package implementation. No other action is required on this item.

Based on the above evidence, we do not believe that this should be rated as high or even highlighted as an issue.

**Responsible Person:** Andrew Gall

**Implementation date:** 15/7/2009 – Completed

## **1.5 HIGH NUMBER OF USERS WITH ACCESS TO SENSITIVE BASIS TRANSACTIONS**

<b>Risk rating</b>
Medium

### **Audit finding**

Testing revealed that a considerable number of users had access to the following functions:

- **SA38** (ABAP reporting) – this transaction code can process any executable program on SAP, regardless of the transaction code.
- **SE16** (data browser) – this transaction code allows users to see all tables in SAP. As human resources (HR) data is stored in this environment, there is a higher risk of users being able to see sensitive employee data.
- **SE37** (ABAP function modules) – this transaction code allows users to create or maintain development objects in production.
- **SE38** (ABAP editor) – this transaction code allows users to display and/or modify program code.
- **SM30** (call view maintenance) – this transaction code grants users the ability to customise tables in production.
- **SM36** (define background job) – this transaction code allows users to define, delete, release jobs.
- **SP01** (output controller) – this transaction code allows users to have access to spool requests in spool output control (all users and clients).

The results of the testing, which excluded users from user group AUDITOR, are provided below:

Basis transaction description	Transaction code	Number of users 2008	Number of users 2009	Risk rating
ABAP reporting	SA38	52	59	High
Archive management	SARA	4	5	Low
Reporting (tree structure): Execute	SARP	1	1	Low
Client administration	SCC4	4	4	Low
Transport organiser	SE01	6	7	Low
Work bench organiser: Tools	SE03	4	5	Low
Customising organiser	SE10	1	1	Low
ABAP/4 dictionary maintenance	SE11	6	7	Low
Data browser	SE16	75	82	High
ABAP function modules	SE37	6	28	Medium
ABAP editor	SE38	10	22	Medium
Lock transactions	SM01	5	5	Low
User list	SM04	5	5	Low
Call view maintenance	SM30	6	61	High
Call view maintenance	SM31	13	12	Medium
Batch input monitoring	SM35	32	50	Medium
Define background job	SM36	1	2576	High
Overview of job selection	SM37	53	73	Medium

Basis transaction description	Transaction code	Number of users 2008	Number of users 2009	Risk rating
Execute external OS commands	SM49	5	6	Low
RFC destinations—display/maintenance	SM59	5	5	Low
Maintain external OS commands	SM69	5	6	Low
Number range objects	SNRO	-	2	Low
Output controller	SP01	8	51	High
User maintenance	SU01	7	10	Medium
Internal call: Submit via command fld	SUB%	1	1	Medium
Transport Management System	STMS	4	4	Low
User mass maintenance	SU10	7	7	Medium
Delete trace files	SWU10	6	7	Medium
Parameter changes	TU02	5	5	Low

### Risk

Certain transactions have powerful system functionality and are generally only used in the development environment. When these transactions are active in the production environment, users could make significant changes to system configuration, programs and data, which might have an adverse effect on data integrity and availability.

### Recommendation

Access to sensitive SAP basis functions should regularly be reviewed for appropriateness.

### Management response



We acknowledge the finding; please see detailed comments for each high-risk transaction:

- SA38 (ABAP reporting): All users except for three are part of the SAP support centre where we have approval for SA38 to be used. The roles and transaction access of the three end-users will be investigated/removed. If necessary, a transaction code will be added to the program that they need to execute.
- SE16 (data browser): The human resources (HR) data in this environment increases the risk of users being able to see sensitive employee data: 77 of the 82 users are support centre users. These 77 users require this access to perform their support activities and their access has been approved. The access of the five end-users will be investigated.
- SE37 (ABAP function modules): All users who have this access are support users and require this authorisation. With regard to the users ANNATJIEB and WINTONL, in accordance with the CoT Access Management Policy – Debug Access, the user has been authorised by the support centre program management to have the Z\_Developer role, which allows both these users access to debug the invoice print program in the production system. This permission has been granted in the form of a written note, signed by program management. There is no risk of development being conducted in this client as the client settings and system settings do not allow for development activities.
- SE38 (ABAP editor): All users are part of the support centre. There is no risk of development being conducted in this client as the client settings and system settings do not allow for development activities.
- SM30 (call view maintenance): Four of the users are members of the technology team and require this authorisation. With regard to the users ANNATJIEB and WINTONL, in accordance with the CoT Access Management Policy – Debug Access, the users have been authorised by the support centre program management to have the Z\_Developer role, which allows the users to debug the invoice print program in the production system. This permission has been granted in the form of a written note, signed by program management. The access of the other support users will be investigated and removed if deemed necessary.
- SM36 (define background job): The transaction has been detected in the general user role. A role change request will be performed to remove this transaction from the general user role.
- SP01 (output controller): Four of the users are members of the technology team and require this access. The access of the business users to this functionality will be investigated.

**Responsible Person:** Gerrit du Toit  
**Implementation date:** TBC

## 2. AUTHORISATIONS

### 2.1 HIGH NUMBER OF USERS GRANTED ACCESS TO HIGH-RISK TRANSACTIONS

Risk rating
High

**Audit finding**

Testing revealed that a considerable number of users had access to the following high-risk transactions:

- MIGO (movement type 501) – this transaction allows users to bring stock into the store with no reference to a purchase order.
- VF01 (create billing document) – this transaction allows users to create billing documents.

The test results are listed below:

<b>Transaction description</b>	<b>Transaction code</b>	<b>Number of users: 2008</b>	<b>Number of users: 2009</b>	<b>Risk rating</b>
Automatic clearing	F.13	22	20	Low
Parameters for automatic payment (edit parameters)	F110 – 02	49	10	Low
Parameters for automatic payment (create proposal)	F110 – 11	49	10	Low
Parameters for automatic payment (edit proposal)	F110 – 12	32	10	Low
Parameters for automatic payment (delete proposal)	F110 – 14	32	10	Low
Parameters for automatic payment	F110 – 15	32	10	Low
Parameters for automatic payment (execute update run)	F110 – 21	32	10	Low
Parameters for automatic payment (generate payment medium)	F110 – 25	49	10	Low
Parameters for automatic payment (print payment medium)	F110 – 31	32	10	Low
Parameters for automatic payment	F110-All Activities	32	10	Low
Enter GL account document	FB50	21	17	Low
Enter incoming invoices	FB60	1	1	Low
Credit limit changes	FD24	1	1	Low
Change customer credit management	FD32	1	-	Low
Create vendor (accounting)	FK01	2	11	Low
Change vendor (accounting)	FK02	1	1	Low
Create master record in chart of accounts (COA)	FS00	27	5	Low

GL account master record in COA	FSP0	5	5	Low
GL account master record in COA	FSS0	5	5	Low
Create purchase order	ME21N	26	26	Medium
Change purchase order	ME22N	26	26	Medium
Release purchase order release code 01 (1 – 10 000)	ME28	7	6	Low
Goods receipt movement type 101 (bring stock into the store with reference to a purchase order)	MIGO	110	85	Medium
Goods receipt movement type 501 (bring stock into the store with no reference to a purchase order)	MIGO	1	86	High
Process incoming invoice	MIRO	22	16	Low
Create vendor (purchasing)	MK01	1	1	Low
Change vendor (purchasing)	MK02	1	1	Low
Create sales order	VA01	194	156	Medium
Create billing document	VF01	349	343	High
Create customer (centrally)	XD01	1	1	Low
Change customer (centrally)	XD02	48	47	Medium
Create vendor (centrally)	XK01	14	12	Medium
Change vendor (centrally)	XK02	14	12	Medium

### **Risk**

If a large number of users are granted access to high-risk transactions, data integrity and the availability of system are compromised. Fraudulent activities might also be performed, resulting in financial loss.

### **Recommendation**

Access to high-risk transactions should be restricted to users who require access to these transactions to perform their duties and their access should regularly be reviewed for appropriateness. Unless there is a justifiable business reason for the levels of access granted, it is recommended that the excessive access be revoked immediately.

## Management response

- MIGO (movement type 501): The system is configured in such a way that it is not possible to use the 501 movement type on MIGO. There is currently no material document posted on the system with this movement type. The roles will be reviewed to make sure that only applicable movement types are assigned.
- Access to VF01: Users with this transaction have one of the following sundry roles:
  - ZISU\_SD:DOWN\_PMT\_PROC
  - ZISU\_SD:DOWN\_PMT\_PROC\_N\_SUNDRY
  - ZISU\_SD:DOWN\_PMT\_PROC\_PREPAID
  - ZISU\_SD:DOWN\_PMT\_PROC\_SUNDRY
  - ZISU\_SD:SALES\_PROC
  - ZISU\_SD:SALES\_PROC\_N\_SUNDRIES
  - ZISU\_SD:SALES\_PROC\_SUNDRIES
  - ZISU\_SD:SUN\_BILL\_PROC
  - ZISU\_SD:SUN\_BILL\_PROC\_ISU
  - ZISU\_SD:SUN\_BILL\_PROC\_PREPAID
  - ZISU\_SD:SUN\_BILL\_PROC\_SUNDRY

Due to business requirements, these users have been role-mapped to one or more of these sundry roles. This will be highlighted to business as a high-risk transaction and if relevant, corrective action will be taken as per business instructions.

The users who have access to VF01 are the down payment processors as they have to bill the down payments that they create, but they are restricted to the billing type for down payments.

**Responsible persons:** Kgomotso Lebele, Vasco Makawa and Rieta de Villiers

**Implementation date:** To be confirmed

## 2.2 INADEQUATE SEGREGATION OF DUTIES

Risk rating
Low

### Audit finding

Testing revealed that a considerable number of users had segregation-of-duties (SOD) conflicts in respect of the following functions:

- VA01 – create sales order
- VF01 – create billing document

The test results are listed below:

SOD conflicts		Risk		Risk rating
Transaction descriptions	Transaction codes	Number of users		
Parameters for automatic payment: all activities AND create vendor	F110: all activities & XK01	1	The ability to create a vendor and process a payment could allow unauthorised payments to be made to unauthorised vendors, which could result in inappropriate payments being made to vendors and potential financial loss.	Low
Parameters for automatic payment: all activities AND process invoice	F110: all activities & FB60	1	The access to process an invoice and make a payment could allow unauthorised payments to be made to vendors, which could result in financial loss.	Low
Parameters for automatic payment: all activities AND create purchase order	F110: all activities & ME21N	1	The access to create a purchase order and make a payment to a vendor could allow unauthorised payments to be made, which could result in financial loss.	Low
Parameters for automatic payment: all activities AND create vendor (accounting)	F110: all activities & MK01	1	The access to create a vendor and make a payment could allow unauthorised payments to be made to vendors, which could result in financial loss to the municipality.	Low
Parameters for automatic payment: all activities AND create vendor (purchasing)	F110: all activities & FK01	10	The access to create a vendor and make payments could allow unauthorised payments to be made to vendors, which could result in financial loss to the municipality.	Medium

SOD conflicts		Risk		Risk rating
Transaction descriptions	Transaction codes	Number of users		
Enter incoming invoices AND create purchase order	FB60 & ME21N	1	The access to process an invoice through the FI module and do a goods receipt could result in unauthorised payments of goods and services, which could lead to financial loss to the municipality.	Low
Release purchase order (ME28) AND create purchase order (ME21N)	ME28 & ME21N	1	The access to create and release a purchase order could result in the unauthorised acquisition of goods and services, which could lead to financial loss to the municipality.	Low
Release purchase order AND process goods receipt with reference to a purchase order	ME28 & MIGO (101)	1	The access to release a purchase order and perform goods receipts could result in unauthorised goods and services being procured and received, which could lead to financial loss to the municipality.	Low
Release purchase order AND process goods receipt with no reference to a purchase order	ME28 & MIGO (501)	0	The access to release a purchase order and perform the goods receipts could result in unauthorised goods and services being procured and received, which could lead to financial loss to the municipality.	Low
Create purchase order AND process a goods receipt	ME21N & MIGO (101)	0	The access to create a purchase order and perform goods receipt could result in the unauthorised receipt of goods and services, which could lead to financial loss to the municipality.	Low
Create purchase order AND process a goods receipt	ME21N & MIGO (501)	0	The access to create a purchase order and perform goods receipt could result in the unauthorised receipt of goods and services, which could lead to financial loss to the municipality.	Low

SOD conflicts		Risk		Risk rating
Transaction descriptions	Transaction codes	Number of users		
Create purchase order AND process invoice	ME21N & MIRO	1	The access to create a purchase order and process the invoice could allow for the unauthorised procurement and payment of goods and services, which could result in financial loss to the municipality.	Low
Create sales order AND create billing document	VA01 & VF01	156	The access to create a sales order and create a billing document could result in unauthorised sales orders and creation of billing documents, which could lead to financial loss to the municipality.	High

### Risk

If users are assigned access to transactions that would allow them to perform conflicting functions, the municipality might be exposed to financial losses as the functions might be performed by users with fraudulent intent.

### Recommendation

User access should regularly be reviewed for appropriateness and conflicts in the segregation of duties should be addressed.

### Management response

Business has mandated users to have access to VA01 and VF01. This will be raised with business as an issue and, if required, corrective action will be taken as per business instruction.

It must be noted that the following restrictions have been built into the roles containing VA01 and VF01, thereby negating risks associated with segregation of duties:

- The sales processors have access to VA01 to create but have a restriction on the billing block as it is greyed out.
- The sales supervisors have access as they have to approve the sales orders that are created by the processors and they have access to create.
- The users who have access to VF01 are the down payment processors. They need this access as they have to bill the down payments that they create but they are restricted to the billing type for down payments.

Based on the restrictions implemented, we believe this should not be rated as high.

**Responsible Person:** Rieta de Villiers  
**Implementation date:** TBC

**Information systems audit of the Application  
Controls surrounding the Revenue and  
Receivables Cycle at the City of Tshwane**

Management report

*November 2009*



AUDITOR-GENERAL OF SOUTH AFRICA

INFORMATION SYSTEMS AUDIT OF THE APPLICATION CONTROLS  
SURROUNDING THE REVENUE AND RECEIVABLES CYCLE AT THE CITY OF  
TSHWANE: 2008-09

MANAGEMENT REPORT

November 2009

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## **INFORMATION SYSTEMS AUDIT OF THE APPLICATION CONTROLS SURROUNDING THE REVENUE AND RECEIVABLES CYCLE AT THE CITY OF TSHWANE: 2008-09**

### **1. PURPOSE**

An information systems (IS) audit was carried out in terms of section 188 (1) of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996).

The purpose of this management letter is to disclose the findings and conclusions arising from the audit of the application controls surrounding the Systems, Applications and Products (SAP) system environment at the City of Tshwane Metropolitan Municipality (municipality) and to serve as a basis for comments and corrective steps.

### **2. RESPONSIBILITY**

2.1 The audit was carried out in accordance with the International Auditing and Assurance Standards Board (IAASB) standards on auditing as adopted by the Auditing and Assurance Standards Board and the Standards for Information Systems Auditing of the Information Systems Audit and Control Association (ISACA).

2.2 The matters mentioned in this letter are therefore those that were discovered through tests considered necessary for the purpose of the audit. There may, however, be other matters and/or weaknesses that were not identified, but the annual financial management and the maintenance of effective control measures remain the responsibility of the entity's management.

2.3 This report has been prepared for the management of the municipality. The contents of this report are therefore intended solely for the use of management and should as such be disclosed on a need-to-know basis only.

### **3. SCOPE AND FOCUS AREAS**

3.2 The objective of this management report is to disclose the findings and conclusions of the audit, which focused on identifying key controls within the consumer income and receivables components at the municipality and to test the effectiveness of the controls implemented.

3.2 The application controls at the municipality were identified and the audit was performed through discussions with key personnel, observation of the performance of specific functions and duties, the testing of documentation and system testing, where appropriate.

3.3 The audit tests were performed at various municipality sites throughout the city.

**4. AUDIT FINDINGS AND RISK ASSESSMENT**

4.1 The findings that are important to the system of internal control, as well as the potential risks/effects of these findings and recommendations in respect of the focus areas are included in the annexure.

4.2 In order to assist management in allocating resources to address the weaknesses and improve controls in the general IS control environment, risk ratings have been assigned to the follow-up and general control review findings. The key to the risk ratings assigned to the findings is as follows:

CLASSIFICATION	DESCRIPTION
High (H)	Weaknesses that could seriously compromise the system of internal control and data integrity and should therefore be addressed immediately.
Medium (M)	Matters that are important to the system of internal control and the reduction of overall risk and should therefore be addressed as soon as possible.
Low (L)	Suggested improvements that would enhance internal control or efficiency, but are not vital to the system of internal control.

4.3 The table below provides a summary of findings and assigns risk ratings to the findings.

FINDING	STATUS	REFERENCE TO ANNEXURE	RISK RATING		
			H	M	L
<b>ANNEXURE A: AUDIT FINDINGS AND RECOMMENDATIONS</b>					
<b>Application controls</b>					
<i>Meter reading estimatio</i>		Paragraph 1.1	X		

<i>not timely followed up</i>					
<i>Inadequate invoice print settings</i>		Paragraph 1.2		X	
Unapproved billing calendar		Paragraph 1.3			X
Reallocations from suspense account to customer accounts not reviewed		Paragraph 1.4		X	
Customer master data creation accordance with policy and procedures		Paragraph 1.5	X		
Unapproved flagging of indigent accounts		Paragraph 1.6	X		
FICA and FIGL reconciliations not accurate		Paragraph 1.7		X	
Inadequate segregation of duties in respect of customer master data and transaction data		Paragraph 1.8	X		

**5. CONCLUSION**

The high-risk weaknesses reported would require management’s urgent attention if the integrity and security of all business and financial transactions captured for processing are to be ensured. Addressing these issues would also contribute to the establishment of a sound, secure and well-managed information and communication technology (ICT) capability.

**6. APPRECIATION**

The management, staff and consultants at the municipality who were involved in the audit are thanked for their cooperation and contributions.



**ANNEXURE A of Annexure D2**

**INFORMATION SYSTEMS AUDIT OF THE APPLICATION CONTROLS SURROUNDING THE  
REVENUE AND RECEIVABLES CYCLE AT THE CITY OF TSHWANE: 2008-09**

**Audit findings, root causes, risks and recommendations**

**1. APPLICATION CONTROLS**

**1.1 METER READING ESTIMATIONS NOT TIMELY FOLLOWED UP**

<b>Risk rating</b>
High

**Audit finding**

It was discovered that estimations of meter readings were not timely followed up. According to the municipality's policy and procedures, the meter reading estimations for three consecutive months should be submitted to the inspectors for follow-up. However, it was found that the meter reading estimations for the customers selected for the walkthrough had not been submitted to the inspectors for follow-up since 2007.

**Risk**

Inaccurate meter reading estimations could lead to incorrect billing of consumers, which might result in financial loss and in the credibility of the municipality being impacted.

**Recommendation**

The reports on the meter reading estimations for three consecutive months should be prepared, reviewed and followed up in a timely manner. Management should implement a strategy that would address the lack of timely follow-ups of customers for whom meter reading estimations have exceeded the three-month time limit and to avoid this problem from recurring. The problem should be addressed in compliance with the relevant policy.

**Management comments**

Three-month estimation reports are followed up. There is backlog due to capacity constraints. It should be noted that in certain instances meters are removed, properties are demolished, etc., which is not updated on the system. Notifications are created in these instances; however, the backlog in the resolution of notifications by the Electricity Division should be noted.



1.2 INADEQUATE INVOICE PRINTING SETTINGS

<b>Risk rating</b>
Medium

**Audit finding**

During the invoice printing process, a user has to select the 'document posted' checkbox to ensure that only the invoices that are posted will be printed.

**Risk**

If a user fails to select the 'document posted' checkbox, invoices with errors or outsourced invoices may be printed during the print run, resulting in inaccurate invoices being sent to customers.

**Recommendation**

The system should be configured in a way that the 'document posted' checkbox is selected by default and suppressed to ensure that the user will not be required to select it during the invoice printing procedure.

**Management comments**

Transaction code EA29 – Mass print bill – is a standard SAP transaction that cannot be reconfigured. The transaction is only assigned to a batch user. A variant has been created which is only maintained when the need arises. We also have controls in the printing programme that ensure that all outsourced or simulated documents are dumped into an error file.

### 1.3 UNAPPROVED BILLING CALENDAR

Risk rating
Low

#### **Audit finding**

The billing calendar for the period July to December 2008 was not available on SAP, despite the recommendation made in July 2008.

#### **Risk**

Inappropriate billing periods and billing information might be implemented on SAP, which could lead to late billings as a result of which revenue might not be realised in the appropriate period, leading to cash flow problems.

#### **Recommendation**

The billing calendar should be approved by the appropriate management structures prior to being implemented on SAP.

#### **Management comments**

The recommendation is noted and will be implemented.

1.4 REALLOCATIONS FROM SUSPENSE ACCOUNT TO CUSTOMER ACCOUNTS  
NOT REVIEWED

<b>Risk rating</b>
Medium

**Audit finding**

A random sample of 25 days was selected to verify whether the suspense account reallocations were reviewed and signed off by the chief accountant. The results showed the following:

- For 21 of the 25 days there was evidence of review and sign-off of suspense account reallocations.
- For two of the 25 days there was no evidence of review and sign-off of suspense account reallocations.
- For two of the 25 days the relevant documentation could not be obtained.

**Risk**

Income sent to the suspense account might be allocated to the wrong customer, which might result in customer dissatisfaction.

**Recommendation**

Suspense account reallocations should be reviewed by the chief accountant on a daily basis, in accordance with the municipality's policy. The chief accountant should approve the relevant documents and evidence thereof should be kept for the required period of time.

**Management comments**

No management comment received.

1.5 CUSTOMER MASTER DATA CREATION NOT IN ACCORDANCE WITH POLICY AND PROCEDURES

Risk rating
High

**Audit finding**

Twenty business partners had been created on SAP without agreement forms, which indicated that customer application forms were not always approved prior to being created on SAP.

**Risk**

Invalid or unauthorised customers might be created on the system, which might lead to financial loss as incomplete agreements forms might not be enforceable.

**Recommendation**

All customer applications should be approved at the appropriate level of management in accordance with the relevant policy and procedures prior to being created on SAP and the documents should be filed for reference purposes.

**Management comments**

No management comment received.

1.6 UNAPPROVED FLAGGING OF INDIGENT ACCOUNTS

Risk rating
High

**Audit finding**

Evidence of approval of the flagging of indigent accounts was found to be insufficient. For the indigent account selected for auditing purposes no evidence of approval was available.

**Risk**

Unauthorised or indigent customer accounts might be created on SAP, resulting in financial loss to the municipality.

**Recommendation**

Application forms received from partners (customers) should be verified and approved by a Finance representative before they are captured on SAP.

**Management comments**

No management comments received.

1.7 FICA AND FIGL RECONCILIATION INACCURATE

<b>Risk rating</b>
Medium

**Audit finding**

For the month of April 2009 (period 10), which was randomly selected to verify that the reconciliation between FICA and FIGL had been performed, it was noted that postings were made after the reconciliation between FICA and FIGL had been performed. Therefore, the general ledger (GL) balance in the reconciliation spreadsheet did not match the GL balance on SAP.

**Risk**

Incomplete/inaccurate reconciliations between FICA and FIGL accounts could result in inaccuracies in the reconciliation as well as in financial statements, which might be a contravention of the Municipal Finance Management Act (MFMA), Act No. 56 of 2003.

**Recommendation**

The reconciliation between FICA and FIGL should be performed on the first day of the following month to ensure that all postings for the month are included in the reconciliation.

**Management comments**

No management comment received.

1.8 INADEQUATE SEGREGATION OF DUTIES ON CUSTOMER MASTER DATA AND TRANSACTIONAL DATA

Risk rating
High

**Audit finding**

It was noted that some critical customer master data information, such as customers' addresses, could be changed by the user capturing the service order, indicating that the duties of users who could capture customer master data and those of the users who could change customer master data and transactional data were not adequately segregated.

Critical customer master information that could be used to follow up on debts, such as contact numbers, was not always accurate on SAP, or was missing.

**Risk**

- Customer information might be changed with fraudulent intent.
- If customer master data details are not accurate, or are not provided or captured on SAP, it might not be possible to contact customers, for instance in cases where outstanding money has to be recovered, which could lead to financial loss.

**Recommendation**

Users who create customer master data should not be able to capture transaction data as well. Also, critical master data details, such as contact details, should be mandatory and should be captured when customers are created.

**Management comments**

No management comment received.

**ANNEXURE D3 : General control review**

AUDITOR-GENERAL OF SOUTH AFRICA



RISK-BASED INFORMATION SYSTEMS AUDIT OF THE GENERAL CONTROLS  
SURROUNDING THE INFORMATION TECHNOLOGY ENVIRONMENT AT THE CITY  
OF TSHWANE METROPOLITAN MUNICIPALITY: 2008-09

MANAGEMENT REPORT

JUNE 2009

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## ANNEXURE

The detailed audit findings, risks and recommendations as well as management comments are included in the annexure.

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## **B. MANAGEMENT OVERVIEW**

### **1. PURPOSE**

An information systems (IS) audit was carried out in terms of section 188 (1) of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996).

The purpose of this management letter is to disclose the findings and conclusions arising from the IS audit of the general controls in the information technology (IT) environment at the City of Tshwane Metropolitan Municipality (CTMM) and to serve as a basis for comments and corrective steps.

### **2. RESPONSIBILITY**

2.1 The audit was carried out in accordance with the International Auditing and Assurance Standards Board (IAASB) standards on auditing and the Standards for Information Systems Auditing of the Information Systems Audit and Control Association (ISACA).

2.2 The audit was planned and performed to obtain reasonable assurance that, in all material respects, fair presentation is achieved and that the relevant laws and regulations have been adhered to. The matters mentioned in this letter are therefore those that were discovered through tests considered necessary for the purpose of the audit. There may, however, be other matters and/or weaknesses that were not identified, but the annual financial management and the maintenance of effective control measures remain the responsibility of the entity's management.

2.3 This report has been prepared for the management of the CTMM. The contents of the report are therefore intended solely for the use of management and should as such be disclosed on a need-to-know basis only.

### 3. SCOPE AND OBJECTIVE

The objective of this management report is to disclose the findings and conclusions of the audit, which focused on the general IS controls, policies and procedures in place at the CTMM.

### 5. AUDIT FINDINGS

The complete audit findings, risks and recommendations are included in the annexure. The basis used to determine the risk assessment indicated in respect of the audit findings in the annexure are explained in section 5, below.

### 5. RISK ASSESSMENT

#### 5.2 LEGEND

The legend below explains the icons used to indicate the level of adequacy of the implemented controls within the IS environment:

Level of adequacy of controls	Key
Adequate	☺
Fairly adequate but could be improved	☹
Inadequate	☹

In order to assist management in allocating resources to address the weaknesses and improve controls in the IS control environment, risk ratings have been assigned to the findings. The key to these ratings is as follows:

CLASSIFICATION	DESCRIPTIONS
High	Weaknesses that could seriously compromise the system of internal control and data integrity and should therefore be addressed as soon as possible.
Medium	Matters that are important to the system of internal control and the reduction of overall risk but do not

<b>CLASSIFICATION</b>	<b>DESCRIPTIONS</b>
	require immediate attention.
Low	Suggested improvements that would enhance internal control or efficiency but are not vital to the control system.

5.3 The table below provides a summary of the findings with the risk ratings assigned to them.

<b>FINDING</b>	<b>ANNEXURE</b>	<b>RISK RATING</b>	<b>ADEQUACY OF CONTROLS</b>
<b>PLANNING, POLICIES AND PROCEDURES</b>			
Inadequate IT policy document	Annexure A par 1.1.1	Medium	⊗
<b>ORGANISATIONAL STRUCTURE</b>			
Incomplete job descriptions	Annexure A par 1.2.1	Medium	⊗
Inadequate segregation of Duties	Annexure A par 1.2.2	High	⊗
Inadequate staff training	Annexure A par 1.2.3	Medium	⊗
<b>CHANGE MANAGEMENT</b>			
Inadequate segregation of incompatible duties	Annexure A par 2.1.1	High	⊗
Informal approval of bug fixes	Annexure A par 2.1.2	High	⊗
Change management controls not operating effectively	Annexure A par 2.1.3	High	⊗

<b>FINDING</b>	<b>ANNEXURE</b>	<b>RISK RATING</b>	<b>ADEQUACY OF CONTROLS</b>
<b>SERVICE LEVEL MANAGEMENT</b>			
Inadequate service level agreements	Annexure A par 3.1.1	High	⊗
<b>DISASTER RECOVERY</b>			
Inadequate disaster recovery plan	Annexure A par 3.2.1	High	⊗
<b>BACKUP MANAGEMENT</b>			
Inadequate backup testing	Annexure A par 3.3.1	High	⊗
Inadequate backup media	Annexure A par 3.3.2	Medium	⊗
<b>LOGICAL ACCESS</b>			
No formal user access process	Annexure A par 3.4.1	Medium	⊗
Inadequate staff termination process	Annexure A par 3.4.2	High	⊗
No monitoring of user accounts	Annexure A par 3.4.3	High	⊗
No monitoring of audit trails for superusers	Annexure A par 3.4.4	Medium	⊗
Inadequate segregation of duties	Annexure A par 3.4.5	Medium	⊗
Multiple simultaneous network sessions allowed	Annexure A par 3.4.6	Medium	⊗

<b>FINDING</b>	<b>ANNEXURE</b>	<b>RISK RATING</b>	<b>ADEQUACY OF CONTROLS</b>
Inadequate administrator password controls	Annexure A par 3.4.7	High	⊖
<b>PHYSICAL SECURITY AND ENVIRONMENTAL CONTROLS</b>			
Inadequate access controls	Annexure A par 3.5.1	High	⊖
<b>CAPACITY AND PERFORMANCE MANAGEMENT</b>			
Inadequate IT performance monitoring tool	Annexure A par 3.6.1	High	⊖

## 7. CONCLUSION

The IS audit indicated that the general control environment within which the accounting systems operated was inadequate and that the weaknesses identified could compromise data integrity and should therefore be addressed as soon as possible. The existing high-risk matters require management's urgent attention to ensure the integrity and security of all business and financial transactions captured for processing and to provide a sound, secure and well-managed information and communication technology (ICT) capability that consistently contributes towards attaining the CTMM business objectives.

The above matters are to be reported at the next audit committee meeting and will be communicated to the regularity auditors for possible inclusion in the annual report.



## 7. APPRECIATION

We would like to express our appreciation of the courtesy extended to us and the assistance rendered by the staff of the CTMM during the audit.



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

RISK-BASED INFORMATION SYSTEMS AUDIT OF THE GENERAL CONTROLS  
SURROUNDING THE INFORMATION TECHNOLOGY ENVIRONMENT AT THE CITY  
OF TSHWANE METROPOLITAN MUNICIPALITY: 2008-09

## 1. PLANNING THE INFORMATION TECHNOLOGY ENVIRONMENT

### 1.1 PLANNING, POLICIES, PROCEDURES AND STANDARDS

#### 1.1.1 Inadequate information technology policy document

Risk rating
Medium

#### **Audit finding**

The *Computer Use Policy*, which served as the municipality's IT policy, was found to have the following deficiencies:

- It made reference to the “reasonable precautions” that should be taken when accessing the Internet, but did not state what the precautions were.
- The policy also stated that passwords should be chosen and changed in accordance with the appropriate procedures, but did not make reference to the document that contained the appropriate procedures.
- The policy stated that software had to be purchased in accordance with the standards set by the general manager, but failed to mention which document contained the standards that needed to be adhered to.
- The “Computer Use Policy” fails to address the following:
  - The management of physical access to the server rooms, as well as guidelines and standards for environmental controls.
  - Capacity and performance management.
  - Job and bath scheduling.
  - The management of changes on applications, including *Suprima*, *Meter Platform*, *Cashbook* and *Cashier* applications. In addition, there is an inadequate, formalised change management process in place. The following weaknesses were identified:
    - ***Suprima***: No business impact analysis is performed and no formal classification to distinguish between the types of changes.
    - ***Suprima, Cashier and Cashbook***: No formal monitoring procedure to monitor the progress of requested changes, outstanding changes or

- unauthorised changes being implemented in the production environment.
- Third-party relationships. Third-party relationships are included in the “Supply Chain Management Policy”, however, the policy does not specifically address the following:
    - The need for contracts
    - Definition of content of contracts
    - Owner or relationship manager responsibilities for ensuring that contracts are established, maintained, monitored and renegotiated as required.
  - Backup schedule, testing procedures, restoration procedures, offsite backup storage arrangements, data quality and integrity, and the retention period for essential municipal information.
  - Logical access.
- In addition, the “Computer Use Policy” was approved on 17 February 2006. However, subsequent to the initial approval, no reviews had been performed of the policy to determine if the policy continued to meet the needs of the municipality.

## **Risk**

- Unauthorised access might be gained to the municipality's sensitive and confidential data, information and resources on the database.
- The standards set with regard to the purchase of software might not be adhered to, which could result in unauthorised software being deployed, thus exposing the IT environment to viruses. There is also an increased risk of contravention of the piracy laws.
- In cases of breaches of the policy, management would have little or no recourse to disciplinary action against the perpetrators because the current policy does not provide a sound basis for compliance.
- There is an increased risk that the “Computer Use Policy” might no longer be relevant to the IS environment and might not reflect the changes and updates made to ensure the security and proper management of the municipality's valuable assets.

- There is an increased risk of business disruptions of the following, due to the failure of the policy document to address physical access and environmental controls:
  - damage to and vandalising of the municipality's computer systems and their environment
  - theft of computer equipment
  - damage to computing systems due to inadequate environmental control standards
  - loss of, and damage to, data and information.
- The municipality's current and future capacity and performance requirements in respect to its computing systems cannot be ensured without documented and effectively executed capacity and performance management policy and procedures. Response times may not be satisfactory and disk processing and network resources may not be available when required. The CTMM's operations may as a consequence, be adversely affected.
- Jobs might not be run according to an appropriate schedule, which might result in systems performance inefficiencies and inaccurate data.
- The lack of formal standards to facilitate uniformity in the changes to the computer systems and their environments increases the risk of unauthorised changes being implemented in the production environment. In the absence of formally documented standards program changes might compromise data integrity and system performance.
- If a business impact assessment is not performed before a change is implemented, it may not be possible to establish whether the change will have an adverse effect on the application.
- High priority/emergency changes might not be classified as such, which could result in changes not being performed timeously, leading to incorrect and inaccurate data being used by the municipality.
- If changes are not properly monitored, unauthorised changes implemented in the production environment, unauthorised changes might not be detected, which could adversely affect the system, as well as the municipal operations. Also, changes that have a negative impact on operations might not be detected and rectified timely.
- Third-party related risks include:
  - Suppliers not meeting contractual terms
  - Inadequate cost monitoring, resulting in financial losses to the CTMM

- Poor performance and lack of accountability by suppliers
- Balance of power residing with the vendor.
- There is no documented standard to be followed with respect to performance and management of backups. There is an increased risk of data loss and the integrity of the data being compromised.
- There will not be logical access standards and good practices to adhere to. This compromises the system to unauthorised access, which may result in inaccurate billing reporting.

### **Recommendation**

- The *Computer Use Policy* should clearly outline what the “reasonable precautions” are that should be adhered to. The relevant procedure document should be communicated and made available to all employees, stressing its importance and adherence thereto.
- A formal policy and procedures regarding password management should be developed, documented and implemented. The *Computer Use Policy* should make specific reference to this document. The following document should require/address the following, as a minimum:
  - Passwords resets at 30-day intervals.
  - Alphanumeric passwords should with a minimum of six characters.
  - A password history of a value of six to ensure that passwords are not reused.
  - User access lockout after three unsuccessful logon attempts; accounts to be reset by the IT department.
  - Automatic log-out of user after 15 minutes of inactivity.
  - A log of unsuccessful logons to be maintained and reviewed by senior personnel.
  - Administrative passwords should be kept in a sealed envelope in a safe.
- Specific reference should be made in the *Computer Use Policy* to the document that contains the standards for the purchasing of software.
- The procedure/policy should also address the following:
  - Physical access to the server rooms as well as environmental controls requirements.
  - Capacity and performance management (i.e. capacity forecasting/planning and performance monitoring). Required activities

should consistently be performed on all platforms in a consistent manner. Also, a process should be undertaken by management to review the adequacy of capacity and performance management and improvements should continuously be made, as and when required. A capacity plan should annually be compiled, as well as periodic reports on the IT systems' current and future performance and capacity requirements.

- Batch and job scheduling.
- Change control. The change management policy should include the following, as a minimum:
  - Registering/initiation of changes
  - Risk impact analysis
  - Categorisation of changes
  - Prioritisation of changes
  - Authorisation of changes
  - Testing of changes
  - Back-out plans
  - Implementation of changes
  - Escalation procedures
  - Review and closure of changes
  - Emergency changes

Furthermore, the following are recommended:

- A business impact analysis should be performed and documented to determine the value and risk of a change to the municipality. Changes should be formally classified and prioritised to ensure the timely implementation of the required changes.
- Records of change requests and minutes of meetings should be completed and kept as evidence of change requests as well as to be able to assign accountability to the appropriate personnel.
- User acceptance testing should be formally signed off by the user and the appropriate personnel as evidence that the testing has been performed and acceptance that the change meets user requirements, and that the change can be transferred to the production environment. Changes should be formally signed off by the appropriate personnel before implementation occurs as evidence of authorisation and acceptance of the change.

- Changes made to the production environment (change log) should be monitored on a regular basis and evidence of review and approval should be signed off. The progress of changes as well as outstanding changes should be reviewed on a regular basis and evidence of the review should be kept to ensure that the required changes are made timely.
- Third-party relationships. It should clearly outline the activities to be executed in monitoring of IT service level agreements (SLAs), and management should ensure that the policy is adhered to and that the appropriate penalties are administered in the cases where IT suppliers do not provide the required service levels.
- Review periods for the policy. The “Computer Use Policy” should be reviewed on an annual basis and updated to ensure that it remains relevant to the environment it is intended to support and reflects any changes that have occurred.
- Backups. The policy/procedure should address at least the following: backup roles and responsibilities; backup schedule; backup testing, backup restoration and offsite storage.
- Logical access. The policy should include, among other aspects, the following:
  - New user setup/creation
  - Modification of current user access
  - Deletion or suspension of access

Prior to any changes/amendments being made to the logical access of a new/existing user; an “access request form” should be completed for staff members. Management should also review employee logical access on a regular basis to ensure that it remains appropriate.

Password controls should also be addressed in the policy and procedures document. The document should address at least the following:

- New user setup/creation
- Modification of current user access
- Deletion or suspension of access
- Passwords should be reset after 30-day intervals.
- Passwords should be alphanumeric, with a minimum of six characters.



- A password history of six should be maintained to ensure that passwords are not repeated.
- User access should be “locked” after three unsuccessful logon attempts and subsequently reset by the IT department.
- An automated “log-out” of users after 15 minutes of inactivity.
- A log of unsuccessful logons should be maintained and reviewed by senior personnel.

**Management comments**

A new section: ICT Governance, Norms and Standards Management was recently approved to deal the all Policies and procedures. Policies and procedures in general will be addressed in 2009 and 2010.

**Responsible party:** Henk Brink (Director: ICT Governance, Norms and Standards Management)

**Implementation date:** 30 June 2010

## 1.2 INFORMATION TECHNOLOGY ORGANISATIONAL STRUCTURE

### 1.2.1 Incomplete job descriptions

Risk rating
Medium

#### **Audit finding**

The CTMM did not have documented job descriptions for all the positions outlined in the IT organisational structure.

#### **Risk**

IT staff members might not understand their job functions and might, as a result, not perform their duties, which would have a negative impact on the municipality's IT infrastructure.

#### **Recommendation**

All IT-related job descriptions should be documented.

#### **Management comments**

All staff members are fully aware of their current functions. Job descriptions are, however, currently being reviewed as part of the job evaluation and filling of vacancies initiative.

**Responsible party:** Febridge Lebea (Chief Information Officer)

**Implementation date:** 30 June 2010

## 1.2.2 Inadequate segregation of duties

Risk rating
High

### **Audit finding**

Segregation of duties was inadequate due to the following weaknesses:

- A number of deputy directors were acting as directors and a large number of vacancies had not been filled in the past four years, but still appeared on the organisational structure.
- Adequate provision had not been made for backups for key personnel to ensure continuity when they were not available.

### **Risk**

The fact that a number of staff members are in acting positions could lead to the following:

- Staff members might perform unauthorised activities that would not be detected.
- Poor performance and work overload might result from staff members having to perform the duties of two people.

### **Recommendation**

Proper segregation of duties should be maintained to prevent unauthorised activities from being performed and to ensure that staff members are afforded the opportunity to perform their duties adequately. In order for this to be possible, vacancies have to be filled.

### **Management comments**

The ICT division is currently heavily understaffed, which creates a situation where segregation of duties is impossible in some areas. Vacancies will soon be filled to address this issue.

**Responsible party:** Febridge Lebea (Chief Information Officer)

**Implementation date:** 30 June 2010

1.2.3 Inadequate information technology staff training

Risk rating
Medium

**Audit finding**

No process was in place for the training of IT staff members, as this key human resources management (HRM) process is dependent on the filling of vacancies

**Risk**

Due to the lack of training, IT staff members might not be able to perform their duties effectively and in line with departmental requirements and best practice.

**Recommendation**

An annual training plan should be developed and staff members should be required to attend the relevant training interventions to enable them to perform their duties effectively and in line with their job requirements and best practice. This is however dependent on the filling of vacancies.

**Management comments**

The ICT structure was recently approved and this matter will be addressed once vacancies are filled and the division is stabilised.

**Responsible party:** Febridge Lebea (Chief Information Officer)

**Implementation date:** 30 June 2010

## 2. DEVELOPING AND DELIVERING INFORMATION TECHNOLOGY SOLUTIONS

### 2.1 CHANGE MANAGEMENT

#### 2.1.1 Inadequate segregation of incompatible duties

Risk rating
High

#### **Audit finding**

- Cashier and Cashbook: Incompatible duties were not adequately segregated. The person who developed changes on the Cashier and Cashbook applications was also responsible for implementing them in the production environment.
- Meter Platform: Incompatible duties in the change management process of the Meter Platform application were not adequately segregated. The system analyst (Anton van der Merwe) was responsible for the following:
  - Development of changes to the Meter Platform application
  - Testing of changes to the Meter Platform application
  - Implementation of changes in the production environment

This issue is exacerbated by the lack of resources

#### **Risk**

If incompatible duties are not adequately segregated, there is an increased risk of unauthorised changes being made to the production environment, which might compromise data integrity and system performance, resulting in municipal operations being adversely affected.

#### **Recommendation**

Proper segregation of duties should be maintained between the development and production environments. The following duties should be assigned to different individuals within the municipality:

- Request program development or program change
- Authorise or approve program development or program change

- Develop the change
- Move the change in and out of production
- Monitor program development or changes

**Management comments**

- Cashier and Cashbook: Currently, there is only one environment for both development and production. Staffing, again, is an issue. This system is due to be replaced by a SAP integrated solution as part of the SAP Roadmap.
- Meter Platform: Anton van der Merwe is currently the only available resource with the required skills and business process knowledge to perform all of these duties. Limited resources necessitate integration of duties. This will be addressed once vacant positions are filled.

**Responsible party:** Febridge Lebea (Chief Information Officer)

**Implementation date:** 30 June 2010

## 2.1.2 Informal approval of bug fixes

Risk rating
High

### **Audit finding**

Suprima: Approval for the implementation of bug fixes was telephonically granted.

### **Risk**

Without a formal procedure for the approval of bug fixes, accountability for the approval of fixes that have an adverse effect on the system, and hence on municipal operations, might not be established. Moreover, unauthorised changes/bug fixes purported to have been authorised may be made on the system, which could resulting in the data and performance of the system being adversely impacted.

### **Recommendation**

Approval for bug fixes/changes to the system should be documented and an audit trail should be kept of the process.

### **Management comments**

A change control system will be developed to monitor and control all changes to the system.

**Responsible party:** Chris Le Grange

**Implementation date:** 30 June 2010

### 2.1.3 Change management controls not operating effectively

Risk rating
High

#### **Audit finding**

Based on the walkthrough evaluation performed on log no. PTF091 of the ProV System, the following were noted:

- The *Impact* and *Expected Target Date* fields had not been completed
- Change log no. PTF091 had not been signed off by the business process owner as evidence of authorisation of the change request.
- The implementation of the change in the production environment had not been formally signed off.

#### **Risk**

- If a business impact assessment is not performed before a change is implemented, it may not be possible to establish whether the change will have an adverse effect on the application.
- High priority/emergency changes might not be classified as such, which could result in changes not being performed timely, leading to incorrect and inaccurate data being used by the municipality.
- If changes are not properly monitored, unauthorised changes implemented in the production environment might not be detected, which could adversely affect the system, as well as the municipal operations. Also, changes that have a negative impact on operations might not be detected and rectified timely.

#### **Recommendation**

- The *Impact* and *Expected Target Date* fields should be completed prior to changes being made in the development environment, to determine the impact on users and the municipality at large.
- Changes should be signed off by the business process owner on the change control documentation as evidence of authorisation of the change request.



- Change control documentation should be formally signed off by the appropriate personnel as evidence of approval of the implementation of the change in the production environment.

**Management comments**

Giscoe is an outside company doing support work on our system. We send all change controls via email and there are consequently no signatures. We test all functions in training and then sign off.

A change control system will be developed to monitor and control all changes to the system.

**Responsible party:** Chris Le Grange

**Implementation date:** 30 June 2010

### 3. OPERATING THE INFORMATION TECHNOLOGY ENVIRONMENT

#### 3.1 SERVICE LEVEL MANAGEMENT

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##### 3.1.1 Inadequate service level agreements

Risk rating
High

##### **Audit finding**

No SLAs were in place between the CTMM and Landis and Gyr, the organisation that maintained/supported the Suprima application.

In addition, the SLA between KC Solutions, (the organisational that maintained the Cashier application) and the CTMM did not meet the minimum requirements as it did not address the following:

- Services provided
- Service level measures, both qualitative and quantitative
- Resolution of problem process
- Penalties for non-performance
- Dissolution process
- Modification process
- Reporting of service – content, frequency and distribution
- Roles of contracting parties during the life of the contract
- Continuity assurances in respect of the services provided by the vendor
- Level of access provided to vendor
- Security requirements
- Non-disclosure guarantees
- Right to access and right to audit

##### **Risk**

Organisational risks include the following:

- Poor performance by suppliers
- Lack of accountability

- Failure to meet contractual terms
- Excessive costs due to service inefficiencies
- Lack of recourse to enforce service delivery standards
- Business disruptions due to ineffective service provision

It might be difficult for the municipality to hold third-party service providers accountable for unacceptable service levels if the required service levels have not been documented and roles and responsibilities are not clear. Service levels provided by the third party might consequently be unacceptable and might impact the performance of systems.

### **Recommendation**

An SLA should be formally established between the CTMM and Landis and Gyr and be signed by the appropriate parties. The SLA should include the following aspects:

- Formal management and legal approval
- Legal entity providing services
- Services provided
- Service level agreements, both qualitative and quantitative
- Cost of services and frequency of payment for services
- Process for the resolution of problems
- Penalties for non-performance
- Dissolution process
- Modification process
- Reporting of service – content, frequency and distribution
- Roles of contracting parties during the life of the agreement
- Continuity assurances in respect of the services to be provided by the service provider
- Process of communication between user and provider of services, and frequency thereof
- Duration of contract
- Level of access provided to the service provider
- Security requirements
- Non-disclosure guarantees
- Right to access and right to audit

Furthermore, a formal SLA should be entered into between the CTMM and KC Solutions to manage and control the delivery of the agreed level of IT services. The SLA should be approved by the appropriate personnel and should regularly be reviewed and reassessed. All contracts should include penalty, exit and termination clauses.

**Management comments**

SLA between CTMM and Landis and Gyr: Agreed; SLA will be developed as recommended.

**Responsible party:** Febridge Lebea (Chief Information Officer)

**Implementation date:** 31 December 2010

## 3.2 DISASTER RECOVERY

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### 3.2.1 Inadequate disaster recovery plan

Risk rating
High

#### **Audit finding**

The following findings were identified during the review:

- A documented disaster recovery plan (DRP) has only been established for the SAP environment. No DRP was in place for the CTMM's other system environments.
- There was inadequate DRP roles and responsibilities.
  - An incident management committee had not been established as an IT disaster recovery team.
  - The DRP, which is referred to as "OITPS Disaster Recovery Procedures" did indicate who the responsible role players were.
  - The CTMM had not identified representatives from all critical organisational units within the organisation, who were to assume responsibility for the DRP.
- The DRP that is specific to SAP had not been revised since it was developed in 2006.
- The DRP test for SAP was performed on 2 October 2009, however, a formal DRP testing strategy is not in place at the CTMM.

A training program has not been initiated to ensure continuous training and awareness of the DRP is not in place.

#### **Risk**

The lack of a formalised DRP might adversely affect the municipality's ability to continue with its operational activities in the event of a disaster or disruption to IT

operations. The municipality might, moreover, not be able to recover IT operations should a disaster disrupt municipal activities. Other risks are as follows:

- The DRP might not be executed as required, which could result in the municipality not being able to continue with municipal operations.
- If the role players are not clearly identified, it would not be possible to hold them accountable for the duties they are required to carry out.
- If representatives have not been appointed to provide guidance and management within their organisational units, there is an increased risk of the municipality not being able to continue with its operations in the event of a disaster.
- The DRP might not sufficiently cover subsequent modifications and changes to the computer systems and environment.
- There may not be frame of reference in the event of an actual disaster or disruption. As a result, an interruption of operations may be unacceptably long in an event of a disaster, resulting in unsatisfied customers.
- Disaster recovery procedures might not be adhered to, which could result in the municipality not being able to resume operations within an appropriate time frame after a disaster.

### **Recommendation**

The following measures are recommended:

- A DRP that prioritises key systems and their recovery times, as well as the roles and responsibilities involved, should be compiled.
- The procedures detailing the process to be followed to resume critical municipal IT operations in the event of a disaster should be documented, distributed and tested.
- The plan should be tested at regular intervals to ensure that it remains up to date and is adequate.
- A disaster recovery team should be established to handle the initial emergency situation and ensure the success of the disaster recovery procedures.
- The DRP should state who the responsible role players are to ensure accountability for the actions that are required to be taken in the event of a disaster.

- Representatives from all critical organisational units should be identified and familiarised with the responsibilities they will be required to assume in the event of a disaster occurring.
- The DRP should be revised on a yearly basis to ensure that all additions, modifications and changes to the computer systems and environment have been addressed.
- A formal disaster recovery testing strategy should be developed and reviewed. Testing of the DRP should be performed on an ongoing basis to ensure that it sufficiently covers computer systems and their environment. A formal testing strategy will ensure that in an event of a disruption the delay will be minimal, as the employees would have been exposed to a “similar” situation during the test run.
- A formal training programme should be developed, documented and implemented to ensure continuous training and awareness of the DRP.

#### **Management comments**

Agreed, this will be addressed by the ICT Governance Section recently approved. However, we do not currently have sufficient to address this issue. It is planned to appoint external consultants to assist with the initial service as well as with skills transfer, to allow internal staff (when appointed in this role) to review/update and keep such a plan current as well as to coordinate the joint testing of the plan.

**Responsible party:** Rodger Hughes

**Implementation date:** 31 December 2010

### **3.3 BACKUP MANAGEMENT**

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#### **3.3.1 Inadequate backup testing**

<b>Risk rating</b>
High

##### **Audit finding**

Disaster recovery testing for SAP was performed in October 2008. Data was checked on an ad hoc basis to ensure that the integrity of data was being maintained. However, backup testing was not performed on a regular basis to ensure that data would be adequately backed up, data integrity would be maintained and data would be available when required for restoration purposes.

##### **Risk**

Without proper backup testing procedures, including the monitoring of backups and data validation checks, there is an increased risk of the integrity of the backed up data being compromised and valuable data consequently not being restorable when required, which could lead to business disruptions.

##### **Recommendation**

The data should be validated for accuracy and completeness on a regular basis to ensure that the integrity of the data is maintained. Backups should be tested on a regular basis to ensure their effectiveness, integrity and completeness.

##### **Management comments**

Additional staff is required to be able to provide these services on a regular basis. The recently approved ICT structure and positions will soon be filled to address this issue.

**Responsible party:** Rodger Hughes

**Implementation date:** 31 December 2010



### 3.3.2 Inadequate backup media

Risk rating
Medium

#### **Audit finding**

With the growth of data, there is an exponential need for additional media to enable full data protection. The media at the municipality was inadequate to accommodate immediate to long-term data growth/space requirements.

#### **Risk**

The media might be insufficient for the full storage, protection and retention of data. If data is not retained for the required period, data that may be required at a later date might be discarded and the municipality might be contravening the National Archives and Records Services Act (Act No. 43 of 1996).

#### **Recommendation**

Adequate media should be acquired to ensure consistent, full protection and retention of backups in relation to the value of the data, its useful life and legal requirements.

#### **Management comments**

Media has already been installed, however the migration of data still needs to take place.

**Responsible party:** Rodger Hughes

**Implementation date:** 31 December 2010

## **3.4 LOGICAL ACCESS**

### **3.4.1 No formal user access process**

<b>Risk rating</b>
Medium

#### **Audit finding**

ProV and Geographical Information System (GIS): No formal, standardised access request form had to be completed to request user privileges. The level of access required was determined on the basis of the direct manager's recommendation in respect of the employee's access needs.

#### **Risk**

Users might obtain inappropriate access or they might not have sufficient access to perform their tasks, since access is granted on the basis of the manager's assessment of the person's access needs and not according to a standard. Furthermore, without fully completed formal, standardised access request forms, there is no audit trail and accountability cannot be apportioned for inappropriate access granted.

#### **Recommendation**

A formal access request form should be developed and implemented and line managers should be required to complete the form and state why a certain level of access is required for the user concerned.

#### **Management comments**

A change control system will be developed to monitor and control user access requests.

**Responsible party:** Chris Le Grange

**Implementation date:** 30 June 2010

### 3.4.2 Inadequate staff termination process

Risk rating
High

#### **Audit finding**

ProV and GIS systems: The IT function was not informed of staff who had resigned or had taken an extended term of leave.

#### **Risk**

Former users, or users who would be absent for an extended period, might retain access to the municipality's data, information and resources, or through dormant accounts. This may result in unauthorised access to data and unauthorised changes to data.

#### **Recommendation**

A process should be developed that requires the human resources (HR) department to inform the IT department of any staff who have left the employ of the CTMM or have taken a extended term leave, to allow IT to delete or disable their access.

#### **Management comments**

Agreed.

**Responsible party:** Henk Brink (Director: ICT Governance, Norms and Standards Management)

**Implementation date:** 31 December 2010

### 3.4.3 No monitoring of user accounts

Risk rating
High

#### **Audit finding**

ProV and GIS systems: The IT function did not monitor user accounts to identify dormant accounts and accounts with low usage. Management also did not review user privileges to establish whether they were still appropriate.

#### **Risk**

The lack of review of user access privileges may result in employees retaining their previous access privileges, when they have been promoted or transferred. Staff members may be able to perform functions that they are no longer allowed to perform in the new role.

#### **Recommendation**

Management should also review the individual employee access privileges on a regular basis to ensure that they are appropriate.

#### **Management comments**

Agreed, however inadequate staffing to implement.

**Responsible party:** Henk Brink (Director: ICT Governance, Norms and Standards Management)

**Implementation date:** 31 December 2010

### 3.4.4 No monitoring of audit trails

Risk rating
Medium

#### **Audit finding**

- ProV and GIS: The audit trails on the activities of the superusers were not reviewed and signed off on a periodic basis.
- Cashier and Cashbook: Although password changes are enforced on Novell, the applications did not have a facility for keeping a password history.
- Cashier, Cashbook and Active Directory: Logs were not maintained of unsuccessful logons for review by senior personnel.

#### **Risk**

If audit logs are not maintained and reviewed:

- security violations might not be detected
- accountability for unauthorised activities might be impossible to establish
- unauthorised users might gain access using passwords that have become known because they are not changed due to the absence of a facility to keep a password history.

#### **Recommendation**

- Audit features should be enabled and violation reports should regularly be reviewed and signed as evidence of review. A facility to keep a password history should also be set.
- Audit logs should be reviewed on a regular basis to ensure that unauthorised access or activities are timely identified and addressed.

#### **Management comments**

**ProV:** Logs will be reviewed regularly.

**Cashier and Cashbook:** The functionality that enforces password history will be investigated. Also, logs will be reviewed regularly.

**Responsible party:** ProV: Rodger Hughes

Cashier and Cashbook: Chris Le Grange

**Implementation date:** 30 June 2010

### 3.4.5 Inadequate segregation of duties

Risk rating
Medium

#### **Audit finding**

It was established that the Finance supervisor both requested and approved user access on the ProV application. Segregation of duties was also not maintained on the ProV.

#### **Risk**

If duties in respect of the granting of user access are not effectively segregated, there is an increased risk of inappropriate access being granted to users. The data on these applications might as a result be erroneously amended.

#### **Recommendation**

Proper segregation of duties has to be maintained to ensure that only appropriate and authorised access is granted to these applications.

#### **Management comments**

ProV: Will link to authorisation process for all systems to be established (i.e. this will be addressed by the new system). Business should comply.

**Responsible party:** Chris Le Grange

**Implementation date:** 31 December 2010

### 3.4.6 Multiple simultaneous network sessions

Risk rating
Medium

#### **Audit finding**

ProV: During the review it was ascertained that users were allowed to have multiple simultaneous open sessions on the ProV application (i.e. one user could sign on to the ProV application on more than one machine at the same time).

#### **Risk**

Allowing multiple simultaneous open sessions increases the risk of unauthorised access being gained to an unattended open session on a workstation, which could result in unauthorised changes being made to data/information that resides on the application.

#### **Recommendation**

Multiple simultaneous open sessions on the network should not be allowed to prevent unauthorised access and, therefore, the risk of security breaches.

#### **Management comments**

Multiple sessions may be required by other users and cannot simply be eliminated. Elimination with application may be an option. (This will be addressed by the new system)

**Responsible party:** Chris Le Grange

**Implementation date:** 31 December 2010



### 3.4.7 Inadequate administrator password controls

Risk rating
High

#### **Audit finding**

ProV and GIS: The administrator password was not set to enforce password changes. It was, moreover, not periodically changed or stored in a sealed envelope in a safe.

#### **Risk**

- Should the administrator not be available, access could not be gained to the network and/or applications, which would create the risk of municipal operations being interrupted if users experienced problems with their access privileges.
- Unauthorised access might be gained to administrator information. Users' access information might become known to other users, thus enabling easy access to confidential information.

#### **Recommendation**

- The administrator password should regularly be updated and stored in a sealed container in a safe to avoid unauthorised access and to enable management to gain access should the administrator be absent.
- The system should be set to automatically enforce periodic password changes on the administrator account.

#### **Management comments**

ProV: Agreed. Enforcing password changes on the application would require system development. Plans are underway to integrate this system with the GIS system and, therefore, to decommission this system altogether at a later stage.

**Responsible party:** Chris Le Grange

**Implementation date:** 31 December 2010

## **3.5 PHYSICAL SECURITY AND ENVIRONMENTAL CONTROLS**

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### **3.5.1 Inadequate physical access controls**

<b>Risk rating</b>
High

#### **Audit finding**

The following weaknesses were identified at the different sites with respect to physical access controls:

- Centurion and Sammy Marks: A logbook of staff access to the server room was not maintained and reviewed.
- Centurion, Sammy Marks and Soshanguve: A logbook of visitors to the server room was not maintained.
- Sammy Marks: Access to the server room was not controlled. A keypad had been installed as an access control measure, but it was not operational. The door to the server room was, moreover, not locked.

#### **Risk**

Unauthorised access to server rooms might go undetected and it might not be possible to apportion accountability for the following:

- Damage to and vandalising of computing systems and their environment
- Theft of computer equipment
- Loss of and damage to data and information
- Business interruptions

#### **Recommendation**

Access to the server room should be effectively controlled and managed to ensure that only authorised personnel are granted access to prevent theft and physical damage. It should therefore be ensured that the following measures are instituted:

- A log should be kept of staff members and visitors who access the server rooms. The log should be reviewed on a regular basis at the appropriate level

of management. A register should be kept of when the logs were reviewed and by whom and it should be signed off as evidence of review and approval.

- Access control mechanisms should be considered for implementation, which should include access control tags, biometric systems, fully operational keypads and a lock, as well as full-time manning of the entrance to the server room.
- Monitoring, as soon as the vacancies have been filled, of the execution of these functions.

### **Management comments**

- Netbotz equipment monitors activity. Additional staff is required to fully monitor access and manage recordings of activity in server rooms. A register will be instituted in the meanwhile.
- No staff from ICT is available on site to manage a register or log. A full solution needs to be implemented to provide security and logs.
- A request has been lodged with Metro Security to assist with changing the access route to the server room as well as with services. The equipment required will either be provided by Security or via the tender to be drafted to upgrade security at all server rooms.

**Responsible party:** Rodger Hughes

**Implementation date:** 31 December 2009

## **3.6 CAPACITY AND PERFORMANCE MANAGEMENT**

### **3.6.1 Inadequate information technology performance monitoring tool**

<b>Risk rating</b>
High

#### **Audit finding**

An adequate IT performance management system was not in place at the CTMM to ensure IT system capacity and performance monitoring. The tool in place at the municipality only monitored the performance of the Systems, Applications and Products (SAP) system and did not address other systems implemented at the CTMM.

#### **Risk**

In the absence of an adequate tool for the monitoring of the capacity and performance of all critical systems, response times might not be satisfactory and disk processing and network resources might not be available when required. Inadequate system performance would have an adverse effect on the CTMM operations.

#### **Recommendation**

A performance management tool should be utilised to monitor the capacity and performance of all systems. Reports that outline the performance and capacity of systems should be generated and provided to management for review and capacity planning purposes.

#### **Management comments**

This will be addressed by the new section: ICT Governance, Norms and Standards Management in 2009 and 2010.

**Responsible party:** Henk Brink (Director: ICT Governance, Norms and Standards Management)

**Implementation date:** 30 December 2010

## ANNEXURE E

### Addendum to auditor's response to exception 200 and 201

#### Audit report on Manual Adjustment

When auditing the adjustment journals with regard to reallocating corrections to the correct financial year on property rates, the City of Tshwane does not have an automated programme or any other time apportionment system in place to reallocate these corrections to the correct financial years, therefore a manual system is used to update the individual client accounts in the current financial year and not retrospectively. Manual allocations of correctional journal entries processed on SAP are performed on an excel spreadsheet (manual system) to indicate in which financial year these corrections relates to. Journals are thereafter entered on the SAP system to ensure that the adjustment allocations per financial year as per the excel spreadsheet are adjusted to the relevant correct financial years. Currently not all journals are processed on SAP.

The following were identified:

Subsequent tests indicated the following:

<b>TOTAL POPULATION</b>		
<b>Adjustment Category</b>	<b>Journals</b>	<b>Amount (R)</b>
Debit Adjustments	9292	105 222 020,65
Credit Adjustments	11628	88 453 537,35
<b>Total</b>	<b>20920</b>	<b>16 768 483,30</b>

Management tested the top 100 journals effected by them on a value basis as per values and adjusted the total R 16,7 million (which is the net of the debit and credit journal totals on the control accounts) to the current financial year, however based on the tests performed by management they indicated that the majority of the variances identified between debit and credit journals were not in the current financial year, but prior financial years.

<b>TOP 100 AS PER VALUE</b>		
<b>Adjustment Category</b>	<b>Journals</b>	<b>Amount (R)</b>
Debit Adjustments	100	45 610 649,15
Credit Adjustments	100	50 177 607,93
<b>Total</b>	<b>200</b>	<b>-4 566 958,78</b>

However according to the detail list it indicated the following:

#### Prior financial years before 2007/08

Debit	R 4 054 260,85
Credit	<u>R 7 113 337,79</u>
<b>Total variance</b>	<b>-R 3 059 076,94cr</b>

#### Financial year 2007/08

Debit	R 6 601 356,86
Credit	<u>R 8 989 849,52</u>
<b>Total variance</b>	<b>-R 2 388 492,66cr</b>

**Financial year 2008/09**

Debit	R 32 784 920,42
Credit	<u>R 31 299 974,93</u>
<b>Total variance</b>	<b>R 1 484 945,49dr</b>

**Financial year 2009/10**

Debit	R 6 433 299,98
Credit	<u>R 6 727 036,84</u>
<b>Total variance</b>	<b>-R 293 736,86cr</b>

Based on the above mentioned it is a clear that the net effect cannot be adjusted against the current financial years debtors and income as the majority of the variances were in respect of the prior financial years. Furthermore, the effect of the 2009/10 financial year journals that effected the 2009/10 financial year were not taken into account and were included in the netted figure of R 16 million that were allocated to the 2008/09 financial year. Except for management's top 100 debits and credits tested by management no allocation split was performed in respect of the rest (20720 journals) of the subsequent journals and the total variances were allocated to the 2008/09 financial year.

**Current journal allocation****Prior financial years before 2007/08**

Debit	R 12 680 555,70
Credit	<u>R 8 363 613,71</u>
<b>Total variance</b>	<b>R 4 316 941,99dr</b>

**Financial year 2007/08**

Debit	R 17 679 995,15
Credit	<u>R 21 727 330,49</u>
<b>Total variance</b>	<b>-R 4 047 335,30cr</b>

**Financial year 2008/09**

Debit	R 59 351 160,70
Credit	<u>R 70 630 397,93</u>
<b>Total variance</b>	<b>-R 11 279 237,23cr</b>

We tested the allocation as well as the completeness of the list and identified that journals processed on SAP were not on the allocation list. This was communicated to management and an updated list was provided in exception 200. The completeness was retested and again additional journals were identified that were not on the individual list. A detail report was requested from management in respect of all journals processed on SAP for the 2008/09 financial year to reconcile the journals with the allocation spread sheet. However, at the time the management report was finalised management could not provide the relevant information. After the management report was discussed with the CFO management provided the relevant information in respect of SAP journals processed. We identified that journals to the amount of R 59 611 371,50 debit journals as well as R 38 275 929,42 credit journals were not included in the allocation list provided for audit purposes. This was however not tested due to the fact that this was after the cut-off date, but will be included in

the schedule of misstatements as possible errors. Furthermore, the allocation split per financial years could furthermore not be provided for audit purposes.

Hence, the accuracy, disclosure and classification of property rates and consumer debtors in the statements of financial performance and financial position and notes 15 and 20 to the financial statements, as incomplete information was provided for audit purposes in respect of the correcting journals processed during the year under review as well as after year-end, for the correct allocation of revenue to be accrued for in the retrospective financial years.

## Addendum to auditor's response to exception 200 and 201

### Audit report on Manual Adjustment

When auditing the adjustment journals with regard to reallocating corrections to the correct financial year on property rates, the City of Tshwane does not have an automated programme or any other time apportionment system in place to reallocate these corrections to the correct financial years, therefore a manual system is used to update the individual client accounts in the current financial year and not retrospectively. Manual allocations of correctional journal entries processed on SAP are performed on an excel spreadsheet (manual system) to indicate in which financial year these corrections relates to. Journals are thereafter entered on the SAP system to ensure that the adjustment allocations per financial year as per the excel spreadsheet are adjusted to the relevant correct financial years. Currently not all journals are processed on SAP.

**The following were identified:**

**Subsequent tests indicated the following:**

TOTAL POPULATION		
Adjustment Category	Journals	Amount (R)
Debit Adjustments	9292	105 222 020,65
Credit Adjustments	11628	88 453 537,35
Total	20920	16 768 483,30

Management tested the top 100 journals effected by them on a value basis as per values and adjusted the total R 16,7 million (which is the net of the debit and credit journal totals on the control accounts) to the current financial year, however based on the tests performed by management they indicated that the majority of the variances identified between debit and credit journals were not in the current financial year, but prior financial years.

TOP 100 AS PER VALUE		
Adjustment Category	Journals	Amount (R)
Debit Adjustments	100	45 610 649,15
Credit Adjustments	100	50 177 607,93
Total	200	-4 566 958,78

However according to the detail list it indicated the following:



**Prior financial years before 2007/08**

Debit	R 4 054 260,85
Credit	<u>R 7 113 337,79</u>
Total variance	-R 3 059 076,94cr

**Financial year 2007/08**

Debit	R 6 601 356,86
Credit	<u>R 8 989 849,52</u>
Total variance	-R 2 388 492,66cr

**Financial year 2008/09**

Debit	R 32 784 920,42
Credit	<u>R 31 299 974,93</u>
Total variance	R 1 484 945,49dr

**Financial year 2009/10**

Debit	R 6 433 299,98
Credit	<u>R 6 727 036,84</u>
Total variance	-R 293 736,86cr

Based on the above mentioned it is a clear that the net effect cannot be adjusted against the current financial years debtors and income as the majority of the variances were in respect of the prior financial years. Furthermore, the effect of the 2009/10 financial year journals that effected the 2009/10 financial year were not taken into account and were included in the netted figure of R 16 million that were allocated to the 2008/09 financial year. Except for management's top 100 debits and credits tested by management no allocation split was performed in respect of the rest (20720 journals) of the subsequent journals and the total variances were allocated to the 2008/09 financial year.

**Current journal allocation****Prior financial years before 2007/08**

Debit	R 12 680 555,70
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<b>Credit</b>	<b><u>R 8 363 613,71</u></b>
<b>Total variance</b>	<b>R 4 316 941,99dr</b>

**Financial year 2007/08**

<b>Debit</b>	<b>R 17 679 995,15</b>
<b>Credit</b>	<b><u>R 21 727 330,49</u></b>
<b>Total variance</b>	<b>-R 4 047 335,30cr</b>

**Financial year 2008/09**

<b>Debit</b>	<b>R 59 351 160.70</b>
<b>Credit</b>	<b><u>R 70 630 397,93</u></b>
<b>Total variance</b>	<b>-R 11 279 237,23cr</b>

We tested the allocation as well as the completeness of the list and identified that journals processed on SAP were not on the allocation list. This was communicated to management and an updated list was provided in exception 200. The completeness was retested and again additional journals were identified that were not on the individual list. A detail report was requested from management in respect of all journals processed on SAP for the 2008/09 financial year to reconcile the journals with the allocation spread sheet. However, at the time the management report was finalised management could not provide the relevant information. After the management report was discussed with the CFO management provided the relevant information in respect of SAP journals processed. We identified that journals to the amount of R 59 611 371,50 debit journals as well as R 38 275 929,42 credit journals were not included in the allocation list provided for audit purposes. This was however not tested due to the fact that this was after the cut-off date, but will be included in the schedule of misstatements as possible errors. Furthermore, the allocation split per financial years could furthermore not be provided for audit purposes.

Hence, the accuracy, disclosure and classification of property rates and consumer debtors in the statements of financial performance and financial position and notes 15 and 20 to the financial statements, as incomplete information was provided for audit purposes in respect of the correcting journals processed during the year under review as well as after year-end, for the correct allocation of revenue to be accrued for in the retrospective financial years.