

Mr Gashi  
Elundini Municipality  
1 Sellar Street  
Maclear  
5480

30 November 2009

Dear Sir,

**MANAGEMENT REPORT ON THE REGULARITY AUDIT AND THE AUDIT OF PERFORMANCE INFORMATION OF ELUNDINI MUNICIPALITY FOR THE YEAR ENDED 30 June 2009**

**INTRODUCTION**

1. This management report is provided to the accounting officer of the Elundini Municipality in connection with our audit of the 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
  - Significant findings from [specific focus areas]
  - 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. Annexures 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 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 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 financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the 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 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 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 financial statements or performance information, or compliance with all applicable legislation.

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

6. 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 financial statements in accordance with the Institute of Municipal Financial Officers (IMFO) reporting framework.
  - Designing, implementing and maintaining internal controls relevant to the preparation of the 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.

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

**FINANCIAL MATTERS**

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

7. The following represents the material misstatements 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 items 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. 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 misstatement.

Reason for the adjustment	Financial statement line item	Asset (A) Liability (L) Revenue (R) Expense (E)	Dr	Cr	Roots cause
			R	R	
Cheque withdrawn twice out of investment, and hence Trust fund was understated.	Investment MSIG (9250/8510)	A	200 350		IC - 1
	MSIG FUND (9000/8280/0000)	L		200 350	
Petty cash incorrectly recorded in appropriation account	Appropriation Account (9250/9980)	E	5 994		M - 1
	Petty Cash Account (9250/9890)	A		5 994	
VAT claimed from investment but not off trust	Trust fund (9000/8210)	L	10 146		CA - 6
	Expenditure	E		10 146	
VAT apportionment adjustment	Expenditure	E	37 929		CE - 7
	VAT Input 9250/8910/0000	A		37 929	
Output VAT not accounted for on insurance proceeds	Insurance (3000/2540)	E	18 702		CE - 7
	VAT Output (9250/8930)	L		18 702	
Output VAT not accounted for	Proceeds on sale of assets	E	24 780		CE - 7
	VAT Output (9250/8930)	L		24 780	
Input VAT incorrectly claimed - (known error)	VAT Input (9250/8910)	A	820		CE - 7
	Entertainment (1110/1700)	E		321	
	Entertainment (1100/2950)	E		205	
	Entertainment (5200/1740)	E		200	
Input VAT incorrectly claimed	Entertainment (2255/1740)	E		94	CE - 7
	VAT Input (9250/8910)	A	3 151		
	Entertainment (1110/1700)	E		3 151	
Input VAT not claimed	VAT Input (9250/8910)	A	267 225		CE - 7
	Municipal Infrastructure Grant (4430/3530)	R		199 225	
	National Electricity Regulator (4805/3560)	R		68 000	
Output VAT	Consumer Deposits	L	2 573		CE - 7

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not accounted for	VAT Output (9250/8930)	L		2 573	
Output VAT not accounted for	Consumer Deposits	L	21 287		CE - 7
	Output VAT (9250/8930)	L		21 287	
Adjusting for incorrect leave payouts made	Employee costs (account no not known)	E	14 233		IC - 1
	Creditors (account no not known)	L		14 233	
Adjusting journal entries for water and sanitation	Expenditure (account no not known)	E	41 138		CA - 6
	Contribution to UIF(4470/0070)(4800/0070)	E	2 811		
	Contribution to medical aid (4470/0050)(4800/0050)	E	23 842		
	Contribution to pension fund (4470/0060)(4800/0060)	E	34 106		
	Annual Bonus (4470/0100)(4800/0100)	E	22 155		
	Telephone allowance (4470/0120)(4800/0120)	E	6 600		
	Standby allowance (4470/0130)(4800/0130)	E	65 120		
	Ukhahlamba (W&S Debt) (4800/4800)	L		140 766	
	Salaries (4470/0010) (4800/0010)	E		28 051	
	Water Sales (4800/6490/000)	R		55	
	Sanitation Fees (4470/6010/000)	E		10 355	
	Industrial levy (4470/0090)(4800/0090)	E		45	
	Travelling allowance (4470/0140)(4800/0140)	E		16 500	
	Adjusting journal entries for water and sanitation	Water Sales (4800/6490/000)	R	55	
Sanitation Fees (4470/6010/000)		E	10 355		
Bank (9250/9550/000)		A		10 410	
Unusual distribution losses for the year. (losses greater than 15 % accepted norm)	Completeness of electricity sales	R		1 735 775	CA - 6
Not all property on valuation roll	Completeness of rates	R		2 365 556	
Not all property on valuation roll	Completeness of rates (refuse)	R		2 345 602	CA - 6
Cut off error in UGIE	Bank (9250/9950)	A	10 158		CCA - 6
	General Rates 9250/9010/0000	R		3 718	
	Rent 9250/9090/0000	R		872	
	Electricity 9250/9030/0000	R		1 658	
	Water 9250/9050/0000	R		3 462	
	Refuse 9250/9070/0000	R		346	
	Miscellaneous 9250/4470/6010	R		100	
Inventory roll back.	Inventory written off	E	84 297		CA - 5
	Inventory	A		84 297	
Legal Accrual not raised at year end.	Legal Costs	E	35 219		CA - 6
	Accruals (9250-9360-0000)	L		35 219	
VWP Consulting Invoice 248729 - 02 not recognised at year end	Expenditure	E	106 533		CA - 5
	VAT	A	14 915		
	Accruals	L		121 447	
Recognising a debtor for AG	Debtors (Auditor General)	A	76 126		CA - 5
	Grant PT	R		76 126	

	Assets Dr/Cr	Liabilities Dr/Cr	Revenue Dr/Cr	Expenses Dr/Cr
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Net adjustment	423 762	(302 357)	(6 800 495)	469 162
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The following misstatements were as a result of the auditor not being able to obtain sufficient appropriate audit evidence due to documentation or information requested not having been made available by management:

Reason for the adjustment	Financial statement line item	Asset (A) Liability (L) Revenue (R) Expense (E)	Amount of misstatement R	Affected Assertion	Roots cause
Possible irregular expenditure from not having tender documentation available	Irregular expenditure	E	2 339	Ex Co Ac	CE - 6

**Material misstatements corrected during the audit**

8. 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.

Description of (reason for) adjustment	Financial statement line item	Asset (A) Liability (L) Revenue (R) Expense (E)	Dr	Cr	Root cause(s) (as per table below)
Raising accrual for performance bonus	Performance Bonus (1100-0080-0000)	E	459 087		CA – 1
	Accruals (9250-9360-0000)	L		459 087	
Payment withdrawn in triplicate, limitation of scope, claimed VAT twice. Therefore the trust fund was understated.	FMG Expenditure (3000-2630-0000)	E	92 037		IC – 1
	FMG Fund (9000-8380-0000)	L		92 037	
Inventory written off in current year incorrectly posted to appropriation account.	Stock written off (9250-9130-0000)	E	205 848		M – 1
	Appropriation Account (9250-9980-0000)	L		205 848	
Raising unrecorded accruals.	Subsistence and travel (2207-1980-0000)	E	10 987		CA – 1
	Subsistence and travel (1100-1980-0000)	E	4 261		
	Telephone (4460-120-0000)	E	12 000		
	Subsistence and travel (1110-1980-0000)	E	641		
	Subsistence and travel (5201-1980-0000)	E	3 392		
	Subsistence and travel (4805-1980-0000)	E	4 689		
	Subsistence and travel (3000-1980-0000)	E	1 897		
	Subsistence and travel (1100-1980-0000)	E	5 426		
	Subsistence and travel (1100-1980-0000)	E	5 902		
	Subsistence and travel (4430-1980-0000)	E	317		
	Subsistence and travel (1100-1980-0000)	E	838		
	Subsistence and travel (1100-1980-0000)	E	6 841		

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	Subsistence and travel (1100-1980-0000)	E	1 786		
	Subsistence and travel (5700-1980-0000)	E	708		
	Subsistence and travel (1110-1980-0000)	E	2 066		
	Subsistence and travel (2205-1980-0000)	E	386		
	Subsistence and travel (3000-1980-0000)	E	1 983		
	Subsistence and travel (3000-1980-0000)	E	1 227		
	Subsistence and travel (5450-1980-0000)	E	296		
	Subsistence and travel (1100-1980-0000)	E	12 383		
	Subsistence and travel (1100-1980-0000)	E	8 004		
	Subsistence and travel (1100-1980-0000)	E	14 978		
	Subsistence and travel (5200-1980-0000)	E	2 093		
	Subsistence and travel (2206-1980-0000)	E	1 849		
	Accruals (9250-9360-0000)	L		104 950	
Cut-off errors	Security Costs (2205-0490-0000)	E	35 175		CA – 1
	Legal Costs (2207-1940-0000)	E	7 388		
	Telephone charges (2205-2260-0000)	E	1 083		
	Accruals (9250-9360-0000)	L		43 646	
Understatement of telephone line rentals	Telkom line rental (2206-1660-0000)	E	12 227		CA – 1
	Accruals (9250-9360-0000)	L		12 227	
Accrual for 2008/2009 electricity purchases	Electricity purchases (4805-0860-0000)	E	851 433		CA – 1
	Accruals (9250-9360-0000)	L		851 433	
Error in electricity adjusting entry, R 851 433 was passed instead of R 581 433.	Accruals (9250-9360-0000)	L	270 000		CA – 1
	Electricity purchases (4805-0860-0000)	E		270 000	
Prepayment for 2009/2010	Prepayment	A	125 464		CA – 1
	Municipal Finance Grant (3000-2630-0000)	E		125 464	
Water inventory allocated to debtors balance	Ukhahlamba debtors balance (9250-9100-0000)	A	314 475		CA – 4
	Inventory (9250-9750-0000)	A		314 475	
June 2008 expenditure recognised in 2008/2009.	Appropriation Account (9250-9980-0000)	L	91 740		CA – 1
	Entertainment/Catering (1110-1700-0000)	E		3 600	
	Installation of Serv Steinhof (4805-3540-0000)	E		52 821	
	Property sales (3000-5290-0000)	R		13 950	
	Books, Magazines, Publications (2205-0500-0000)	E		602	
	Driver's Licence (2255-1440-0000)	E		3 767	
	Legal Costs (2207-1940-0000)	E		16 500	
Creating accrual for commission owing to vendors.	Commission to Vendors	E	30 661		CA – 1
	Accruals (9250-9360-0000)	L		30 661	
Adjustment to provision for bad debt.	Bad debts	E	3 388 672		CA – 1
	Provision for bad debts	L		3 388 672	
Raising a further provision to take cost of company into account.	Employee Cost	E	51 022		IC – 1
	Provision for leave pay	L		51 022	
Accounting for 13th cheque bonuses paid during the current year that relate to prior year.	Appropriation Account (9250-9980-0000)	L	725 271		IC - 1
	Employee Cost	E		725 271	
Raising provision in current financial year.	Employee Cost	E	785 468		IC – 1
	Provision for 13th cheque	L		785 468	
Reinstating inappropriate revenue.	Grant - DESRAC (5615/4640/0000)	R	301 092		CA – 4
	Elundini Library Fund (9000/7290/0000)	L		301 092	
Overstatement of audit fees expenditure.	Grant PT	R	142 729		CA – 1
	Audit fees (3000/1820/0000)	E		142 729	
Payment to IQS not properly accounted for.	Open market (fixed assets) (8500-7010-0000)	A	87 011		CA – 4
	DEDEA Grant (5201-6110-0000)	R		87 011	
Write off of asset at acquisition.	Contribution to capital outlay (5201-3510-0000)	E	87 011		CA – 4
	Depreciation (8500-7660-0000)	A		87 011	

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Amount incorrectly accounted for in 2 financial years.	MSIG Grant	R	459 431		CA – 4
	MSIG Fund	L		459 431	
2008 expenditure paid in 2009	Appropriation Account (9250-9980-0000)	L	11 647		CA – 1
	Rent Office Equipment (2205-1190-0000)	E		203	
	Rent Office Equipment (2205-1190-0000)	E		1 190	
	Security Systems (2205-0490-0000)	E		8 500	
	Insurance (3000-2540-0000)	E		1 754	
Reversing inappropriate revenue recognition back to the NER Fund.	National Electrification PRO 1 (4805-4150-0000)	R	8 099		CA – 4
	NER Fund (9000/8490/0000)	L		8 099	
Reversing inappropriate revenue recognition back to the MIG Fund.	Municipal Infrastructure Grant (4430-4240-0000)	R	125 906		CA – 4
	MIG Fund (9000-8200-0000)	L		125 906	
Reversing inappropriate revenue recognition back to the MIG Fund.	Municipal Infrastructure Grant (4430-4240-0000)	R	398 362		CA – 4
	MIG Fund (9000-8200-0000)	L		398 362	
Reversing inappropriate revenue recognition back to the MSIG Fund.	Mun Systems Improvement Grant (3000-4580-0000)	R	633 903		CA – 4
	MSIG Fund (9000-8280-0000)	L		633 903	
Adjusting journal for R450k not taken into account.	MSIG Fund (9000-8280-0000)	L	459 431		CA – 4
	Mun Systems Improvement Grant (3000-4580-0000)	R		459 431	
Revenue recognition through the MIG Fund	FMG Fund (9000-8380-0000)	L	157 480		CA - 4
	Mun Finance Management Grant 1 (3000/4220/0000)	R		157 480	
Revenue recognition adjusted through the MIG Fund	Mun Finance Management Grant 1 (3000/4220/0000)	R	143 029		CA – 4
	FMG Fund (9000-8380-0000)	L		143 029	
Revenue not recorded due to metres not being read.	Electricity Debtors	A	64 453		CA – 1
	Electricity Revenue	R		64 453	
Adjusting for irregular expenditure for the mayors right to use vehicle	Irregular expenditure	E	34 970		IC – 1
	Operating expenses	E		34 970	

	Assets Dr/Cr	Liabilities Dr/Cr	Revenue Dr/Cr	Expenses Dr/Cr
Net adjustment	189 917	(7 002 114)	1 430 226	4 759 661

The following represents the material misstatements that arose from a difference between the disclosures in the financial statements 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, item and the amount, classification or presentation that is required for the item to be in accordance with the applicable financial reporting framework.

Reason for adjustment	Financial statement line item	Asset (A) Liability (L) Revenue (R) Expense (E)	Root cause(s) (as per table below)
Raising liability at year end	Contingent liability	L	CA – 1
Understatement of commitment disclosure	Financial commitments - Amadwala Trading	L	CA - 1
	Financial commitments - Nosipho Distributors cc	L	

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Interest not taken into account	Contingent liabilities - SALA Pension Fund	L	CA – 4
Overstatement of liability	Short term portion of long term loan	L	IC – 1
Understatement of liability	Long term portion of long term loan	L	IC – 1
On AFS	Ukhahlamba Debtors balance	A	CA – 1
	Other service charges	E	
Capital commitments not disclosed	Capital commitments - Development of Mount Fletcher Internal Streets - Tar Road	L	CA – 4
	Capital commitments - Rehabilitation of Kuebung Access Road	L	
	Capital commitments - Upgrading of Nxotshane Access Road and Bridge Phase 2	L	
	Capital commitments - Gobo to Esixhotyeni Access Road	L	
	Capital commitments - Ntabelanga - Nkamane Road Link	L	
	Capital commitments - Maclear Substation Construction	L	
	Capital commitments - Prentjiesberg Electrification	L	
Understatement of Related party disclosure	Ganta Trading	E	RA – 1
	Snowdrop Guesthouse Bed and Breakfast	E	
Take from Accounts Payable to Provisions disclosure	Provisions for leave pay	L	RA – 1
	Accounts payable	L	

<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 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 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



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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

**Funding of operations/Financial sustainability/Going concern**

9. The municipality has a deficit amounting to R3.3 million for the current financial period. The municipality is in a solvent position as it reflects an accumulated of R16 million. In addition, the municipality is fully supported by grant funding as per the Division of Revenue Act, which is expected to continue for the foreseeable future. This is further supported by Section 139 of the Constitution of South Africa, which sets of the following with respect to provincial supervision of local government:

When a municipality cannot or does not fulfill an executive obligation in terms of legislation, the relevant provincial executive may intervene by taking appropriate steps to ensure fulfillment of the obligation including:

- assuming responsibility for the obligations to the extent necessary
- to maintain or meet standards for the rendering of a service
- to maintain economic unity

This implies that the provincial government will financially support the municipality should it not be able to meet its financial obligations in the foreseeable future.

It is therefore appropriate that management utilises the going concern assumption in the preparation and presentation of the annual financial statements.

**Qualitative aspects of accounting practices**

10. The municipality revised its basis for recognising water and sanitation revenue, expenditure, assets and liabilities in the current period. Previously the municipality had accounted fully for water and sanitation in its financial statements. However the water and sanitation service level agreement between Ukhahlamba District Municipality and Elundini Municipality clearly bestows the rights, risks and rewards of ownership on the district municipality, and it is therefore inappropriate for Elundini to continue recognising water and sanitation in its financials statements for the year ended 30 June 2009. This was adjusted retrospectively through the appropriation statement and not the prior year figures. This will therefore impact the financial statements with respect to the consistency of comparatives from the prior year.

**Material losses/impairments**

11. The municipality suffered a significant electricity distribution losses of 6 429 600 units with a value of R3 million during the year under review. Taking into account normal distribution losses of 15 %, there remains a loss of R1,7 million.

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Properties have not be valued since 1999, resulting in lost rate and refuse income amounting to R2,3 million and R2,3 million respectively in the current year.

Debtors which were considered to be irrecoverable during the year were written off, amounting to R12,8 million. This is a material loss to this municipality.

**Unauthorised/fruitless and wasteful/irregular expenditure**

12. Fruitless and wasteful expenditure did occur during the current year under review and was disclosed adequately in the annual financial statements for the year ended 30 June 2009. R226 916 of interest and penalties was incurred due to the municipality's failure to pay workman's compensation to the Compensation Commissioner since 2002. This was condoned by council on the 14 October 2009. In addition, R1 100 expenditure was incurred by an unauthorised employee in the current period.

Irregular expenditure amounting to R34 970 was incurred through the private use of the mayoral vehicle. This expenditure was condoned by council on the 30 April 2009. This was adequately disclosed in the annual financial statements in the current period.

Additional irregular expenditure amounting to R2 339 was identified during the audit, arising from the failure of management to provide supporting documentation for audit purposes. This was not disclosed of in the current period.

**Budgetary control**

13. There are no specific findings to be reported on regarding the municipality's budgetary control.

**Accounting discipline**

14. It appears to be set practice within the municipality to use the appropriation account to clear accounts, prior year suspense accounts and incorrect allocations of prior year accounts. The account is also used to adjust provisions or write offs and to raise provisions relating to the prior year. This is inappropriate use of this account, as its main purpose should be to account for the accumulated surplus/deficit earned by the municipality in prior periods.

Monthly management accounts are not adequately prepared, as can be identified by the significant number of audit adjustments to the financial statements at year end.

**Financial indicators/ratios**

15. No specific mention will be made of financial indicators.

**Significant uncertainties**

16. Enquires from management and the applicable legal council revealed that the municipality is a defendant in the following lawsuits:

- Sala Pension Fund vs Elundini Municipality
- Matyeni vs Elundini Municipality

The outcome of these lawsuits cannot be determined at present and no provision has been made for any liability that may exist.

**Financial reporting systems**

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17. The municipality does not have a reliable system for recording and reporting on the completeness of revenue.

The impact of this lack of systems is that we have been unable to obtain sufficient audit evidence on which to base our audit opinion.

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

18. Fixed assets per appendix C to the financial statements amount to R67.7 million, however per the fixed asset register the total assets amount to R69.3 million. This has resulted in an unexplained difference of R1.6 million. The loans redeemed amounts per the trial balance do not agree to appendix C by R290 846.

Infrastructure assets to the value of R2.5 million have not been recorded in the fixed asset register and were not captured in appendix C to the financial statements.

A Title deed search revealed that land and buildings to the value of R1,1 million were not registered in the name of the municipality.

**Revision of the previously issued financial statements**

19. No revision of the previously issued financial statements occurred.

**Accounting reforms (GRAP)**

20 The municipality currently prepares their financial statement on the Institute of Municipal Finance Officer (IMFO) basis of accounting. Effective from 1 July 2009, the municipality will be required to change to Generally Recognised Accounting Practice (GRAP) basis of accounting. The municipality does not currently have approved and documented policies in place to implement the transition from IMFO to GRAP by 30 June 2010. At the 30 June 2009, it does not appear that the municipality is sufficiently prepared for the implementation of GRAP by 30 June 2010.

**Use of Consultants**

21. The municipality did make use of consultants during the year, in particular with regards to the finance department the following were noted:

- PriceWaterhouseCoopers Inc. – Preparation of fixed asset register.
- PriceWaterhouseCoopers Inc – Preparation of financial statements.
- Ardemus Consultants – Preparation of provision for waste sites.

It does not appear that the municipality is reliant on consultants.

Management did not exercise sufficient oversight over the consultant that prepared the provision for landfill sites and the related financial reporting processes.

**Service delivery measurement/reporting**

22. The municipality does appear to report on service delivery from the work that we have performed.

**GOVERNANCE MATTERS**

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

23. No material inconsistencies were identified in other information included in the annual report.

**Internal audit**

24. Although the municipality had an outsourced internal audit, it is not adequate for the purpose of the audit for the following reasons:  
The internal audit charter does not address all the responsibilities required of the function as per the Municipal Finance Management Act (MFMA).  
The internal audit plan was not in effect for the entire financial period.  
No audit approach and methodology existed as a point of reference and guidance in the current period.  
Communication and reporting of the internal audit function was not sufficient for the current period, as quarterly reports were not submitted by internal audit to the audit committee detailing the internal audit performance against annual plans. In addition internal audit did not report on performance management or measurement to the audit committee in the current period.  
No evidence was obtained that the Head of the Internal Audit and the internal audit staff have the relevant qualifications, experience and skills (tertiary qualification and work experience) to perform the function effectively.  
There was no documented evidence that internal audit has developed a structured procedure to schedule/allocate the resources (staff, equipment, etc) to meet the objectives as per the audit plans.

**Audit committee**

25. The audit committee did not function effectively throughout the financial year, as indicated by the following:

The audit committee charter does not make specific reference all responsibilities of the committee as per Section 166 of the Municipal Finance Management Act (MFMA), namely performance management, effective governance and performance evaluation

The audit committee did not adequately perform all its duties as per the MFMA indicated by the fact that the internal audit function was not adequately managed and monitored during the period, no consideration was given to the extent of the external auditors' planned reliance on the work of internal auditors, and no performance management reviews were performed in the current period.

Inadequate reporting and communication from the audit committee occurred in the current period, with only one report being issued to council relating to only a section of the financial year, no performance management reports being issued and no mention of the audit committee in the annual report.

**Management of risk**

26. There is no formal monitoring and management at risk at the municipality. The fraud prevention plan was approved by Council on 30 January 2009, however the plan was not implemented prior to year end.

**Prior year observations and recommendations addressed**

27. Management has not taken any action to clear audit findings from the prior year external audit. The following material issues should be attended to that were reported in the prior year audit report and are still unresolved in the current period:

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Fixed Assets: The municipality has not implemented adequate controls over the safeguarding of assets, in that there is no process to verify the physical existence of assets and perform reconciliations between the different records within the municipality on a regular basis to ensure that the fixed asset register is complete.

Revenue: There are no systems or controls in place to ensure that all revenue is recorded and collected from the community.

Provisions: An inadequate provision for land fill sites has been raised in both the prior and current period as the correct processes are not being adhered to in establishing the appropriate basis and assumptions surrounding the provision and ensuring these are applied to the estimate.

**Unavailability of key personnel**

28. All key personnel were available to the audit team throughout the audit, however due to the fact that the Municipal Manager was the acting Chief Financial Officer, it did have an impact on the timing of the audit.

**Adequacy and competence of financial reporting personnel**

29. There is an urgent need to appoint a chief financial officer within the finance department with appropriate skills and experience in the municipal sector. The municipality has not appointed a chief financial officer subsequent to the resignation of the previous chief financial officer on the 31 August 2009 and this may have an impact on the financial information for the next financial year. Furthermore, this is impacted by the fact that the municipality must comply with GRAP from 1 July 2009.

**Unavailability of expected information**

30. The provision for rehabilitation for waste sites amounts to R1.5 million as per the annual financial statements. Management could not provide sufficient audit evidence regarding the basis for the estimate of rehabilitating these landfill sites. Consequently the provision recognised in the current period could be incorrect.

**Late submission of financial statements**

31. The financial statements for the year ended 30 June 2009 were submitted on the 31 August 2009.

**Risk assessment**

32. The municipality did not conduct a risk assessment as required by the Municipal Finance Management Act. Consequently a number of control deficiencies were identified in the current period. These include a failure to:
- ensure all revenue streams are recorded and accounted for within the municipality
  - maintain an accurate and complete fixed asset register
  - ensure all matters of governance are complied with
  - ensure that all attendance registers and leave processes are adequately monitored.
  - ensure that daily cash reconciliations are performed.

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**Related parties**

33. No specific findings regarding related parties are noted.

**Performance rewards**

34. Performance bonuses were awarded to senior staff for the the year ended 30 June 2009. These bonuses were awarded despite the municipality having incurred a net deficit for the period.

**Non-compliance with applicable legislation**

35. The municipality did not fully comply with the Environment Conservation Act No 73 of 1989, in that it obtained permits for all of its three landfill sites in Maclear, Ugie and Mount Fletcher, but did not comply with the conditions of two of these permits (Ugie and Mount Fletcher).

**SCOPA / Oversight resolutions**

36. No SCOPA or oversight reviews were performed on the municipality..

**Key governance responsibilities**

37. 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 a timely manner</b>			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	X	
<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.		X
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	X	
<b>Timeliness of financial statements and management information</b>			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines section 126 of the MFMA	X	
<b>Availability of key officials during audit</b>			
5.	Key officials were available throughout the audit process.	X	
<b>Development and compliance with risk management, effective internal control and governance practices</b>			
6.	Audit committee		

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No.	Matter	Y	N
	The municipality had an audit committee in operation throughout the financial year.	X	
	The audit committee operates in accordance with approved, written terms of reference.	X	
	The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.		X
7.	<b>Internal audit</b>		
	The municipality had an internal audit function in operation throughout the financial year.	X	
	The internal audit function operates in terms of an approved internal audit plan.		X
	The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.		X
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		X
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	X	
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	X	
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.		X
12.	Delegations of responsibility are in place, as set out in section 79/106 of the MFMA	X	
<b>Follow-up of audit findings</b>			
13.	The prior year audit findings have been substantially addressed.		X
14.	SCOPA resolutions have been substantially implemented.	n/a	n/a
<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.	X	
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		X
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 68/87 of the MFMA (municipalities)	X	
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	X	

**Achievement of good practice indicators**

38. 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.

	Good practice	Y	N
1	Clear trail of supporting documentation that is easily available and provided timeously.	X	
2	Quality of financial statements and related management information.	X	
3	Timeliness of financial statements and management information.	X	
4	Availability of key officials during audits.	X	

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5	Development and compliance with risk management and good internal control and governance practices.		X
6	Leadership/supervision and monitoring.	X	

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

39. The municipality did not after the adoption of its IDP, for the period 2008/09 to 20011/12, give notice to the public of the adoption of the IDP or publicise this IDP as required by section s25(4) of the Municipal Systems Act No. 32 of 2000.

The IDP did not include a financial plan, the key performance indicators determined in terms of its performance management system and any general performance indicators applicable to the municipality. This was required in term of the Municipal Systems Act.

The performance targets set by the Elundini Local Municipality included performance targets which are impractical and not wholly within the municipality's capacity.

The performance audit committee or committee functioning as the performance audit committee did not fulfil fundamentally all its requirements as per the MFMA.

The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes.

The municipality did not disclose comparative prior year performance information and measures taken to improve performance within its annual performance report.

The municipality's performance information was found to be unreliable, inconsistent and not completely relevant in terms of specific targets.

The source information or evidence provided to support the reported performance information with regard to the targets did not adequately support the accuracy of the facts. Targets have been indicated as having been met, when this is not factual.

**SIGNIFICANT FINDINGS FROM SPECIFIC FOCUS AREAS**

40. No additional specific focus areas were addressed within the audit.

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

**Investigations**

41. No additional investigations were conducted.

**Performance audits**

42. A performance audit was not undertaken in the current period.

**Special audits**

43. No special audits were performed for the municipality in the current period.

**RATINGS OF DETAILED AUDIT FINDINGS**

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

Matters to be included in the auditor's report.

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



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

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

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

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

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

**APPRECIATION**

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

Yours sincerely,

Norman Minnaar

Senior Manager: Auditor General

Enquiries: Norman Minnaar  
Telephone: (043) 709 7200  
Fax: (043) 709 7300  
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**Distribution:**

Mr Pooven Chetty (Audit committee chair)

**SUMMARY OF AUDIT FINDINGS**

Page. no.	Finding	Classification	Control Component	Impact on audit report				Other important matters	Administrative matters	Reported in previous years	In which years was it reported		
				Qualification	Emphasis of matter	Other matters	Other reporting responsibilities				2007/08	2006/07	2005/06
<b>Revenue</b>													
26	Revenue and Receivables: Internal control deficiency	Control	Control activities	✓						No			
<b>Revenue</b>													
40	Revenue: Financial Misstatement	Financial	Control activities	✓						No			
<b>Provisions</b>													
44	Provisions: Provision for rehabilitation of waste sites	Financial	Control activities	✓						No			
<b>Appropriated and surrendered funds</b>													
47	Appropriation account: Control deficiencies	Financial	Monitoring of controls		✓					No			
<b>Cash and cash equivalents</b>													
49	Bank and Cash: Internal Control Deficiencies	Control	Control activities			✓				No			
<b>Revenue</b>													
58	Revenue and Receivables: Non compliance with laws and regulations	Compliance (Non-AFS)	Control activities			✓				Yes			
<b>Matters of gov/int aud/committee</b>													
61	Matters of governance: Internal Control Deficiencies	Control	Control environment			✓				Yes			

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Page. no.	Finding	Classification	Control Component	Impact on audit report				Other important matters	Administrative matters	Reported in previous years	In which years was it reported		
				Qualification	Emphasis of matter	Other matters	Other reporting responsibilities				2007/08	2006/07	2005/06
<b>Property, plant &amp; equipment</b>													
66	Fixed Assets: Financial misstatements	Financial	Control environment			✓				No			
<b>Property, plant &amp; equipment</b>													
74	Fixed Assets: Control Deficiencies	Control	Control activities			✓				No			
<b>Environmental matters</b>													
77	Environmental Matters: Non-Compliance	Compliance (Non-AFS)	Control environment			✓				No			
<b>Compliance with legislation (non-AFS)</b>													
80	Matters of governance: Lack of compliance	Compliance (Non-AFS)	Control activities			✓				No			
<b>Performance information</b>													
85	Performance Information: Non Compliance with Laws, Regulations and Policies; and Reportable Findings	Performance information	Control activities				✓			No			

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Page. no.	Finding	Classification	Control Component	Impact on audit report				Other important matters	Administrative matters	Reported in previous years	In which years was it reported		
				Qualification	Emphasis of matter	Other matters	Other reporting responsibilities				2007/08	2006/07	2005/06
<b>Employee costs</b>													
100	Employee costs: Financial mistatements	Financial	Information system and comm.					✓		No			
<b>Inventory</b>													
113	Inventory: Financial Misstatements	Financial	Control activities					✓		No			
<b>Employee costs</b>													
120	Employee costs: Non-Compliance with Applicable Laws and Regulations	Compliance (Non-AFS)	Information system and comm.					✓		No			
<b>Inventory</b>													
129	Inventory: Compliance	Compliance (Non-AFS)	Control activities					✓		No			
<b>General IT controls</b>													
131	General IT Controls: Internal Control Deficiencies	Control	Control activities					✓		No			
<b>Fruitless &amp; wasteful exp.</b>													
137	Fruitless and Wasteful Expenditure: Non compliance with the MFMA	Compliance (Non-AFS)	Control environment					✓		Yes			
<b>Investments</b>													

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Page. no.	Finding	Classification	Control Component	Impact on audit report				Other important matters	Administrative matters	Reported in previous years	In which years was it reported		
				Qualification	Emphasis of matter	Other matters	Other reporting responsibilities				2007/08	2006/07	2005/06
139	Investments: financial misstatements	Financial	Information system and comm.					✓		No			
<b>Reserves</b>													
141	Statutory & Trust Fund: Control over funds	Financial	Control environment					✓		Yes			
<b>Operating expenditure</b>													
146	Purchases and payables: Financial misstatements	Financial	Control activities					✓		Yes			
<b>Related parties</b>													
148	Related Parties: Lack of internal control	Control	Control activities					✓		No			
<b>VAT</b>													
150	VAT: Apportionment	Financial	Control environment					✓		No			
<b>VAT</b>													
152	VAT: Control	Control	Control activities					✓		No			
<b>VAT</b>													
154	VAT: Financial	Financial	Control environment					✓		No			
<b>Receivables</b>													
162	Receivables: Financial mistatements	Financial	Control activities					✓		No			

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Page. no.	Finding	Classification	Control Component	Impact on audit report				Other important matters	Administrative matters	Reported in previous years	In which years was it reported		
				Qualification	Emphasis of matter	Other matters	Other reporting responsibilities				2007/08	2006/07	2005/06
<b>Grants/deferred income</b>													
164	DORA: Non compliance with the Division of Revenue Act	Compliance (Non-AFS)	Control activities					✓		No			
<b>Revenue</b>													
168	DORA: Lack of internal control	Control	Control activities					✓		Yes			
<b>Taxes</b>													
179	VAT: Compliance	Compliance (Non-AFS)	Control activities					✓		No			
<b>Compl. with legisl. (non-AFS)</b>													
181	Municipal Infrastructure Grant: Non-Compliance	Compliance (Non-AFS)	Control activities					✓		No			
<b>Receivables</b>													
185	Receivables: Water and sanitation	Financial	Control activities					✓		No			
<b>Receivables</b>													
189	Receivables: District Municipality	Financial	Monitoring of controls					✓		No			
<b>Compl. with legisl. (non-AFS)</b>													
192	Eastern Cape Liquor Act: Non-compliance with applicable laws and regulations	Compliance (Non-AFS)	Control activities					✓		No			
<b>Payables/accruals</b>													

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Page. no.	Finding	Classification	Control Component	Impact on audit report				Other important matters	Administrative matters	Reported in previous years	In which years was it reported		
				Qualification	Emphasis of matter	Other matters	Other reporting responsibilities				2007/08	2006/07	2005/06
195	Purchases and Payables: Internal control deficiencies	Control	Control environment					✓		Yes			
<b>Compl. with legisl. (non-AFS)</b>													
206	Purchases and Payables: Non-compliance	Compliance (Non-AFS)	Control environment					✓		No			
<b>Employee costs</b>													
220	Employee Costs: Control Deficiencies	Control	Monitoring of controls					✓		No			

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Page. no.	Finding	Classification	Control Component	Impact on audit report				Other important matters	Administrative matters	Reported in previous years	In which years was it reported		
				Qualification	Emphasis of matter	Other matters	Other reporting responsibilities				2007/08	2006/07	2005/06
<b>Consumer Deposits</b>													
236	Consumer Deposits: Control Deficiencies.	Control	Control activities						✓	No			
<b>Property, plant &amp; equipment</b>													
243	Fixed Assets; Compliance with Laws and Regulations	Compliance (Non-AFS)	Control activities						✓	No			
<b>Contingent liabilities</b>													
245	Contingent Liabilities: Inadequate internal control	Control	Control activities						✓	No			
<b>Cash and cash equivalents</b>													
247	Bank and Cash: Non compliance with laws and regulations	Compliance (Non-AFS)	Control environment						✓	No			
<b>Value for money</b>													
249	Procurement: Internal Control Deficiencies	Control	Control activities						✓	No			
<b>Inventory</b>													
253	Inventory: Control Deficiencies	Control	Control activities						✓	No			
<b>Difficulties during the audit</b>													
257	Purchases and payables: Limitation of scope	Control	Control environment						✓	No			



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Page. no.	Finding	Classification	Control Component	Impact on audit report				Other important matters	Administrative matters	Reported in previous years	In which years was it reported		
				Qualification	Emphasis of matter	Other matters	Other reporting responsibilities				2007/08	2006/07	2005/06
259	Journal entry testing: Internal control deficiencies	Control	Control activities						✓	No			

## ANNEXURE A: MATTERS AFFECTING THE AUDIT REPORT

### 1 Audit Report: Qualification

#### Revenue and Receivables internal control deficiency (Revenue)

#### Audit finding

In terms of the Municipal Finance Management Act No.56 of 2003 Section 62(c): "The municipality has and maintains effective, efficient and transparent system in terms of financial and risk management and internal control and of internal audit operating in accordance with any prescribed norms and standards."

The following control weaknesses were identified:

1. Authorisation and approval of indigent debtors

The conditions on the following indigent's application were not met. This is not in compliance with the above Act.

	Resident	ID Number	Missing documents	Approved
1	Mr. Sitshinga	4 809 210 687 083	no proof of physical address	Yes
2	Mr. Brown	2 201 040 002 083	no proof of physical address	Yes
3	Mr. Opperman	4 106 025 053 084	no erf number an no proof of physical address monthly income above threshold	No

This issue was not identified in the prior year audit.

The following were classified as indigent debtors even through:

- The applications were not approved,
- There were no certified copies of the applicants identity documents attached
- There were no municipal accounts attached,
- No proof of income or affidavit declaring unemployment was attached:

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No	Initials	Surname	Account	Date	Address
1	N.N	Mngcotane	S01988	30/06/2008	3320 Greenfield
2	N.J	Madini	500810	30/06/2008	1238 Newrest Location
3	-	Tswele	500317	30/06/2008	Maclear 5480 Sonwabile/old 1624
4	M	Ntaka	501286	30/06/2008	1756 Old Location
5	E.N	Maloi	S10963	30/06/2008	3295 Greenfield
6	M.E	Mgaba	S01489	30/06/2008	2209 Vincent Park
7	N.L	Ncisana	501195	30/06/2008	1728 Old Loc
8	N.P	Totongwana	501597	30/06/2008	1813 Peter Makhaba
9	J.M	Madini	500810	30/06/2008	1238 Newrest Location
10	B.P	Mfino	S02063	30/06/2008	3378 Greenfield
11	M	Mnukwa	501111	30/06/2008	1311 Sonwabile
12	T	Dyasi	500253	30/06/2008	1953 Peter Makhaba
13	F.N	Magazi	500943	30/06/2008	1791 Peter Makhaba
14	L.L	Yoli	501789	30/06/2008	1804 Peter Makhaba
15	N	Dlaka	S02009	30/06/2008	3341 Greenfield
16	N.S	Qhola	S02006	30/06/2008	3338 Greenfield
17	N	Mohlafuno	S01970	30/06/2008	3302 Greenfield
18	G	Maliwa	S01979	30/06/2008	3311 Greenfield
19	AN	Nemena	S01971	30/06/2008	3303 Greenfield
20	J.P	Mpupha	S01155	30/06/2008	2846 Sithole Park
21	N.E	Nguta	500315	30/06/2008	1676 Old Loc

This issue was identified in the prior period audit.

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The following indigent applications were not approved, but were classified as indigent:

No	Initials	Surname	Account	Date	Address
1	N.E	Tshothsa	501622	30/06/2008	1927 Peter Makhaba
2	EN	Mhlabeni	501093	30/06/2008	2003 Peter Makhaba
3	N	Mtshizana	501157	30/06/2008	1980 Peter Makhaba

This issue was identified in the prior period audit.

The following indigent applications were not approved and had no municipal account attached, but were classified as indigent:

No	Initials	Surname	Account	Date	Address
1	N	Ncapayi	S01810	30/06/2008	T1130 Zakele Location
2	M.F	Noludwe	501266	30/06/2008	1872 Peter Makhaba

This issue was identified in the prior period audit.

The following indigent applications were not approved, had no municipal account attached, evidence of income or affidavit declaring unemployment, but were still classified as indigent:

No	Initials	Surname	Account	Date	Address
1	N.N	Theko	S01868	30/06/2008	T1166 Zakele Location
2	N.	Bob	500060	30/06/2008	T1333 Sonwabile Location

This issue was identified in the prior period audit.

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The following indigent application was not approved, had no municipal account attached and had no certified copies of the applicants identity documents attached:

No	Initials	Surname	Account	Date	Address
1	TJ	Matsieta	501008	30/06/2008	1861 Peter Makhaba

This issue was identified in the prior period audit.

The following indigent applications were not approved, had no certified copies of the applicants identity documents attached, no proof of income or affidavit declaring unemployment:

No	Initials	Surname	Account	Date	Address
1	TW	Dywili	500259	30/06/2008	1932 Peter Makhaba

This issue was identified in the prior period audit.

The SEBATA system does not keep records of whether community members are indigent or not. It is therefore impossible to compare the list of indigents to the list of approved indigents to ensure that community members are correctly billed.

## 2. Safeguarding of assets

Electricity meter reading sheets are not properly safeguarded as they are not maintained in a locked cabinet. This issue was identified in the prior year audit.

## 3. Segregation of duty

Lack of segregation duties was identified in the finance department as the person who captures the approved tariffs in the system is same as the person who updates the system.

This issue was identified in the prior year audit.

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4. Authorisation and review of data capture

Information of customers was captured into the system and this information was not reviewed by a senior person.

This issue was identified in the prior year audit.

5. Document control

Meter reading sheets were not sequentially numbered.

This issue was identified in the prior year audit.

6. Reconciliations

Pre-paid electricity is sold using vouchers. No reconciliation is performed between the sale of electricity and cash received.

This issue was identified in the prior year audit.

7. Follow-up of warrants of arrest

Warrants of arrests were not followed up by the traffic officers.

8. No reviews on tariffs when inputted into the system

When rates are entered into the SEBATA system, no reviews are performed on rates captured onto the SEBATA system. There is a risk that residents could pay the incorrect amount as the tariffs could be misstated.

9. Traffic income

No reconciliations were performed between amounts paid to the Department of Justice and the amounts paid to the Traffic Department. The completeness of traffic fines cannot be verified as there are no follow up procedures on paid, unpaid and cancelled fines. The traffic income for the current and prior year is below:

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Description	2008 (R)	2009 (R)
Total Traffic Income	(1 253 942)	(944 787)

During December 2008, the eNatis clerk (issuer of vehicle registrations in the Maclear office) was on leave. There was no replacing staff member who could perform this function and therefore no vehicle registrations were issued. This creates a risk of the continuity of essential staff roles for the municipality

10. Township grave yards

No controls were identified over township grave yards. Residents appear to bury their deceased without paying for a grave site. There is no staff member exercising control over the use of the grave yard and thus the municipality is losing out on a potential revenue stream.

This issue was identified in the prior year audit.

11. Hall Rentals

A complete hall roster book has not been maintained as the amount received in the general ledger does not agree to the hall roster, the following was the finding.

Total per month	R 43 539
Multiplied by 12 to predict the yearly figure	R 522 463
Amount per General Ledger at 30 June 2009	R 616 290
Difference	<u><u>R 93 827</u></u>

12. House Rentals

No reconciliations are performed for the rental of the Ugie houses therefore it could not be established if all rentals were received.

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13. Transfers

The municipality did not follow up on whether any properties had been transferred to determine whether the correct residents are being billed. This is not the responsibility of the municipality however the municipality should be following up on transfers with the deeds office.

14. Metre Readings

The municipality uses estimates when meters have not been read. The accounts below were identified as estimates used for the entire financial year. This indicates that no checks are performed to ensure that all meters are been read within a cycle.

Number	Account number	30 June 2009 Estimate	Service
1	OUC229/001027	57	water
2	OUC349/000234	74	water
3	OUC556/000520	46	water
4	OU5509/S02432	49	water
5	OUB224/002407	58	electricity
6	5M0693/5000190	56	water
7	5M0715/501323	57	water
8	5M2135/S01086	12	water
9	5M2530/S02258	59	water

**Root cause**

Control Activates (Policies and procedures): Policies related 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.



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**Risk**

1. Authorisation and approval of indigent debtors

The overstatement of revenue as indigent debtors are charged at rates that are applicable not to them but at rates applicable to local debtors

2. Safeguarding of assets

The lack of isolation of responsibility and the free access to valuable information.

3. Segregation of duty

Possible fraud might not be identified.

4. Authorisation and review of data capture

Errors occurred during the capturing of tariffs might not be detected.

5. Document control

Missing documents can not be easily identified whilst the revenue generated may be incomplete.

6. Reconciliations

Possible fraud may occur in the sale of electricity whilst errors may not be identified due to no reconciliations.

7. Follow-up of warrants of arrest

Possibility that traffic tickets were not paid as there is no effective system in place to collect the fines. This results in loss of revenue for the municipality and the Department of Transport

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8. No reviews on tariffs when inputted into the system

Incorrect tariffs could be captured onto the system due to no supervision, which could result in an misstatement of revenue

9. Traffic income

Loss of revenue to the Department of Traffic and the understatement of traffic fines

10. Township grave yards

Graves are dug without authorization or payment results in a loss of revenue.

11. Hall Rentals

Not all the rentals being received, as no reconciliations have been performed.

12. House Rentals

Understatement of rental income

13. Transfers

The rights and obligations of property that has been transferred cannot be verified

14. Metre Readings

The completeness and accuracy of the estimates could not be verified

**Recommendation**

1. Authorisation and approval of indigent debtors

The municipality should implement policies and by laws to ensure that appropriate controls are in place to ensure all criteria for indigents are met.

2. Safeguarding of assets

General, hardware, and application controls should be designed to ensure the reliability of the accuracy of the data outputs, and the protection of equipments and files.

3. Segregation of duty

Written procedures, authorization, record keeping, management reviews and safeguarding of assets should be segregated to prevent fraudulent financial data and asset misappropriation

4. Authorisation and review of data capture

Written procedures, authorization, record keeping, management reviews and safeguarding of assets should be segregated to prevent fraudulent financial data and asset misappropriation.

5. Document control

General, hardware and application controls should be designed to ensure the reliability of accuracy of the data outputs, and the protection of equipment and files.

6. Reconciliations

When electricity is sold, there should be another document that is left in the system for the reconciliation purposes. Reconciliation must be done by the senior supervisor.

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7. Follow-up of warrants of arrest

Preventive and detective controls should be adequate and focused on achieving efficient resource usage and effectiveness as measured by the extent to which specific control objectives are achieved.

8. No reviews on tariffs when inputted into the system

Management should review data captured onto the system to ensure information is accurate and complete.

9. Traffic income

Reconciliations should be performed to identify which amounts are still owe and which amounts have been written off by the Department of Justice.

10. Township grave yards

Controls should be in place to monitor the grave sites to ensure that only residents with the appropriate approval can dig graves.

11. Hall Rentals

Improved controls should be implemented so when the hall is rented , the rental should be recorded in the roster.

12. House Rentals

Reconciliations should be performed to identify which amount are still owing by the Tenants

13. Transfers

Regular check ups should be made with the deeds office to ensure correct residents are billed

14. Metre Readings

Improved controls over monitoring of estimates to ensure completeness and accuracy of accounts

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**Management Response**

1. Once a subsidy application is received, the indigent clerk/ credit control officer checks and reconciles the particulars of the applicant to the municipality's records as per the financial management system. Mr. Sitshinga's address is erf 261, Mt Fletcher and there is no other way of stating physical addresses in that town. Mr. Brown's physical address is, as stated in his application form, 21 Nassau Street and has been verified in the system.

Mr. Opperman's application has not been approved because of the income threshold.

Name: Nonzame Bilitane  
Position: Credit Control Officer  
Date: 29 September 2009

2. Meter reading sheets are received from the meter readers and processed on the billing system within 2 days. The manual reading sheets are then filed away in an arch lever file. All the arch lever files are then filed in a book shelf. Due to the short lead time between the receipt of the meter reading sheets and the processing thereof in Consbill, the filing of these in a bookshelf has not been viewed as a risk.

Name: Coenie Bezuidenhout  
Position: Billing Clerk  
Date: 28 September 2009

3. This weakness is acknowledged. This is mainly due to there being no Revenue Accountant. The Chief Accountant has been appointed and will perform the supervisory functions over the billing clerk

Name: Bukelwa Dlodlo  
Position: Chief Accountant  
Date: 28 September 2009

4. The supervision of the capturing of data could best be performed by the Revenue Accountant. The Revenue Accountant who resigned end of July 2008 was only replaced on the 6 July 2009. Regrettably, this revenue accountant has since also resigned in August 2009 and new applications have been sourced. This deficiency is acknowledged, but the Chief Accountant will play the supervisory role until the Revenue Accountant position is filled.

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5. This is disputed. The meter reading sheets are sequentially numbered.

6. The municipality implemented a new vending system (syntell) which has a better audit trail than the Plessey system that was used previously. It is acknowledged that there were instances when these reconciliations were not made. This has since been rectified.

Name: Coenie Bezuidenhout  
Position: Billing Clerk  
Date: 28 September 2009

7. This is disputed. Warrants of arrests are followed up on a monthly basis. Traffic officers are collecting warrants of arrests issued by the magistrate for that particular month. There is a register for recording warrants of arrests collected monthly.

Name: Mandisi Mvumvu  
Position: Chief Traffic Officer  
Date: 28 September 2009

8. In the system there is no place to review or approve the tariffs, you only capture them. Within the finance dept we are currently running short of staff as the position of the revenue accountant was filled and the incumbents resigned after one another in that position.

Name: Funeka Mbaliswana  
Position: Budget and Treasury Officer  
Date: 28 September 2009

9. There is a reconciliation between amount paid to the Department of Justice and amount paid to the traffic department, which is done on a monthly basis. An example for the month of June 2009 is attached.

Name: Mandisi Mvumvu  
Position: Chief Traffic Officer  
Date: 28 September 2009

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10. This finding is acknowledged. Township graveyards are informal in Maclear and Ugie graves have neither been registered nor purchased. The piece of land in Maclear was donated by PG Bison as a result of its invasion onto the afforested area, which has since been harvested. The municipality has cleared the site. Messrs. Haines Palmer & Associates have been appointed to prepare a layout and survey, after which grave sites will be registered. Ward councillors have been advised to report deaths in their wards for this reason.

In Ugie, a new site has been identified, subjected to EIA process and including public participation and submission to DEDEA for approval in terms of the National Environment Management Act. A sole service provider (Synapsis) in the country has been approached for a quote for cemetery software. A manual register is already in place with a view to improve the situation.

Name: Linda Mnqokoyi  
Position: Manager – Community Services  
Date: 29 September 2009

**Auditor's Response**

1 – 8. Management comment is acknowledged however the audit finding is still valid.

9. I have read management comments and the exception will still be raised, per discussion with Mr. Mvumvu no reconciliations are performed

10. Management comment is acknowledged however the audit finding is still valid.

This finding indicates the weaknesses for the collection and recording of revenue and has been included in the audit report as a qualification for income. Furthermore this indicates that the control environment is not working effectively, and hence this has been included on the governance framework table in the audit report.

## Revenue: Financial Misstatement (Revenue)

### Audit finding

In terms of Section 62(1) of the Municipal Finance Management Act 56 of 2003, "the Accounting Officer of a municipality must take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control."

This requirement has not been met for the following reasons:

#### 1. Electricity Losses

Electricity Losses do not appear to be monitored as the following loss has been estimated:

Total units purchased	18 243 080
Total units sold	(10 475 304)
Total units used by the municipality	(1 338 176)
Total Units Lost	6 429 600
% Loss	35%
Financial loss	R 3 021 912
Accepted norm of 15% loss	R 1 286 137
Revised financial loss	R 1 735 775

#### 2. Property Valuations

Houses built after 1999 were not included in the valuation roll, thus no rates or refuse were charged on these buildings from this year forward. Rates were charged solely on the value of the land. Therefore to quantify the possible understatement, the following calculation has been performed.

Calculation of under payment of rates	
Value of buildings where rates are not being charged	R 101 982 697
Average rate per the approved tariff list for the year ended 30 June 2009	0.023
Amount of rates not charged due to incorrect valuation roll	R 2 345 602

Calculation of under payment of refuse	
Number of buildings where refuse is not being charged	291
Average Rate per the approved tariff list	R 68.57
Amount of rates not charged due to incorrect valuation roll	R 19 954
Amount of refuse not charged	R 2 365 556



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**3. Sequence of Receipt Numbers**

Receipts are issued at three different offices, namely Ugie, Maclear and Mount Fletcher via the SEBATA system. Due to the Senior Billing Clerk resetting the receipt numbers each month the receipt numbers for the year are not sequential. It is important to have sequential numbering of receipts to ensure that no receipts are missing or duplicated. Duplicated or missing receipts could lead to receipts being issued and not recorded and may lead to fraud or error. Therefore the completeness of revenue cannot be verified as the receipt numbers commences on number one at the beginning of every month.

**Root cause**

Control activities (Financial): Written procedures, authorisations, record keeping, management reviews and asset safeguards are not segregated to prevent fraudulent financial data and asset misappropriation.

**Risk**

1. Completeness of electricity sales amounting to an estimated R3 021 912. In addition, the non-compliance with the MFMA Act, Section 64 (1). The financial statements may reflect the incorrect unit sales or amount in the general ledger.
2. The completeness and accuracy of rates and refuse could not be verified to the value of R2 365 556.
3. The completeness of revenue cannot be verified due to receipt numbers not being sequential.

**Recommendation**

1. Improved controls should be implemented over monitoring the distribution of electricity, in order to reduce losses. The impact of the losses should be included in the financial statements as a presentation and disclosure item. The amount of electricity units sold should be investigated and reconciled to the general ledger.
2. Valuations have been performed and a new roll was effective from 1 July 2009, however the roll must be updated with changes to land and buildings from this date to ensure all rates and refuse are charged. Thereafter the roll must be reconciled to the billing system on a regular basis to ensure that all rates and refuse are billed. The amounts included in this letter for rates and refuse are estimates and hence there is no adjusting entry.
3. Receipt numbers should commence with the last unused receipt number of the previous month to ensure all receipts are accounted for.

## **Management Response**

### **1. Electricity Losses**

This finding is acknowledged. In April 2009, the municipality received a report on electricity distribution losses which have been identified as emanating from the following: -

- Non metering of certain properties, including the municipal properties and the water and sewerage treatment works, among others
- Inaccurate and/ or incomplete reading of meters
- Illegal bypassing of meters
- Incorrect application of electricity tariff factors
- Inappropriate estimation of electricity consumption
- Inappropriate tariff structure

The municipality has now metered all the non metered properties, has appointed temporary electricians to change all by passed/ faulty meters (1300 units), has billed the consumers for the purpose of recovering the under billed consumptions etc.

There are electricity distribution losses, which are not at the level reported in the annual financial statements and we are certain that the situation will be contained

A report on the electricity distribution losses has been submitted for consideration by the municipal council on 20 November 2009 and contains the measures that are being taken to rectify the situation. Furthermore, the electricity distribution losses will now be disclosed in the annual financial statements.

### **2. Property Valuations**

Between 1999 and 2009, the municipality has never undertaken a general nor supplementary valuation rolls, which has resulted in rates revenue being incomplete. This is among the matters on which the audit opinion for 2007/2008 was qualified and, unfortunately, nothing much can be done about it. The municipality has however developed a general valuation roll in terms of the municipal property rates act, which general valuation roll is being implemented with effect from 1 July 2009.

### **3. Sequence of Receipt Numbers**

This finding is acknowledged. The Revenue Accountant advises that whenever a different password is to be used in receipting, the sequence is broken. It is also understood that electricity disruptions also disturb the receipting sequence. This is a matter that will be followed up with the providers of the financial management system, but we will also investigate if no particular systems/ controls could be developed around the receipting function.

Name: Khaya Gashi  
Position: Municipal Manager  
Date: 14 November 2009

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**Auditor's Response**

1. Management comment has been noted. However the exception still stands as at 30 June 2009
2. Management comment has been noted. However the exception still stands as at 30 June 2009.
3. Management comment has been noted. However the exception still stands as at 30 June 2009.

**Provisions: Provision for rehabilitation of waste sites (Provisions)**

**Audit finding**

In terms of the Municipal Finance Management Act No. 56 of 2003, Section 62(c), the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

As IMFO statements do not provide guidance on the measurement of a provision, IAS 37 Provisions, Contingent Liabilities and Contingent Assets was referred to.

In terms of paragraphs 45 to 47 of IAS 37:

Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation. Because of the time value of money, provisions relating to cash outflows that arise soon after the reporting period are more onerous than those where cash outflows of the same amount arise later. Provisions are therefore discounted, where the effect is material. The discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) shall not reflect risks for which future cash flow estimates have been adjusted.

Pursuant to complying with the National Environmental Management Act, 1998 (107 of 1998), the municipality has raised a Provision for Solid Waste sites, being the estimated costs to rehabilitate the municipality's solid waste sites. These costs were estimated to be R 1 500 000, thus the provision is valued at R 1 500 000. The estimated costs and valuation was determined by an external consultant being Hans van Heerden, who is employed by Ardemus Consulting.

The credibility and the evidence of the estimate of this expert was evaluated.

The expert was found to be credible. However, based on the evidence provided, being a letter from Ardemus Consulting estimating the costs to rehabilitate the municipality's solid waste sites and written communications with Hans van Heerden in response to queries by the auditors, the estimate derived does not appear to be complete or reliable.

The method used to determine the estimated costs does not appear reasonable. The determination of the estimated costs per site appears to be linked to the available airspace (future operability in years based on usage and management), without any consideration for:

- the size of the site,
- the damage already incurred at the site due to previous years of solid waste management, or
- other ecological factors, such as a site being water positive.

The basis of estimating the annual cost of R100,000 per airspace year seems arbitrary because it too does not appear to consider:

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- the damage already incurred at the site due to previous years of solid waste management, or
- other ecological factors, such as a site being water positive.

Furthermore, it is not clear whether the amounts of:

- (1) Maclear- 10 years (R1,000,000)
- (2) Ugie-4 years (R400,000)
- (3) Mount Fletcher-1 year (R100, 000)

Amounting to a total for all waste sites, to R 1 500 000 exclusive of VAT, are the costs to rehabilitate the sites at the future date, when the available airspace runs out, or the present day cost. For example, would it cost the municipality R 1 000 000 to rehabilitate the site as at 30 June 2009, or 30 June 2019 given ten years of available airspace; or would it cost the municipality R 1 000 000 plus interest earned at 30 June 2019.

Also, the effect of time value of money is material to this estimate; the cash flows required are not discounted.

As a result, the auditors do not agree with the estimate of rehabilitation costs and the valuation of the Provision for the rehabilitation of waste management.

**Root cause**

Control activities (Financial): Actions are not taken to address risks to the achievement of financial reporting objectives.

**Risk**

The completeness, accuracy and existence of the provision cannot be determined.

**Recommendation**

The valuation of the Provision for rehabilitation of waste sites should be re-assessed to ensure that the estimate, upon which it is based, is complete or reliable.

This provision is important to the municipality for accounting for the future cost when the damage is incurred to ensure that the correct refuse charges for the area are applied.

**Management Response**

At this stage, it does not look like the municipality is in a position to do any further work as it does not have the expertise.

Name: Khaya Gashi  
Position: Municipal Manager  
Date: 18 November 2009

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**Auditor's Response**

This will remain as a qualification on the audit report, as we cannot determine whether the R1 500 000 is correctly stated.

## **2 Audit Report: Emphasis of matter**

**Appropriation account: Control deficiencies** (Appropriated and surrendered funds)

### **Audit finding**

In terms of the Municipal Finance Management Act No. 56 of 2003, Section 62(c), "the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control."

The appropriation account is used to clear accounts, prior year suspense accounts and wrongly allocation of prior year accounts. The account is also used to adjust provisions or write offs and to raise provisions relating to the prior year.

#### **1. Petty cash**

The appropriation account was inappropriately used to clear petty cash, a journal was passed to clear the petty cash account, however the wrong vote number was used.

The appropriation account vote number was used instead. R1997.90 x3 = R5993.70.

#### **2. Suspense accounts**

The appropriation account is also used to write back stale cheques relating to previous financial year. By making use of the appropriation account for stale cheques, there is a risk that the creditors could be understated. The municipality writes back stale cheques by Debiting: bank (9250/9940) Crediting: Appropriation account (9250/9980).

### **Root cause**

Monitoring (Ongoing monitoring): Ongoing monitoring and supervision are not undertaken to enable management to determine whether internal control over financial reporting is present and functioning.

### **Risk**

#### **1. Petty Cash**

Risk that petty cash is misstated.

#### **2. Suspense Accounts**

Risk that creditors are understated because when cheques are written bank relating to prior year the entry passed Dr: bank and Cr: Appropriation account- risk that the creditors are not on the financial statements at their correct value.

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Possible risk that the appropriation account is used to clear suspense accounts. There could also be potential errors in the financials, or fraudulent entries are being processed through this account.

**Recommendation**

1. Petty cash

The appropriation account should not be used to clear accounts. It should only be used for accumulated surplus.

With regards to the wrongly allocated amount to appropriation account instead of clearing petty cash:

Dr Appropriation account (9250/9980)	R5 994
Cr Petty Cash account (9250/9890)	R5 994

2. Suspense accounts

With regards to stale cheques written off, the creditor should be credited not the appropriation account, so that the creditor is valued at the correct amount neither over nor under stated.

**Management Response**

1 - 2) The appropriation account has been adjusted in respect of inventory and all adjustments proposed by the AG, which were not considered material to warrant an adjustment.

Name: Khaya Gashi  
Position: Municipal Manager  
Date: 29/09/2009

**Auditor's Response**

1 - 2 ) Management comment is noted, however the audit finding is still valid.



**3 Audit Report: Other matters**

**Bank and Cash: Internal Control Deficiencies (Cash and cash equivalents)**

**Audit finding**

1. Daily Cash Up

In terms of the municipality's internal financial procedures, each cashiers station must submit to the accountant a daily cash/cheque collection report supported by a receipts listing, and the bank stamped deposit book. The daily cash/cheque collection report must be reconciled to the receipts listing. These in turn must be reconciled to the bank stamped deposit book.

There is a lack of control over the cashiers' office; anyone can walk in and out of the cashier's office. (The cashiers' office is not locked)

Furthermore, the Senior Billing Clerk does not observe the cash count for the days takings or ensures that the days cash takings matched the cash on hand and cash receipt analysis Sebata report. The Senior Debtors and Billing Clerk only matches the report when the bank statement is obtained weekly. In addition the "cash up" observed by the auditor on the 10 September 2009 for the 9 September 2009 takings did not agree to the report:

	Type	Amount per cashiers receipt analysis report on SEBATA (R)	Amount per cash count (R)	Difference (R)
1	Cheques	16 896	16 896	-
2	Credit	300	300	-
3	Cash	12 448	11 817	631

Surprise cash count was performed on the 17 September 2009, for 16 September 2009 daily takings. The daily takings did not match the cashier receipt report as per the Sebata System:

	Type	Amount per cashiers receipt analysis report on SEBATA (R)	Amount per cash count (R)	Difference (R)
1	Cheques	32 669	32 669	-
2	Credit	200	200	-
3	Cash	23 103	17 084	6 019

During substantive testing the following issue was identified:

Inspection of the "FNB bank account general ledger" and found that transactions relating to over-banking / under-banking were processed during the financial year, refer to below table.

	Date	Description	Vote:	Debit (R)	Credit (R)	Vote	Bank
1	07/04/2008	UGIE DEPOSIT UNDERBAKED	3000/4990/0000	1	-	9250/9950/0000	ELUNDINI FNB ACCOUNT
2	07/05/2008	BANK ERRORS CHEQUE 3 OVER	9250/9650/0000	-	-4	9250/9950/0000	ELUNDINI FNB ACCOUNT
3	7/30/2008	BANK ERRORS CHEQUE 143 OVE	9250/9650/0000	-	-184	9250/9950/0000	ELUNDINI FNB ACCOUNT
4	8/28/2008	BANK ERROR UNDERSTATED	9250/9650/0000	1	-	9250/9950/0000	ELUNDINI FNB ACCOUNT
5	09/03/2008	OVERBANKING	3000/4990/0000	53	-	9250/9950/0000	ELUNDINI FNB ACCOUNT
6	09/02/2008	OVERBANKING	3000/4990/0000	10	-	9250/9950/0000	ELUNDINI FNB ACCOUNT
7	09/06/2008	OVERBANKING	3000/4990/0000	20	-	9250/9950/0000	ELUNDINI FNB ACCOUNT
8	9/16/2008	OVERBANKING	3000/4990/0000	46	-	9250/9950/0000	ELUNDINI FNB ACCOUNT
9	09/12/2008	UNDERBANKING	3000/0560/0000	-	-30	9250/9950/0000	ELUNDINI FNB ACCOUNT
10	10/08/2008	OVERBANKING SPEEDPOINT	3000/4990/0000	384	-	9250/9950/0000	ELUNDINI FNB ACCOUNT
11	10/22/2008	OVERBANKING UGIE	3000/4990/0000	2 417	-	9250/9950/0000	ELUNDINI FNB ACCOUNT
12	10/01/2008	UNDERBANKING UGIE	3000/0560/0000	-	(10 989)	9250/9950/0000	ELUNDINI FNB ACCOUNT
13	12/30/2008	UNDERBANKING FLORENCE	3000/0560/0000	-	-30	9250/9950/0000	ELUNDINI FNB ACCOUNT
14	1/31/2009	NODANILE UNDERBANKING	3000/0560/0000	-	(1 131)	9250/9950/0000	ELUNDINI FNB ACCOUNT
15	06/09/2009	UNDERBANKED - DEP 916	3000/0560/0000	-	-30	9250/9950/0000	ELUNDINI FNB ACCOUNT
16	6/30/2009	UNDERBANKED SEE DEP 1017	3000/0560/0000	-	-12	9250/9950/0000	ELUNDINI FNB ACCOUNT
17	6/30/2009	UNDERBANKED SEE DEP 1005	3000/0560/0000	-	-1	9250/9950/0000	ELUNDINI FNB ACCOUNT
18	6/30/2009	OVERBANDED SEE DEP 1016	3000/4990/0000	30	-	9250/9950/0000	ELUNDINI FNB ACCOUNT
19	6/30/2009	OVERBANKED SEE DEP 1012	3000/4990/0000	22	-	9250/9950/0000	ELUNDINI FNB ACCOUNT
Total				2 998	(12 411)		

This issue was not identified in the prior year audit.

## 2. Cheques received in the mail

In terms of municipality's financial procedures, revenue and cash collection section:

- a. Where cheques are received by mail, the mail-opening clerks must ensure that the cheque is strictly endorsed in the name of the municipality.
- b. The mail-opening clerks must record the cheques and sign the mail register. The cheque and the remittance advice must be passed on to the cashier
- c. The mail register must be reviewed

It was found that, cheques received via mail are not inspected to ensure that endorsed in the name of the municipality and that there is no mail register where the cheques are recorded in. Mail containing cheques are sent from registry to finance department and then to the cashier or the senior debtors and billing clerk, whilst no record is kept. No mail register is maintained.

This issue was not identified in the prior year audit.

### 3. Petty Cash

In terms of municipality's financial procedures, section petty cash:

- a. A staff member must complete a petty cash claim form or voucher and submit the same to the HOD or designated official for authorization.
- b. The HOD must review the form and authorize the claim in line with the petty cash policy by signing on it.
- c. The form must be taken to the custodian for cash disbursement
- d. Vouchers for expenditure must be returned to the custodian for filing together with the claim form in the custodian's file after being stamped "Paid".
- e. Where vouchers are not returned by end of month, such amounts will be deducted from the respective employee's salary.
- f. Surprise cash counts must be conducted regularly by Internal auditors or Budget and treasury officer

It was found that, no vouchers are being issued or authorised when requesting funds out of petty cash. The senior debtors and billing clerk issues petty cash to staff members without authorisation or vouchers. No surprise cash counts are performed on petty cash as per discussions with the senior debtor and billing clerk. This issue was not identified in the prior year audit.

### 4. Segregation of duties-petty cash

It was found that, the Debtors and Billing Clerk responsible for petty cash performs the following for petty cash: request funds, reconciliation, cash counts and issuing of funds to employees. Segregation of duties is needed to ensure that no fraudulent activities are occurring.

This issue was identified in the prior year audit.

### 5. Cash float (Cashiers)

There is no policy or laws in place with regards to keeping a cash float of R100 (In change) in the cash box by cashiers to ensure that when receiving cash from customers they are able to issue change.

### 6. R/D Cheques

It was discovered that no register is maintained for Return to Drawer (R/D) cheques, the transaction passed in the municipalities general ledger is Dr: R/D cheque account Cr: Bank account, there is no record of the R/D Cheque and the debtors account does not get affected, therefore there is risk that debtors are understated.

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The amount processed to the General Ledger during the financial year was R185 249 (9250/9600/000). The balance at year end was zero, however an amount of R13 921 was written off during the year.

This issue was identified in the last year's audit

**7. Daily cash takings report:**

Randomly selected a sample of daily cash ups to ensure amounts on reports match banked amounts, found an error for the 15 and 16th July 2008, as the 15 July daily takings were not deleted off the system before the 16 July daily takings were accounted for,(therefore the 16th daily takings included 15th and 16th) Mr. C Bezuidenhout had to clear the previous days takings off the 16 July takings report, no supporting documentation with regards to this clearing were attached to the daily takings reports. Agreed the clearing of 15th takings in 16th takings report and followed the correct amounts through to the bank statement for both the 15th and 16th July 2008. Although there was no financial error there is a control issue with regards to clearing off accounts without authorisation.

This issue was identified in the last year's audit

**8. Bank Confirmation from Standard Bank**

Inspected the bank confirmation from Standard Bank and the list of signatories are reflected as:

- SHP Belebese
- A Brummer (current employee)
- S Mfobo
- V Funeka (current employee)
- B Schimdt
- RD Lehang
- RD Rashoplang
- JS Vermeuler

**Root cause**

Control Activities (Operational): Directive, preventative and detective controls are not adequate and focused on achieving efficient resource usage and effectiveness, as measured by the extent to which specific control objectives are achieved.

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

Control Environment: Management and staff are not assigned appropriate levels of authority and responsibility to facilitate control over financial reporting.

## **Risk**

### 1. Daily cash up

This may result in the risk that money could be stolen/ misused. Possible Risk that reports and actual money are not matched accurately. Segregation of duties cashier receives the money, runs the electricity report, counts the money and matches the takings to the report from Sebata and prepares the cash for banking. (With no authorisation or review).

Risk that if there is under banking, transactions could be passed to alter the daily cash up report, and no review is implemented on why the money is under banked. There is a risk of fraud taking place at the municipality.

### 2. Cheques received in the mail

Possible risk is that cheques been sent to Elundini Municipality are not recorded / banked or cashed cheques are not forwarded to the cashier.

### 3. Petty Cash

Possible risk of funds been inappropriately used by the debtors clerk or by staff members as no vouchers are used when requesting funds, possible risk that money is issued by staff member for non municipal expenditure.

### 4. Segregation of duties

Risk that could occur is the misuse of funds, as there is no segregation of duties with regards to petty cash

### 5. Cash Float

Possible risk is that money is being misappropriated or customers are not receiving change or money is being borrowed from staff members to obtain change and not being repaid.

### 6. R/D Cheques

Risk that debtors are understated or that the R/D Cheque amount is not recovered as the debtors account is not debited when R/D cheques are received, as a R/D Cheque account (9250/9600) is used instead, there is a risk that amounts are written off and never recovered.

### 7. Daily cash reports

Risk that the daily reports are cleared and no one reviews the clearing of the amount or authorises the clearing.

### 8. Bank confirmation Standard Bank

Risk that employees who do not work at the municipality anymore are still able to sign at Standard Bank.

## **Recommendation**

### **1. Daily cash up**

Senior Debtors Billing Clerk should observe the cashier count on a daily basis. The cashier should complete a cash form with all the money, cheques etc counted. The debtor's clerk should review the form and match the SEBATA cashier receipt analysis report totals to the day's takings, before the money is sent to the bank.

If an error arises this should be reported to Mr. Gashi (Municipal Manager), Mr. Gashi should follow up on all under banking / over banking issues to ensure that the under/over banking was authorised and that there are valid reasons for the banking errors.

The cashiers' office should be locked at all times and no unauthorised people should have access to the cashier's office.

### **2. Cheques received in the mail**

A mail register should be used where all cheques received are recorded in (including all details on the cheque), the Mail Clerk opening the mail should ensure that the cheque is endorsed to the municipality. The register should be signed by the Mail Clerk as evidence that he/she received the cheque. The Mail Clerk should deliver the cheques to the Cashier, the mail register should be reviewed by the Senior Debtors and Billing Clerk or budget to ensure all cheques received are recorded and banked.

### **3. Petty Cash**

Money should not be issued to staff members without a voucher request and the voucher been authorised by their specific Department Head. Surprise cash counts should be conducted to ensure that the risk of fraud is minimised.

### **4. Segregation of Duties**

Surprise cash counts should be conducted to ensure that petty cash utilisation is appropriately monitored. The reconciliation should be reviewed and reviews should not only be performed when petty cash funds are required.

### **5. Cash Float**

Cashiers at the three branches need to have a R100 cash float in their cash floats, to ensure customers receive change and to ensure that money is not borrowed around the municipality and not returned.

### **6. R/D Cheques**

A register of all R/D cheques should be maintained. The debtors account and not the R/D Cheque General Ledger account should be increased to ensure debtors are accurate and that the amount is recovered from the specific debtor. The use of R/D Cheque account (9250/9600) should not be used, the specific debtor should be debited.

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7. Daily cash takings report

A report should be generated at the end of every month where it is reported to the Chief Financial Officer as to what has been "cleared" written off irregularly, so that the CFO can do random checks. Proper documentation should be kept when clearing problems on the daily cash reports. Therefore when the CFO does his/her "periodic checks" it will be easy to verify the correctness of the transaction.

8. Bank Confirmation: Standard Bank

The signatories who no longer work at the municipality need to be removed and the signatory list needs to be updated for all new employees who have access.

**Management Response**

1. The position of the Revenue Accountant has been vacant throughout the financial year under review, and the Chief Accountant was appointed with effect from September 2009. The Chief Accountant will play the role of the Revenue Accountant until the latter has been appointed.

The office structure accommodating the cashier has recently been adjusted, and the intention was to ensure that the cashier is not disturbed. The cashier's office has a lockable door.

Due to the cash shortages identified by the auditors, the cashier who was on duty at the time of the shortage was immediately suspended. In the wake of this, a procedure has been instituted where the cashier, the billing clerk and the chief accountant are matching the days cash takings to the cash receipt analysis Sebata report.

Referring to the amount of R10 989, the Ugie cashier accidentally duplicated the prepaid receipts on her reports of 23/09/2009 and 29/09/2009. The matter has been rectified with a journal entry, a copy of which may be inspected with Anita.

Referring to the amount of R384, a credit card payment of R383,50 was correctly included on the cash file report which amounts to R15 007,90 but the amount of R15 391.40 was banked. Copies available from Anita.

Referring to the amount of R2 417. Cash file report amounts to R6 276,42. Cashier banked the amount of R8 693,27. Unable to find supporting documentation as Thuthula is on maternity leave.

With reference to the amount of R1 131, the cashier of Mt Fletcher was on leave and when she came back she found an amount of R1 232.73 in the cash box and banked it as surplus – Nodanile, who assisted while she was on leave. According to the billing clerk he knows that the matter has been rectified, but we are unable to find supporting documentation due to the absence of Thuthula.

To avoid over and under banking, the Chief Accountant will ensure that the cash received matches the cash/ cheque reports as well as the bank stamped deposit book before the cash is sealed and taken to the bank.

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**Management letter for the year ended 30 June 2009**

The other small amounts are just human errors.

2. The finding is acknowledged. A system has been put in place in terms of which: -
  - Upon receipt of mail from the registry clerk, the cashier will record in a register the drawer of the cheque, the date and the amount
  - The cheque will then be receipted and allocated to the account and service that is being paid, or in accordance with the credit control provisions of the municipality's policy;
  - The cheque is then banked with all the other day's takings
3. The finding is acknowledged. A voucher has been developed in order to adhere to the financial procedures. In this voucher there is provision for the Revenue Accountant and the Chief Accountant to approve.
4. As regard the reconciliation of the petty cash, this is done per each cheque requisition, with the CFO reviewing and approving the reconciliation. This is acknowledged. As much as the debtor's clerk does all these duties pertaining to the petty cash, there has been an arrangement whereby the Asset and insurance clerk and the CFO always check the authenticity of the work done.
5. This is acknowledged and must be addressed as part of developing proper systems and procedures for the financial services department.
6. The finding is acknowledged. The Municipal Manager has prepared a schedule (G3) in the accounting file, which clearly depicts that the R13 921 amount dates back to the 2006/2007 financial year.

In view of the fact that the opening balance is not supported by any listing of RD cheques, and the potential prescription of the debt, it was thought prudent to write off the balance as irrecoverable.

7. The billing clerk was away for two days and on his return he had to clear the cash on the system for the two days referred to in order to repair the system.

Name: Coenie Bezuidenhout  
Position: Billing Clerk  
Date: 23 October 2009

Name: Bukelwa Dlodlo  
Position: Chief Accountant  
Date: 28 September 2009

Name: Anita Brummer  
Position: Asset management clerk  
Date: 29 October 2009

Name: Khaya Gashi  
Position: Municipal Manager  
Date: 29/09/2009



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8. No management comment received

**Auditor's Response**

1. Management comment was noted; however exception relating to daily cash up remains valid.

2. Management comment was noted; however exception relating to cheque register remains valid.

3 & 4. Management comment was noted; however exception relating to petty cash remains valid.

5. Management comment was noted, however exception relating to no cash float being held by the cashier remains valid.

6. Management comment was noted, however exception relating to R/D Cheques remains valid and the use of R/D cheque account and not the individual debtor still needs to be addressed

7. Management comment was noted; however exception relating to daily cash report remains valid.

The above finding reflects the weaknesses surrounding the internal control environment. This weakness has been highlighted on the Governance framework table within the audit report.

8. No management comment received.

**Revenue and Receivables: Non compliance with laws and regulations**  
(Revenue)

**Audit finding**

The following non-compliance with laws and regulations were found:

1. Property valuations

In terms of Sections 8(1) and (2) of the Property Valuation Ordinance 148 of 1993, a local authority shall from time to time cause a general valuation to be performed on all property. The general valuation must be performed at least every four years. The MEC for Local Government may extend the period on request for one year. The property valuation roll was last updated in 1999. This is not in compliance with the above act, whereby property should be revalued every four years.

This issue was identified in the prior year audit

2. National Energy Regulators of South Africa (NERSA) agreement

NERSA is the Regulator that ensures that the municipality complies with the Electricity Act. The municipality is registered with NERSA in terms of which the agreement with NERSA rates have to be approved in order for the municipality to sell electricity. No rates have been approved with NERSA for the financial year ended 30 June 2009. Mr Veron Gibbs (NERSA: Senior Economic Analyst) stated that the rates used by the municipality were in line with NERSA approved rates. The municipality has had its next year of assessments rates approved.

3. Revenue Collection

Section 64 paragraphs (1) and (2) of the municipal Finance Management Act (MFMA) requires that the municipality must have effective revenue collection systems consistent with Section 95 of the Municipal Systems Act and the municipality's Credit Control and Debt Collection Policy.

The municipality does not appear to have an effective system as there is a high value of debtors outstanding at year end of R24 353 505 (prior to the provision for doubtful debts).

4. Approval of all tariffs used by the municipality.

In terms of the Municipal Systems Act Section 75A, the tariffs for the municipality under the year of assessment must be approved by the MEC for local government. There is no evidence that these tariffs were not approved.

5. Change in Accounting Policy

No change in accounting policy note was included in the Financial Statements in the current year. Changes have occurred in the current financial year which requires a change in accounting policy note. The District Municipality is the water services authority in the current year the municipality was the water services authority in the prior year this should be disclosed in the current year's financial statements.

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6. Presentation and disclosure

Electricity sales for prepaid and conventional are not presented as one figure in the financial statements. This is not in-line with the Institute of Municipal Financial Officers (IMFO).

**Root cause**

Control Activities (Policies and procedures): Policies related 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**

1. Property valuations

The municipality is not complying with the Property Valuation Ordinance 148 of 1993. The assessment rates, as disclosed in Appendix D to the revenue in the financial statements could be understated as not all properties are recorded in the valuation roll.

2. NERSA agreement

No rates were approved by NERSA, thus it may be challenged that the municipality should not be selling electricity.

3. Revenue collection

The municipality may not collect all revenue charged to customers.

4. Approval of tariffs

The tariffs have not been properly approved so members of the community may be incorrectly billed.

5. Change in Accounting Policy

The Financial Statements are not in accordance with the Institute of Municipal Financial Officers (IMFO).

6. Presentation and Disclosure

The Financial Statements will not be in accordance with the Institute of Municipal Financial Officers (IMFO).

**Recommendation**

1. Property valuations

The provisions of the Property Valuation Ordinance should be followed.

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**Management letter for the year ended 30 June 2009**

2. NERSA agreement

The municipality is registered with NERSA for the next financial year, so the situation should be resolved in the next financial year. Systems should be implemented to ensure that the current financial year problem is not repeated.

3. Revenue collection

Controls should be in place to manage the collection of revenue.

4. Approval of tariffs

Tariffs should be approved by the MEC for local Government.

5. Change in Accounting Policy

A change in accounting policy note should be included in the financial statements in the current year.

6. Presentation and disclosure

To amend the financial statements, for the electricity sales to be disclosed as one figure.

**Management Response**

1. This finding is acknowledged. A new valuation roll has been implemented with effect from 1 July 2009.

2 - 6. No management comment received.

Name: Khaya Gashi  
Position: Municipal Manager  
Date: 24 September 2009

**Auditor's Response**

1. Management comment is noted and the matter will be reported in the management report.

2 - 6. No management comment received.

We therefore assume that management accepts our recommendations and will implement them prior to the next years audit.

Certain parts of this finding are included in the audit report as other matters.

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**Matters of governance: Internal Control Deficiencies** (Matters of gov/int aud/committee)

**Audit finding**

In terms of section 62 (c) of the Municipal Finance Management Act, "An accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control."

The following control deficiencies were identified in the current period:

1. Audit Committee Charter

The new Audit Committee Charter was not signed by a representative of council to indicate its legitimacy and version control. The charter was approved by the Council on the 30 April 2009 but would need to be signed by the Council to indicate its acceptance of the final document.

This issue was not identified in the prior year.

2. Fraud Prevention and Risk Management Policy

The Anti Fraud and Anti-Corruption and Risk Management policies were only approved by the Council on the 30 January 2009. Therefore the fraud prevention and risk management policies were not in place for the entire 2008/09 financial period.

The issue of these policies not being in drafted at all was identified as an audit issue in the prior year audit.

3. Fraud Prevention Implementation

In assessing fraud risks within the municipality, it was noted that management does not have a formal assessment process of the accounting and control systems to prevent and detect fraud. It was also noted that this was not specified as a procedure in the approved Anti Fraud and Anti Corruption Policy.

In addition there is no indication that management communicated this policy to all employees in the current period and therefore it does not appear to have been implemented at all in the 2008/09 year.

This issue was identified in the prior year audit.

4. IT Steering and Risk Committee

No IT Steering and Risk Committees existed for the current period. This implies that there was no designated group of individuals responsible for monitoring such controls.

This issue was identified in the prior year audit.

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5. Code of Conduct

There was no code of conduct in place in the current financial period. Therefore there is no formal policy in place that conveys the expected conduct of all employees.

This issue was identified in the prior year audit.

6. Business Continuity

No business continuity plans or back up policies were in place for the current period.

This issue was identified in the prior year.

7. Staff Turnover and Vacancy Rate

High staff turnover and the municipality failing to address the vacancy rate on a timely basis has resulted in a lack of segregation of duties in the current period.

This issue was identified in the prior year.

8. Risk Assessments

No formal risk assessments occurred during the current period. Although a policy was approved to address risk management on the 30 January 2009, this does not appear have been formally implemented for the last five months of the current financial period.

This issue was identified in the prior year

9. Exception reports

Exception reports are not generated by management as a monitoring tool over controls in place. Therefore discrepancies and misstatements may not be identified and corrected by management.

This was identified in the prior year audit.

10. No Management Meeting Minutes

No management meetings held during the 2008/09 year were minuted

This was not identified as an issue in the prior year

**Root cause**

Control Activities (Operational): Directive, preventive and detective controls are not adequate and focused on achieving efficient resource usage and effectiveness as measured by the extent to which specific control objectives are achieved.

## **Risk**

### **1. Audit Committee Charter**

The Audit Committee Charter in circulation may not be the approved charter as per the council on the 30 April 2009.

### **2. Fraud Prevention and Risk Management Policy**

No procedures in place to address the prevention and detection of fraud, could allow for instances of fraud to occur in the current period.

### **3. Fraud Prevention Implementation**

Lack of a set procedure to deal with instances of fraud, could allow for inadequate responses to instances of fraud.

### **4. IT Steering and Risk Committee**

Lack of monitoring with respect to identification of risks and monitoring of IT controls.

### **5. Code of Conduct**

Employees may not fully understand the municipality's expectation of their daily conduct and therefore may not always behave in a manner that befits a municipal employee.

### **6. Business Continuity**

Lack of back-up plans may affect the continuity of the municipality should an unforeseen event occur.

### **7. Staff Turnover and Vacancy Rate**

A general lack of segregation of duties over controls within the municipality.

### **8. Risk Assessments**

Significant risks to the municipality may not be identified.

### **9. Exception reports**

Possible discrepancies and misstatements may not be identified and corrected by management due to there being no monitoring of exception reports.

### **10. No Management Meeting Minutes**

Lack of an audit trail of management resolutions made during the current period, due to a lack of management meeting minutes.

## **Recommendation**

### **1. Audit Committee Charter**

All documents approved by the council should be signed by a representative of the council in order to indicate its legitimacy.

### **2. Fraud Prevention and Risk Management Policy**

Policies relating to fraud and risk management should be in place for the entire financial period.

### **3. Fraud Prevention Implementation**

A set procedure should be developed and implemented to deal with instances of fraud.

### **4. IT Steering and Risk Committee**

An IT Steering and Risk Committee should be in place at the municipality. The entity should hold at least two risk assessment seminars a year to identify and monitor internal and external risks.

### **5. Code of Conduct**

A Code of Conduct should be drafted and approved as soon as possible. This should be formally communicated to all employees.

### **6. Business Continuity**

Management should develop a business continuity plan and make regular back-ups of all systems.

### **7. Staff Turnover and Vacancy Rate**

The municipality should address the internal vacancy rate on a timely basis and ensure that key employee/management positions are filled.

### **8. Risk Assessments**

Risk assessments should be performed by the municipality on a regular basis.

### **9. Exception reports**

Management should generate and review exception reports over all systems on a monthly basis. This will allow management to adequately monitor controls over all municipal systems.



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**Management letter for the year ended 30 June 2009**

10. No Management Meeting Minutes

All management meetings should be officially minuted, which should be formally adopted at each subsequent management meeting.

**Management Response**

1. The finding is acknowledged. In actual fact, the AC charter was taken to the Officer of the Speaker to sign, and by the time the auditors wanted a copy thereof, the Speaker had not yet signed. This will be attended to.

2. The finding is acknowledged. In response to the audit findings for 2008, management developed and tabled before Council the above policies. The audit report was finalised early in December 2008, logically therefore the policies could not have been in place for the entire 2008/2009 financial year

3. This matter is noted and will be taken up with the internal audit unit to solicit their advice

4 -10. No management comments received.

Name: Khaya Gashi  
Position: Municipal Manager  
Date: 29/09/2009

**Auditor's Response**

1, 2, 3. Management's comments are noted, however the findings are still valid

4 -10. No management comments received, hence we assume that management accept our finding and will implement the recommendation.

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**Management letter for the year ended 30 June 2009**

**Fixed Assets: Financial misstatements (Property, plant & equipment)**

**Audit finding**

In terms of Section 62(1) of the Municipal Finance Management Act 56 of 2003, "the Accounting Officer of a municipality must take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. "

This requirement has not been met for the following reasons:-

1. The balance for loans redeemed and other capital receipts per the annual financial statements did not agree to the balance recorded in the trial balance. This difference could not be explained by management

Source	Amount (R)
Annual Financial Statements	84 163 344
Trial Balance	84 368 085
Difference	204 741

2. Asset cost per the trial balance does not agree with the annual financial statements:

Source	Amount (R)
Annual Financial Statements	84 490 679
Trial Balance	84 695 412
Difference	204 744

The net effect of 1 and 2 on the carrying value of property plant and equipment is nil.

In addition the municipality does not have an asset management policy in place.

3. We were unable to obtain assurance that the assets detailed below are owned by the municipality.

Category	Description	Amount (R)	Comment
Land and Buildings	Mount Fletcher Clinic	1 143 000	During physical verification it was established that the clinic had a log of the District Municipality. Per discussion with management of the District Municipality, they confirmed that the asset was built by the District Municipality in 2003 and is owned by the District Municipality. In addition ERF2428 is not a registered number with the Deeds Office.
Land and Buildings	Ugie Town Library	33 500	Per deeds search ERF number 452 is not registered in the name of the municipality, and ERF 2867 do not exist with the deeds office.
Total		1176 100	

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4. Certain assets are recorded at an incorrect amount in the Fixed Asset Register :

	Description	Amount Per Fixed Asset Register (R)	Amount Per Invoice (R)	Variance (R)
1	Server Storage HP Proliant	1	64 871	(64 870)
2	Server Storage HP Proliant	1	64 871	(64 870)
3	Massey Ferguson DPS 195EC	1	141 680	(141 679)
4	Massey Ferguson DPS 190 EC	1	141 680	(141 679)
	Total	4	413 102	(413 098)

5. It was noted for the following vehicles that the registration numbers were duplicated in the Fixed Asset Register:

	Description	Registration Number	Amount Per Fixed Asset Register (R)	Date of Acquisition
1	Isuzu KB 2.5 4x4 FS	FBC 766 EC	191 750	26/06/2008
2	Isuzu KB 2.5 4x4 FS	FBC 771EC	191 750	26/06/2008
3	Isuzu DC 2500 DTI	FBC 766 EC	210 672	01/07/2002
4	Isuzu DC 2500 DTI	FBC 771EC	210 672	01/07/2002
	Total		804 844	

Accordingly no assurance could be obtained that the assets exists and are properly recorded in the Fixed Asset Register.

6. Assets not traced to the Fixed Asset Register as detailed below.

	Description	Registration Number	Amount Per Fixed Asset Register (R)	Comment
1	Nissan Bakkie	CYG566EC	121 719	The vehicle is not recorded in the asset register.
2	Nissan Bakkie	CYG568EC	121 719	Confirmed through inspection that the asset is neither bar coded however recorded in the FAR with a bar code number that relate to the vehicle above.
	Total		243 438	

7. The cost per the trial balance does not agree to the Fixed Asset Register.

Description	Trial Balance (R)	Fixed Asset Register (R)	Variance (R)
Cost	84 695 421	86 074 122	(1 378 701)

8. It was established that a laptop stolen during the year under review had not been written off in the Fixed Asset Register or the General Ledger:

Insurance Claim Number	Date	Description	Acquisition Cost (R)
MHC76J00220	04/12/2008	Laptop	16 983

9. It was established that following disposal amounts as per General Ledger does not agree with the Fixed Asset Register:

	Description	Registration Number	Amount Per Fixed Asset Register (R)	Amount Per General Ledger (R)	Variance (R)
1	Tractor	CSP 685 EC	53 207	8 000	45 207
2	Toyota	CNL 022 EC	89 405	78 425	10 980
3	City Golf	DBC 754 EC	84 000	84 850	(850)
4	City Golf	DBC 748 EC	84 000	84 850	(850)
5	Toyota	CVM 256 EC	59 795	78 788	(18 993)
	Total				35 494

10. Repairs and maintenance have been inappropriately capitalised in the general ledger:

	Invoice Number	Supplier	Date	Amount (Vat Excl) (R)	Explanation
1	83133	Shorten Motors	30/03/2009	1 588	Tractor tire DPS 188 EC
2	83139	Shorten Motors	01/04/2009	378	Repair steering oil, CGP 211 EC
3	83939	Shorten Motors	02/04/2009	7 758	Purchase of tires for vehicle registration number DSB 453 EC
4	83141	Shorten Motors	03/04/2009	592	Purchase of 3 Trim Cut Heads
5	83987	Shorten Motors	06/04/2009	11 605	Supply and fit rims on a trailer, registration number CGP 211 EC
6	83957	Shorten Motors	08/04/2009	739	Purchase of 3 Trim Cut Heads
7	4895	Shorten Motors	28/04/2009	111	This relate to interest charged thus fruitless and wasteful expenditure, also vat was claimed
	Total			22 771	

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11. It was established for the following assets that the amount per the purchase invoice does not agree to the general ledger:

	Description	Date	Invoice Number	GL amount (R)	Invoice amount (R)	Variance (R)
1	HP OFFICEJET H47 PRINTER	26/05/2009	648	7 386	3 693	3 693
2	HP OFFICEJET H47 PRINTER	26/05/2009	648	7 386	3 693	3 693
3	Isuzu KB250 - FFC 112 EC	20/03/2009	5493	149 373	168 736	(19 364)
4	Upgrade Testing Ground	26/03/2009	0007	136 000	135 000	1 000
	Total					(10 978)

In addition, repairs and maintenance have been capitalised in the general ledger for the following:

12. Water Departmental assets should not form part of Elundini Municipality's Fixed Asset Register, as the District Municipality is the responsible Water Authority. This is in terms of the "Water Services Agreement" signed between the District Municipality and Elundini Municipality on the 27 June 2003. However the following asset was recorded in the Fixed Asset Register of the municipality:

Description	Department
Nissan Bakkie - CYG568EC	Water

13. The final trial balance did not match the final signed annual financial statements as follows:

	Total Fixed Assets	Loans Redeemed and other capital receipts	Net Assets
As per AFS	67 677 463	(67 350 128)	327 335
As per TB	67 968 310	(67 640 984)	327 326
Difference	(290 847)	290 856	9

## **Root cause**

Control activities (Financial): Written procedures, authorisations, record keeping, management reviews and asset safeguards are not segregated to prevent fraudulent financial data and asset misappropriation.

## **Risk**

1. Balances in the ledger cannot be substantiated resulting in misstatement of records.
2. Transactions in the general ledger have been misallocated to incorrect votes.
3. Fixed assets balance in the annual financial statements are overstated by R1 176 100.
4. Fixed assets balance may be understated by R413 098 in the Fixed Asset Register.
5. Assets may be duplicated in the Fixed Asset Register.
6. Risk that the financial statements and Fixed Asset Register is either over or understated with regard to the cost.
7. Risk that the financial statements and Fixed Asset Register is either over or understated with regard to the cost.
8. The fixed assets balance is overstated in the annual financial statements.
9. The fixed assets balance is overstated in the annual financial statements.
10. The fixed assets balance is overstated in the annual financial statements.
11. The fixed assets balance is understated in the annual financial statements.
12. The fixed asset balance may be overstated by the Water Assets.

## **Recommendation**

1. All ledgers and sub ledgers should be reconciled on a monthly basis to ensure accuracy of accounting records.
2. Reconciliations per category of assets should be done on a regular basis, between the asset register account and the general ledger to make sure all assets acquired have been accounted for in the correct ledger vote.
3. Management should ensure that fixed assets owned by the municipality are registered in the name of the municipality with the deeds office, and that assets recorded in the Fixed Asset Register exist.
4. Management should ensure that assets are recorded at the correct amount in the Fixed Asset Register.

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5. Management should ensure that identification numbers such as registration number are correctly recorded in the Fixed Asset Register.
6. Management should ensure that all assets of the municipality are bar coded, the unique number should then be recorded in the Fixed Asset Register.
7. Management should ensure that the cost per annual financial statements agrees with the Fixed Asset Register.
8. Assets stolen should be written off in the asset register and the general ledger.
9. Management should ensure that assets are written off in the asset register and general ledger at correct amounts.
10. The general ledger accounts for assets should be reviewed on a regular basis, by a senior official and any incorrect entries should then be journalised and supporting documentation attached. The printouts of the reviewed accounts should be signed by both the preparer and the reviewer, as evidence of their performance and review thereof.
11. The general ledger accounts for assets should be reviewed on a regular basis, by a senior official and any incorrect entries should then be journalised and supporting documentation attached. The printouts of the reviewed accounts should be signed by both the preparer and the reviewer, as evidence of their performance and review thereof.
12. The Fixed Asset Register should be reviewed and all water assets transferred to the District Municipality.
13. The trial balance should be reconciled to the annual financial statements at year end.

### **Management Response**

1. The Fixed Assets Register will be adjusted in line with the trial balance.
  2. The annual fixed assets will be adjusted in line with the trial balance. There is a draft asset management policy, which will be submitted to council in due course.
- 3(a). Mount Fletcher Clinic

The following facts have been established with regard to this property: -

- The land on which the land is situate is unregistered and part of the commonage in Mt Fletcher
- The clinic was built by UKDM with MIG funds
- The clinic is operated by the EC Department of Health
- It is not known whether there is any agreement between the three parties.

In the circumstances, the land value of the property will be determined and brought into the Fixed Asset Register

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(b). Ugie Library

The following facts have been established:-

- A diagram obtained from the Surveyor General's office indicates that erf 2867 is a portion erf 472, Ugie
- In terms of a deeds search conducted, the ownership of erf 2867 is not known
- The remainder of erf 472 is registered in the names of EL Bezuidenhout (7803095032085) and EL Bezuidenhout (4010305004082), who jointly
- The subdivision of the property was done in 1999. The Bezuidenhout family acquired their interest in 1999 (46%) and in 2000 (46%). The ownership of Pioneers Ugie Library dates back to 1954.
- Although the majority ownership of the property is known, the identity of Pioneers is not known
- The possibility is high that the municipality is the owner. The municipality has also been running the library for the benefit of the community.
- Based on the above analysis, it appears to be reasonable to retain the Ugie Library in the FAR and AFS, at R33 500.

(4 + 5 + 6). There is a problem with the fixed assets register that was commissioned to Price Waterhouse Coopers. Despite the clear intentions of the municipality when it appointed PWC in March 2009, which was to ensure that a credible fixed assets register, reconciled to the general ledger, is developed, the register is still not complete.

Pressure is being exerted on PWC to finalise the FAR, which must fundamentally address all the shortcomings on assets as raised by the Auditor General

(7). A final fixed assets register is awaited from the service provider, after which the necessary adjustments will be effected.

(8 + 9). There is a problem with the fixed assets register that was commissioned to Price Waterhouse Coopers. Despite the clear intentions of the municipality when it appointed PWC in March 2009, which was to ensure that a credible fixed assets register, reconciled to the general ledger, is developed, the register is still not complete.

Pressure is being exerted on PWC to finalise the FAR, which must fundamentally address all the shortcomings on assets as raised by the Auditor General

(10). The finding has been noted and the operating expenditure that has been erroneously capitalized will be journalized out of the assets

(11). There is a problem with the fixed assets register that was commissioned to Price Waterhouse Coopers. Despite the clear intentions of the municipality when it appointed PWC in March 2009, which was to ensure that a credible fixed assets register, reconciled to the general ledger, is developed, the register is still not complete.

Pressure is being exerted on PWC to finalise the FAR, which must fundamentally address all the shortcomings on assets as raised by the Auditor General



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(12). Our contention is that the vehicle in question is allocated to the Public Works department and is currently operated by Owen Nxangashe, who is the Supervisor for Public Works and Refuse Removal.

It is also a fact that Ukhahlamba DM has purchased its own vehicles which are being used by the Team Leaders for water and sanitation. These particular vehicle are not and can never be in our fixed assets register.

Name: Khaya Gashi  
Position: Municipal Manager  
Date: 23 October 2009

(13) No comment received from management.

**Auditor's Response**

Management comments are noted.

1. As per inspection of the AFS, this as not yet adjusted for.

2. As per inspection of the AFS, this as not yet adjusted for

3-9. Management comment is noted; however the audit finding is still valid.

10. No adjustments were passed by management; therefore the audit finding is still valid

11-12. Management comment is noted; however the audit finding is still valid.

13. No comment was received from management.

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**Fixed Assets: Control Deficiencies (Property, plant & equipment)**

**Audit finding**

In terms of Section 62(1) of the Municipal Finance Management Act, 56 of 2003 (MFMA) which states that “the Accounting Officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—

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

The following control deficiencies were identified.

1. It was established that log books are not maintained for the following vehicle.

Description	Registration Number	Comment
Isuzu Kb250	FFC 112 EC	Log book exist but not being completed by the driver of the vehicle.

In addition the municipality does not have an asset management policy in place.

2. The entity's fixed Asset Register is not reconciled to the general ledger on a regular and timely basis indicated by the fact that there were no reconciliations available for inspection for any month for the year (error rate of 100%.)
3. No evidence could be obtained that an asset count was performed by the municipality either during the year or at year end.
4. The municipality was unable to provide title deeds for properties owned by the municipality, specifically the Mount Fletcher Clinic (R1,1 million).
5. It was established that the following assets are not recorded in the Fixed Asset Register:

	Description	Asset Serial number	Comment
1	Generator	None	An old generator was identified in Mt Fletcher bus neither bar coded nor recorded in the asset register.
2	HP Laptop 8530	2CE842MFYS	The laptop was identified in location number 10000014

**Root cause**

Control activities (Operational): Directive, preventive and detective controls are not adequate and focused on achieving efficient resource usage and effectiveness, as measured by the extent to which specific control objectives are achieved.

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**Risk**

1. Inappropriate use/misuse of entity assets may go undetected due to control weaknesses.
2. The physical loss of assets could go undetected.
3. Lost municipal assets may not be easily identified and monitored, and the fixed assets disclosed in the annual financial statements might be materially misstated.
4. Property plant and equipment may be overstated in the financial records of the municipality and possible irregular expenditure.
5. The fixed asset register may be understated

**Recommendation**

1. Management should ensure that log books are maintained and completed on a daily basis.
2. Reconciliations should be done at least on a monthly between the fixed asset register and the general ledger accounts ensure all assets have been accounted for in the asset register and the general ledger. The reconciliation should be signed and dated for control purposes. A senior official must review the reconciliation and must sign and date the reconciliation as proof of review.
3. Management should ensure that asset counts are done, and the reports should be availed for audit purposes.
4. Management should ensure that original title deeds are maintained and filed in a secure location by the municipality.
5. A complete fixed asset register should be maintained.

**Management Response**

1. The vehicle FFC 112 EC is allocated to the Community Services Department. It is confirmed that the logbook of the vehicle has not been completed and the driver has also confirmed that the logbook has never been completed (started on 20 October 2009). This matter has been brought to the attention of the Community Services Manager, and the responsibilities of the Community Services Manager as per Section 78 of the MFMA as they relate to asset management have been read to her.
2. This finding is acknowledged. The management of assets needs to be accorded priority attention, and the appointment of suitable asset manager may be the solution.
3. In view of the audit outcomes for the 2007/2008 financial year, the municipality appointed a service provider (Price Waterhouse Coopers) to perform a mobile asset count, bar code the assets, develop an assets register and reconcile the asset register to the general ledger. The project appears to have been badly managed

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from the side of PWC, and not monitored from the side of the municipality, hence there are delays.

4. Finding acknowledged. Title deeds are only available for the commonage, not for other properties. The title deeds will be applied for.

5. There is a problem with the fixed assets register that was commissioned to Price Waterhouse Coopers. Despite the clear intentions of the municipality when it appointed PWC in March 2009, which was to ensure that a credible fixed assets register, reconciled to the general ledger, is developed, the register is still not complete.

Pressure is being exerted on PWC to finalise the FAR, which must fundamentally address all the shortcomings on assets as raised by the Auditor General.

Name: Khaya Gashi  
Position: Municipal Manager  
Date: 23 October 2009

**Auditor's Response**

1, 2, 4, 6 - We noted management comment; the matters will be reported in management letter.

3 - We were not given evidence by your service provider for the asset count.

5 - These assets were subsequently recorded within the asset register. However we recommend that a final count of all assets is performed to ensure that no further assets are not recorded in the register.

The problems identified with regards to fixed asset has been raised as a other matter on the audit report.

**Environmental Matters: Non-Compliance** (Environmental matters)

**Audit finding**

1. Waste site permits

In terms of section 20(1) of the Environment Conservation Act No 73 of 1989:  
No person shall establish, provide or operate any disposal site without a permit issued by the Minister of Water Affairs and that Minister may

- a) issue a permit subject to such conditions as he may deem fit;
- b) alter or cancel any permit or condition in a permit;
- c) refuse to issue a permit:

Provided that such Minister may exempt any person or category of persons from obtaining a permit, subject to such conditions as he may deem fit.

A permit was provided for the Ugie (dated the 30/03/2005) and Mount Fletcher (dated 12/12/2003) disposal site. However, the following permit conditions are not being complied with:

- waste is not compacted and covered on a daily basis.
- windblown waste around the site is not collected daily.
- water testing is not being performed by the municipality.

2. Penalties for non-compliance with permits

In terms of section 29(4) of the Environment Conservation Act of 1989, which deals with offences and penalties, any person who contravenes a provision of section 20(1), 20(6), 22(1) or 23(2) or a direction issued under section 20(5) or fails to comply with a condition of a permit, permission, authorisation or direction issued or granted under the said provisions shall be guilty of an offence and liable on conviction to a fine not exceeding R100 000 or to imprisonment for a period not exceeding 10 years or to both such fine and such imprisonment, and to a fine not exceeding three times the commercial value of any thing in respect of which the offence was committed.

3. Provincial Environmental Implementation Plan

In terms of section 4 of the National Environmental Management Act, No 107 of 1998:

Each provincial government must ensure that—

- (a) the relevant provincial environmental implementation plan is complied with by each municipality within its province and for this purpose the provisions of subsections (2) and (3) must apply with the necessary changes; and
- (b) municipalities adhere to the relevant environmental implementation and management plans, and the principles contained in section 2 in the preparation of any policy, programme or plan, including the establishment of integrated development plans and land development objectives.

The municipality is unaware of the provincial environmental implementation plan.

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Resultantly, the auditors cannot understand the municipality's role in the plan, or confirm that the municipality is complying with the plan.

**Root cause**

Control environment (Policies and procedures): Policies related 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**

1. Waste Site Permits

Permanent damage is being caused to the environment, without the necessary permits to control this.

A health risk is imposed on the community.

2. Penalties for non-compliance with permits

As a result, the municipality may be liable for to maximum fine of R100,000 and further fine up to a maximum of three times the commercial value of the damage caused.

The impact of penalties should they be incurred, have a pervasive effect on the annual financial statements.

1,2,3 The municipality is not in compliance with legislation.

**Recommendation**

Waste Site Permits: The municipality should ensure it complies with all permit conditions.

Provincial Environmental Implementation Plan: The municipality should obtain awareness of the provincial environmental implementation plan and ensure it's compliance thereof.

**Management Response**

1 The municipality has received funding from the National Treasury, and has appointed an advisor to determine the long term management solution for the municipality's solid waste sites. This was done in recognition of the fact that the municipality does not appear to have the capacity to meet the permit conditions.

The permits for Mt Fletcher and Ugie have been forwarded to the auditors.

Name: Khaya Gashi  
Position: Municipal Manager  
Date: 18 November 2009

2-3) No management comments received

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**Auditor's Response**

1. Although the permits have been received from management, the issue remains that the permit conditions were not complied with. Therefore this audit finding is still valid.
- 2-3. No management comments received.

**Matters of governance: Lack of compliance** (Compl. with legisl. (non-AFS))

**Audit finding**

The following instances of non-compliance were noted:

1. Audit committee evaluation

In terms of Section 166(1) - (2) of the Municipal Finance Management Act, "Each municipality and each municipal entity must have an audit committee. An audit committee is an advisory body which must:-

(a) Advise the municipal council, the political office bearers, the accounting officer and management staff of the municipality, or the board of directors, the accounting officer and the management staff of the municipal entity, on matters relating to:

- internal financial control and internal audits
- risk management
- accounting policies
- the adequacy, reliability and accuracy of financial reporting and information
- performance management
- effective governance
- compliance with this act, the Annual Division of Revenue Act and any other applicable legislation
- performance evaluation
- any other issues referred to it by the municipality or municipal entity"

In assessing the audit committee activities in the current period, the following was noted:

(i) The audit committee charter (effective from 01 July 2008 to 29 April 2009)

The audit committee charter did not make reference to the following responsibilities of the committee, as required by the Municipal Finance Management Act.

- Performance management.
- Effective governance. The same issue was identified in the prior year audit.
- Performance evaluation.

(ii) Effectiveness of duties and functions of the audit committee in the current period

The discharge of the audit committee mandate was found to be insufficient in the following areas:

- The assessment of the internal audit function: Although the internal audit function was commented on in the audit committee report to council dated the 16/01/2009, this was very brief and did not adequately address the effectiveness of internal audit. In addition, the report only covered the period 01 July 2008 – 16 January 2009. The remainder of the period was not commented on.
- Consideration of the extent and timing of the external auditors' proposed audit coverage. No evidence was found that this issue was considered by the audit committee in the current period.
- Consideration of the extent of the external auditors' planned reliance on the work of internal auditors. No evidence was found that this issue was



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considered by the audit committee in the current period. The same issue was identified in the prior year audit.

- Communicate to the external auditor, any fraud, suspected fraud or fraud investigation currently being conducted. No evidence was found that this issue was considered in the current period
- Review of the Performance Management System focus on economy, efficiency, effectiveness and impact of the key performance indicators and performance targets. No evidence was found that this issue was sufficiently considered in the current period. The same issue was identified in the prior year audit.

(iii) Operational aspects of the audit committee

The following operational aspect of the audit committee were found to be incorrect as per their terms of reference and/or the Municipal Finance Management Act:

- The Auditor General was only invited to attend three of the four audit committee meetings held during the current period.

(iv) Communication and reporting of the audit committee

The following deficiencies were identified in the current period:

- Only one audit committee report was issued to council on the 16/01/2009, which was not detailed and contained insufficient information relating to the reporting objective required of the audit committee (as per the terms of reference and the Municipal Finance Management Act.) In addition, the report only covered the period 01 July 2008 – 16 January 2009. The remaining period was not reported on.
- The membership of the audit committee was not published in the annual report for the year ended 30 June 2008.
- No reports relating to performance management were issued by the audit committee to management.
- No assessment of the internal audit function was performed by the audit committee in the current period.

2. Internal Audit Evaluation

In terms of section 165 (1) - (2) of the Municipal Finance Management Act, "Each municipality and each municipal entity must have an internal audit unit. The internal audit unit of a municipality or municipal entity must:

(a) Prepare a risk based audit plan and internal audit program for each financial year;

(b) Advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matter relating to:

- internal audit;
- internal controls;
- accounting procedures and practices;
- risk and risk management;
- performance management;
- loss control and;
- compliance with this Act, the annual Division of Revenue Act and any other applicable legislation"

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In assessing the internal audit unit in the current period, the following was noted:

(i) The Internal Audit Charter

The following discrepancies were identified in the current period:

- There is no requirement in the internal audit charter that indicates that the Head of Internal Audit to attend all audit committee meetings.
- There is no mention of the internal auditor's authority to have free and unrestricted access to the external auditors.
- The internal audit charter does not indicate the responsibility to maintain a professional internal audit staff with sufficient skills, knowledge, experience and qualifications. This was identified as a prior year audit issue.
- The internal audit charter does not indicate that the appointment or dismissal of the Head of Internal Audit should be concurred by the audit committee. This was identified as a prior year audit issue.

(ii) The Internal Audit Annual Plan

It was noted in the current period that the internal audit annual plan was only approved by the audit committee on the 24 February 2009. Therefore this plan was not in effect for the entire financial period.

(iii) Internal audit methodology

No audit approach and methodology existed in the current period.

(iv) Communication and Reporting of Internal Audit

The following aspects of communication and reporting by the internal auditors were identified as insufficient for the current period:

- The internal audit unit did not report on performance management or measurement to the audit committee at all in the current period.
- Quarterly reports were not submitted by internal audit to the audit committee detailing the internal audit performance against annual plans.
- The report was not signed by the head of internal audit as evidence of approval.

(v) Other information pertaining to the internal audit function

Although requested directly from the internal auditors, the following information was not provided for audit purposes:

- Proof that the Head of the Internal Audit has the relevant qualifications, experience and skills (tertiary qualification and work experience)
- Documented evidence that internal audit has developed a structured procedure to schedule/allocate the resources (staff, equipment, etc) to meet the objectives as per the audit plans
- Proof that the internal audit staff has the necessary knowledge, skills, experience and qualifications (tertiary qualification or work experience)
- Declaration of independence certificates signed by all internal auditors.

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- Evidence of any specialised services that were obtained from the experts from within or outside the entity, where needed, to assist in conducting audits.
- Evidence that an internal audit training and development programme has been developed to facilitate continuous education of the staff.
- A copy of the internal audit training and development programme and confirm attendance of the programme by inspecting attendance registers.

#### **3. GRAP Implementation**

According to Section 122(3): Application of GRAP: “Both annual financial statements and consolidated annual financial statements must be prepared in accordance with generally recognised accounting practice (GRAP) as set by the Accounting Standards Board (ASB) and prescribed by the Minister of Finance.”

The Minister of Finance delayed the implementation of section 122 by issuing General Notice 552 of 2007, in Government Gazette no. 30013 of 29 June 2007. In general terms, Gazette no. 30013 delayed the implementation of certain aspects of the GRAP reporting framework for high and medium capacity municipalities until 2008-09 and for low capacity municipalities and municipal entities until 2009-10.

The municipality currently prepares their financial statement on the Institute of Municipal Finance Officer (IMFO) basis of accounting. As from the year ended 30 June 2010, the municipality will be required to prepare their financial statements on the GRAP basis of accounting.

The municipality does not currently have an approved and documented policy in place to implement the transition have IMFO to GRAP by 30 June 2010.

#### **Root cause**

Control Activities (Policies and procedures): Policies related 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**

The ineffective functioning of the audit committee and internal audit during the 2009 financial year, which results in a lack of good corporate governance.

Indication that the municipality may not comply with the municipal financial reporting standards (GRAP) in 2009/2010 financial year.

#### **Recommendation**

1 - 2. Policies and procedures should be established within the entity in order to adequately address the requirements set out in the applicable laws and regulations. Established policies and procedures should be adhered to at all times in respect of any undertaking relating to the functioning of the municipality.

3. Management should make it a priority to develop, document and implement a plan for the transition from IMFO to GRAP. Note

**Management Response**

1(i). A number of issues were identified in the audit report and management letter for 2007/2008 pertaining to the audit committee charter, and the sole reason for the review and adoption of a new audit committee charter on 30 April 2009 was to plug the identified gaps.

1 (ii). The above matters are noted and will be escalated to the Audit Committee for further attention.

1 (iii - iv). It is acknowledged that only one report of the Audit Committee has been issued to the Council, and that draft reports for the remainder of the financial year will be considered in the next meeting of the Audit Committee prior to being issued to Council. The matter relating to insufficient information relating to the reporting objective will be taken up with the Audit Committee.

More clarity is required with regard to the publishing of the membership of the audit committee in the audit report.

It is acknowledged that no reports relating to performance management were issued by the audit committee to management.

2 (i). These findings are acknowledged and the revision of the internal audit charter is currently before the audit committee.

2 (ii - v). This finding is acknowledged

Name: Khaya Gashi  
Position: Municipal Manager  
Date: 29/09/2009

3. No management comment received

**Auditor's Response**

(1i - ii) Management's comments are noted, however the audit findings are still valid.

(1 iii-iv ) Management's comments are noted, however the audit findings are still valid. The membership of the audit committee should be published in the internal auditors report.

(2 i -v) Management's comments are noted, however the audit findings are still valid.

3. No management comment received.

The finding has been raised on the audit report in the Governance framework table.

#### **4 Audit Report: Other report responsibility**

#### **Performance Information: Non Compliance with Laws, Regulations and Policies; and Reportable Findings (Performance information)**

##### **Audit finding**

##### A. Non-compliance with regulatory requirements

##### 1. Publicising of the Integrated Development Plan (IDP)

In terms of s25(4) of the Municipal Systems Act No. 32 of 2000:

A municipality must, within 14 days of the adoption of its integrated development plan in terms of subsection (1) or (3)—

(a) give notice to the public—

(i) of the adoption of the plan; and

(ii) that copies of or extracts from the plan are available for public inspection at specified places; and

(b) publicise a summary of the plan.

The municipality did not after the adoption of its IDP, for the period 2008/09 to 20011/12, give notice to the public of the adoption of the IDP.

The integrated development plan of the Elundini Local Municipality was not publicised, as required by section s25(4) of the Municipal Systems Act No. 32 of 2000

##### 2. Content of the Integrated Development Plan (IDP)

##### Lacking Financial Plan

In terms of Section 26(h) of the Municipal Systems Act No. 32 of 2000:

A municipality's IDP must at least identify a financial plan, which must include a budget projection for at least the next three years.

Furthermore, in terms of regulation 2(3) of the Municipal Planning and Performance Management Regulations, 2001:

A financial plan reflected in a municipality's integrated development plan must at least—

(a) include the budget projection required by section 26 (h) of the Municipal Systems Act;

(b) indicate the financial resources that are available for capital project developments and operational expenditure; and

(c) include a financial strategy that defines sound financial management and expenditure control, as well as ways and means of increasing revenues and external funding for the municipality and its development priorities and objectives, which strategy may address the following:

(i) Revenue raising strategies;

(ii) asset management strategies;

(iii) financial management strategies;

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- (iv) capital financing strategies;
- (v) operational financing strategies; and
- (vi) strategies that would enhance cost-effectiveness.

Through discussion with the Municipal Manager, it was agreed that the IDP lacked a financial plan which meets the requirements of regulation 2(3) of the Municipal Planning and Performance Management Regulations, 2001.

The integrated development plan of the Elundini Local Municipality did not include a financial plan, as required by section 26(h) of the Municipal Systems Act No. 32 of 2000 and regulation 2(3) of the Municipal Planning and Performance Management Regulations, 2001.

**Lacking Key Performance Indicator's**

In terms of Section 26(i) of the Municipal Systems Act No. 32 of 2000:  
A municipality's IDP must at least identify key performance indicators and performance targets determined in terms of section 41.

Section 41(1)(a) of the Municipal Systems Act No. 32 of 2000 requires that a key performance indicator to be a yardstick for measuring performance, including outcomes and impact, with regard to the municipality's development priorities and objectives; while

Section 41(1)(b) of the Municipal Systems Act No. 32 of 2000 requires that a performance target to be measurable with regard to each of those development priorities and objectives.

In terms of regulation 9(1) of the Municipal Planning and Performance Management Regulations, 2001:

- (a) A municipality must set key performance indicators, including input indicators, output indicators and outcome indicators, in respect of each of the development priorities and objectives referred to in section 26 (c) of the Municipal Systems Act.
- (b) A key performance indicator must be measurable, relevant, objective and precise.

With reference to these requirements, the IDP does contain performance targets as measurable targets have been set, however key performance indicators are lacking as the field indicator is left blank and these do not include outcomes or an impact and are not measurable, relevant, objective and precise. Thus the KPI's do not serve as a yardstick for measuring performance.

The integrated development plan of the Elundini Local Municipality did not include the key performance indicators determined in terms of its performance management system, as required by sections 26(i) and 41(1)(b) of the Municipal Systems Act No. 32 of 2000 and regulation 9 of the Municipal Planning and Performance Management Regulations, 2001.

**Lacking General Key Performance Indicators**

In terms of s43(2) of the Municipal Systems Act No. 32 of 2000:

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Key performance indicators set by a municipality must include any general key performance indicators prescribed in terms of s43(1), to the extent that these indicators are applicable to the municipality concerned.

The general key performance indicators prescribed in terms of subsection (1) are promulgated within regulation 10 of the Municipal Planning and Performance Management Regulations, 2001.

A comparison of the general KPI's to the KPI's set by the municipality confirmed that the general KPIs do not form part of the municipal KPI's. However, through discussion with the Municipal Manager, the person to whom council has delegated it's responsibility of the PMS, it was confirmed that the general KPI's do not form part of the municipal KPI's as a result of the municipality not having any control over the outcome of the general KPI's.

The key performance indicators set by the Elundini Local Municipality did not include any general key performance indicators applicable to the municipality, as prescribed in terms of section 43(1) of the Municipal Systems Act No. 32 of 2000.

Performance targets impractical and not wholly within the municipality's capacity.

In terms of regulation 12 of the Municipal Planning and Performance Management Regulations, 2001:

(1) A municipality must, for each financial year, set performance targets for each of the key performance indicators set by it.

(2) A performance target set in terms of sub regulation (1) must—

- (a) be practical and realistic;
- (b) measure the efficiency, effectiveness, quality and impact of the performance of the municipality, administrative component, structure, body or person for whom a target has been set;
- (c) be commensurate with available resources;
- (d) be commensurate with the municipality's capacity; and
- (e) be consistent with the municipality's development priorities and objectives set out in its integrated development plan.

Performance targets exist which are impractical and not wholly within the municipality's capacity.

The performance targets set by the Elundini Local Municipality included performance targets which are impractical and not wholly within the municipality's capacity, as prescribed in terms of regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.

### 3. Existence and functioning of a performance audit committee

#### Existence of a performance audit committee

In terms of regulation 14(2) of the Municipal Planning and Performance Management Regulations, 2001:

(a) A municipality must annually appoint and budget for a performance audit committee consisting of at least three members, the majority of which may not be involved in the municipality as a councillor or an employee.

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### **Management letter for the year ended 30 June 2009**

(b) A performance audit committee appointed in terms of paragraph (a) must include at least one person who has expertise in performance management.

(c) A municipality may utilise any audit committee established in terms of other applicable legislation as the performance audit committee envisaged in paragraph (a), in which case the provisions of this sub regulation, read with the necessary changes, apply to such an audit committee.

(d) The council of a municipality must designate a member of the performance audit committee who is not a councillor or an employee of the municipality as chairperson of the committee.

(e) If the chairperson of the performance audit committee is absent from a specific meeting of the committee, the members present must elect a chairperson from the members present to act as chairperson for that meeting.

(f) In the event of a vacancy occurring amongst the members of the performance audit committee, the municipality concerned must fill that vacancy for the unexpired portion of the vacating member's term of appointment.

(g) A municipality must provide secretariat services for its performance audit committee.

(h) (i) A local municipality may in stead of appointing a performance audit committee elect to make use of the performance audit committee of the district municipality in whose area it falls, and that performance audit committee is to be regarded as the performance audit committee of the local municipality in question.

(h)(ii) A local municipality that elects to make use of the performance audit committee of the district municipality in whose area it falls, must notify that district municipality of its decision and make suitable arrangements with the district municipality regarding the availability of that performance audit committee.

(j) A member of the performance audit committee who is not a councillor or an employee of the municipality concerned, may be remunerated taking into account the tariffs determined by the South African Institute of Chartered Accountants in consultation with the Auditor-General.

In terms of s38(1)(a) of the Municipal Systems Act No. 32 of 2000, A municipality must—

(a) establish a performance management system that is -

(i) commensurate with its resources;

(ii) best suited to its circumstances; and

(iii) in line with the priorities, objectives, indicators and targets contained in its integrated development plan

As the municipality is to institute structures commensurate to its resources, the municipality appointed Mr. Quinton Williams as a Performance Audit Committee representative to the audit committee.

The Elundini Local Municipality did not appoint and budget for a performance audit committee, nor was another audit committee utilised as the performance audit committee, as required by regulation 14(2) of the Municipal Planning and Performance Management Regulations, 2001.

Functioning of a performance audit committee/representative

In terms of regulation 14(3 and 4) of the Municipal Planning and Performance Management Regulations, 2001:



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- (3) (a) A performance audit committee must meet at least twice during the financial year of the municipality concerned.
- (b) A special meeting of the performance audit committee may be called by any member of the committee.
- (c) A performance audit committee may determine its own procedures after consultation with the executive mayor or the executive committee of the municipality concerned, as the case may be.
- (4) (a) A performance audit committee must—
- (i) review the quarterly reports submitted to it in terms of subregulation (1) (c);
  - (ii) {internal audit assessments of the PMS};
  - (ii) review the municipality's performance management system and make recommendations in this regard to the council of that municipality; and
  - (iii) at least twice during a financial year submit an audit report to the municipal council concerned.
- (b) In reviewing the municipality's performance management system in terms of paragraph (a) (ii), the performance audit committee must focus on economy, efficiency, effectiveness and impact in so far as the key performance indicators and performance targets set by the municipality are concerned.
- (c) A performance audit committee may—
- (i) communicate directly with the council, municipal manager or the internal; and external auditors of the municipality concerned;
  - (ii) access any municipal records containing information that is needed to perform its duties or exercise its powers;
  - (iii) request any relevant person to attend any of its meetings, and, if necessary, to provide information requested by the committee; and
  - (iv) investigate any matter it deems necessary for the performance of its duties and the exercise of its powers.

No quarterly internal audit assessment reports relating to the functionality of the PMS and whether the PMS complies with the relevant legislation and regulations was performed during the year, as a result no performance reports were submitted to council by the Performance Audit Committee.

The performance audit committee or representative functioning as the performance audit committee did not:

- meet at least twice during the financial year
- review the quarterly reports of the internal auditors on their audits of the performance measurements of the municipality
- review the Elundini Local Municipality's performance management system and make recommendations in this regard to the council of the Elundini Local Municipality
- submit an auditor's report to the Elundini Local Municipality regarding the performance management system at least twice during the financial year.

#### **4. Internal auditing of performance measurements**

Lack of internal audit of performance management system and performance information

In terms of s45(1) of the Municipal Systems Act No. 32 of 2000:

The results of performance measurements in terms of section 41 (1) (c) must be audited—

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(a) as part of the municipality's internal auditing processes

In terms of regulation 14(1) of the Municipal Planning and Performance Management Regulations, 2001:

(a) A municipality must develop and implement mechanisms, systems and processes for auditing the results of performance measurements as part of its internal auditing processes.

(b) Any auditing in terms of paragraph (a) must include assessments of the following:

- (i) The functionality of the municipality's performance management system;
- (ii) whether the municipality's performance management system complies with the Act; and
- (iii) the extent to which the municipality's performance measurements are reliable in measuring performance of municipalities on indicators referred to in regulation 9 and 10;

(c) A municipality's internal auditors must—

- (i) on a continuous basis audit the performance measurements of the municipality; and
- (ii) submit quarterly reports on their audits to the municipal manager and the performance audit committee referred to in sub regulation

(2).

No internal audit assessment of the functionality of the PMS and whether the PMS complies with the relevant legislation and regulations was performed during the year. Thus no quarterly reports on their audits were submitted to the municipal manager and the performance audit committee.

The Elundini Local Municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required in terms of section 45 of the Municipal Systems Act. The internal audit processes and procedures did not include assessments of the functionality of the Elundini Local Municipality's performance management system and whether the system complied with the requirements of the Municipal Systems Act. The internal audit processes and procedures did not include assessments of the extent to which the Elundini Local Municipality's performance measurements were reliable in measuring the performance of the municipality on key as well as general performance indicators. The internal auditors of the Elundini Local Municipality did not audit the performance measurements on a continuous basis and did not submit quarterly reports on their audits to the municipal manager and the performance audit committee.

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5. Content of Annual Performance Report

Lack of comparative prior year performance information and measure taken to improve performance

In terms of s46(1) of the Municipal Systems Act No. 32 of 2000:

A municipality must prepare for each financial year a performance report reflecting—

- (a) the performance of the municipality and of each external service provider during that financial year;
- (b) a comparison of the performances referred to in paragraph (a) with targets set for and performances in the previous financial year; and
- (c) measures taken to improve performance.

The annual performance report did provide a comparison of the performance with targets set for and performances in the previous financial year.

The municipality did not disclose comparative prior year performance information and measure taken to improve performance within its annual performance report, as required by section 46(1) of the Municipal Systems Act No. 32 of 2000.

6. Reportable Findings

In terms of Section 45(1) of the Municipal Systems Act No. 32 of 2000:

The results of performance measurements in terms of section 41 (1) (c) must be audited—

- (b) annually by the Auditor-General.

In terms of Section 20(2)(c) of the Public Audit Act No. 24 of 2004: “An audit report must reflect an opinion or conclusion relating to the performance of the auditee against predetermined objectives.”

These predetermined objectives are governed by international auditing standards, which require that the auditor should obtain sufficient appropriate evidence on which to base the conclusions. Sufficiency is the measure of the quantity of evidence. Appropriateness is the measure of the quality of evidence, that is, its relevance and its reliability.

7. Usefulness and reliability of reported performance information

The following criteria were used to assess the usefulness and reliability of the information on the Elundini Local Municipality’s performance with respect to the objectives in its integrated development plan:

- Consistency: Has the Elundini Local 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?

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- 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:

**Relevance**

Targets were not specific within the PMS (between the IDP, the SDBIP and the City Score Card) of the municipality, as the nature and required level of performance were not clearly identified.

Targets do relate to the development priorities and objectives and are thus found to be relevant. However, key performance indicators are lacking as the field indicator is left blank and these do not include outcomes or an impact and are not measurable, relevant, objective and precise. The key performance indicators do not serve as a yardstick for measuring performance. Thus an assessment of their relevance could not be made.

**Consistency**

Key performance indicators were not defined within the PMS (between the IDP, the SDBIP and the City Score Card) of the municipality. Thus an assessment of the consistency of key performance indicators within the PMS (between the IDP, the SDBIP and the City Score Card) could not be made.

Targets between the SDBIP and the City Score Card are consistent and have been approved; however, the targets in the IDP are not consistent with those in the SDBIP and City Score Card.

**8. Inconsistently reported performance information**

The municipality reported on objectives and targets. The Elundini Local Municipality reported on targets in addition to those as per the approved municipal scorecard. The municipality did not report on key performance indicators.

The following audit findings relate to the above criteria:

Key performance indicators are lacking as these do not include outcomes or an impact and are not measurable, relevant, objective and precise.

Performance targets reported on in addition to those as per the approved municipal scorecard are:

- Potholes patched within three months of being reported by the Ward Councillor
- Increase number of eligible beneficiaries-30 November 2008

**9. Usefulness of reported performance information**

The municipality did not disclose a comparison of performance with targets set for performances in the previous financial year. The municipality did not disclose measures to improve performance.

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The following audit findings relate to the above criteria:

An examination of the annual performance report for confirmation of the disclosure of a comparison of performance with targets set for performances in the previous financial year, indicated that comparative targets were not disclosed.

An examination of the annual performance report for confirmation of the disclosure of measures to improve performance indicated that these were not disclosed.

**10. Reported performance information not reliable**

Source information not accurate

The source information or evidence provided to support the reported performance information with regard to the targets did not adequately support the accuracy of the facts.

The following audit findings relate to the above criteria:

Targets have been indicated as having been met, when this is not factual. These targets have not been met due to extenuating circumstances, beyond the control of the manager to whom the target has been allocated. These targets are:

- Unscheduled electricity supply interruptions resolved within 1 day
- Refuse collection daily in the towns of Maclear, Mount Fletcher and Ugie and at least three times a week in all the townships in Maclear, Mt Fletcher and Ugie

The Community Services manager reported a target as having not been achieved within the manager's employee scorecard, however the target was reported as having been achieved in the annual performance report. The error was identified as having occurred in the annual performance report and was the only instance identified, thus it has been considered as isolated. The target is:

- Outstanding title deeds delivered to property owners in Maclear, Mount Fletcher and Ugie

**Root cause**

Control activities (Performance measurement and reward): Realistic targets are not set for performance measurement and this, in turn, is not linked to an effective performance reward system.

**Risk**

Non Compliance with Laws, Regulations and Policies

**Recommendation**

A. Non-compliance with regulatory requirements

1. Publicising of the Integrated Development Plan (IDP)

The integrated development plan of the Elundini Local Municipality should be publicised, as required by section s25(4) of the Municipal Systems Act No. 32 of 2000

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2. Content of the Integrated Development Plan (IDP)

Lacking Financial Plan

The integrated development plan of the Elundini Local Municipality did not include a financial plan, as required by section 26(h) of the Municipal Systems Act No. 32 of 2000 and regulation 2(3) of the Municipal Planning and Performance Management Regulations, 2001.

Lacking Key Performance Indicator's

The integrated development plan of the Elundini Local Municipality should include the key performance indicators determined in terms of its performance management system, as required by sections 26(i) and 41(1)(b) of the Municipal Systems Act No. 32 of 2000 and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.

Lacking General Key Performance Indicators

The key performance indicators set by the Elundini Local Municipality should include any general key performance indicators applicable to the municipality, as prescribed in terms of section 43(1) of the Municipal Systems Act No. 32 of 2000 and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.

Performance targets impractical and not wholly within the municipality's capacity  
All performance targets set by the Elundini Local Municipality should be practical and wholly within the municipality's capacity, as prescribed in terms of regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.

3. Existence and functioning of a performance audit committee

Existence of a performance audit committee

The Elundini Local Municipality should appoint and budget for a performance audit committee, or utilise another audit committee as the performance audit committee, as required by regulation 14(2) of the Municipal Planning and Performance Management Regulations, 2001.

Functioning of a performance audit committee/representative

The performance audit committee or representative functioning as the performance audit committee should:

- meet at least twice during the financial year
- review the quarterly reports of the internal auditors on their audits of the performance measurements of the municipality
- review the Elundini Local Municipality's performance management system and make recommendations in this regard to the council of the Elundini Local Municipality
- submit an auditor's report to the Elundini Local Municipality regarding the performance management system at least twice during the financial year.

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4. Internal auditing of performance measurements

Lack of internal audit of performance management system and performance information

The Elundini Local Municipality should develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required in terms of section 45 of the Municipal Systems Act. The internal audit processes and procedures should include assessments of the functionality of the Elundini Local Municipality's performance management system and whether the system complied with the requirements of the Municipal Systems Act. The internal audit processes and procedures should include assessments of the extent to which the Elundini Local Municipality's performance measurements were reliable in measuring the performance of the municipality on key as well as general performance indicators. The internal auditors of the Elundini Local Municipality should audit the performance measurements on a continuous basis and should submit quarterly reports on their audits to the municipal manager and the performance audit committee.

5. Content of Annual Performance Report

Lack of comparative prior year performance information and measure taken to improve performance

The Elundini Local Municipality should disclose comparative prior year performance information and measure taken to improve performance within its annual performance report, as required by section 46(1) of the Municipal Systems Act No. 32 of 2000.

B Reportable Findings

6 Usefulness and reliability of reported performance information

Relevance

Targets should be specific within the PMS (between the IDP, the SDBIP and the City Score Card) of the Elundini Local Municipality, by clearly identifying the nature and required level of performance.

Targets should be time-bound within the PMS (between the IDP, the SDBIP and the City Score Card) of the Elundini Local Municipality, by specifying the time period or deadline for delivery.

Key performance indicators set should be specific and measurable, and time-bound to be relevant.

Consistency

Key performance indicators set should be consistent within the PMS (between the IDP, the SDBIP and the City Score Card) to possess the quality of consistency.

Targets in the IDP should be consistent with those in the SDBIP and City Score Card to possess the quality of consistency.

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7. Inconsistently reported performance information

The Elundini Local Municipality should only reported on the approved targets. The Elundini Local Municipality should report on key performance indicators.

8. Usefulness of reported performance information

The Elundini Local Municipality should disclose a comparison of performance with targets set for performances in the previous financial year. The Elundini Local Municipality should disclose measures to improve performance.

9. Reported performance information not reliable

Source information not accurate

The source information or evidence provided to support the reported performance information with regard to the targets should adequately support the accuracy of the facts.

In submitting the performance information, we have given specific instances where the electricity cut offs could not be resolved. This is information submitted voluntarily without any intention of being seen to be hiding anything.

There are many instances of electricity cut offs that have been resolved within the timelines per the scorecard. It is not correct therefore, that the report stating that this was achieved in those instances is NOT factual, particularly having noted the exceptions. A case in point is that the electricity cut off in Ugie in the early hours of the 28th October 2009, occurred as a result of a fault at ESKOM, but was restored by 14h00.

The manager has confirmed this matter and the performance report will be amended accordingly.

**Management Response**

A. Non-compliance with regulatory requirements

1 Publicising of the Integrated Development Plan (IDP)

The finding is acknowledged. Although the budget was published after adoption, it would appear that the IDP was not published.

2. Content of the Integrated Development Plan (IDP)

Lacking Financial Plan

Indeed, the Municipal Manager has confirmed that, the IDP currently has no financial plan as envisaged by the regulation 2 (3). The Municipal Manager has also confirmed having appointed a service provider to develop the financial plan as early as March/April 2009.



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The service provider has advised the municipality of the necessity to develop an infrastructure investment strategy/plan that would be a fundamental basis for the development of the financial plan. This matter is receiving the attention of the Municipal Manager.

Lacking Key Performance Indicator's

Our contention is that the municipality established key performance targets and indicators within the municipal scorecard for 2008/2009. The scorecard is an integral component of the performance management system and this conforms to section 41 of the Systems Act.

The IDP has set key performance areas in terms of the local government strategic agenda and within these KPAs there are performance targets which have been established.

Our view is that, sections 26 and 41 of the Systems Act should not be counter posed but should be read together.

Lacking General Key Performance Indicators

No management comment received.

Performance targets impractical and not wholly within the municipality's capacity

The allegation that the performance targets set by the municipality are impractical has not been substantiated and as such it is not possible to provide an intelligent response thereto.

3. Existence and functioning of a performance audit committee

Existence of a performance audit committee

There is no legal requirement preventing the section 166 Audit Committee from undertaking performance auditing responsibilities. The decision to appoint a performance management expert within the section 166 audit committee was in keeping with the municipality's financial capacity. It is contended furthermore, that ours has been to harmonize the systems act and the MFMA, particularly taking into account section 166(2) (v), (vii) and (viii).

Functioning of a performance audit committee/representative

The municipality has no performance audit committee, as a decision was taken to infuse the responsibilities of the performance audit committee into the section 166 audit committee. Accordingly, Mr. Williams is a member of the Audit Committee and not merely a performance audit committee representative.

It is confirmed that the audit committee met four times during the year under review. It is also confirmed that, due to the ineptitude of the internal auditors, the audit committee was not able to discharge its performance auditing responsibilities.

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4. Internal auditing of performance measurements

Lack of internal audit of performance management system and performance information. It is acknowledged that the internal auditors did not undertake any performance auditing responsibilities during the year under review.

5. Content of Annual Performance Report

Lack of comparative prior year performance information and measure taken to improve performance

Our view is that section 46 of the MSA must be read with the annual report provisions of the MFMA. The performance information submitted to the AG, is a progress report on the implementation of the SDBIP for the 2008/2009 year, of which the matters referred to above may have no relevance.

Our submission, therefore, is that the findings are pre mature and should have awaited the annual report which is currently being prepared.

6. Reportable Findings

No comment necessary

7. Usefulness and reliability of reported performance information

Relevance

Management holds the view that the targets were specific and the contrary must be proved.

Consistency

The above matters require that the auditor concern discuss them with the Municipal Manager to make the MM understand the context thereof.

8. Inconsistently reported performance information

The above matters require that the auditor concern discuss them with the Municipal Manager to make the MM understand the context thereof.

9. Usefulness of reported performance information

The above matters require that the auditor concern discuss them with the Municipal Manager to make the MM understand the context thereof.

10. Reported performance information not reliable

Source information not accurate

The institutional scorecard resembles the performance plan for the Municipal Manager. With regard to the next level of managers, performance plans are prepared which are mainly extensions of the institutional scorecard.

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When reporting is done, it is in terms of the individual performance plan/ SDBIP relevant component and that would normally give rise to discrepancies between the targets per the score card and the overall SDBIP report.

In this particular instance, potholes would be reported on because they were in the scorecard of the Technical Services Manager, whereas in the institutional scorecard, the item was couched at a more higher level e.g. Roads and storm water operations plan submitted to the EXCO.

Name: Khaya Gashi  
Position: Municipal Manager  
Date: 20/11/2009

**Auditor's Response**

1 - 10. We believe our report clearly states the deficiency in the performance information. Therefore although management comments are noted, the audit findings are still valid.

## ANNEXURE B: OTHER IMPORTANT MATTERS

### 5 Other important matters

#### Employee costs: Financial misstatements (Employee costs)

#### Audit finding

##### A. Payouts upon termination

##### 1. Leave Payouts upon termination of employment

In accordance with Section 7.11 (b) ( page 61) of the Human Resources Policies and Procedures manual: " Whenever the services of an employee are terminated, any monies that the municipality owes to the employee will be due and payable by cheque or cash on her/his last working day. It was noted that the leave pay was calculated incorrectly and leave pay accruing to certain employees was not paid.

The findings are summarised below:

#### Leave Payouts

Number	Surname	Initials	Employee Number	Date of Termination	Amount Recalculated by the Auditors (R)	Amount as per Client (R)	Difference (R)
1	Fokazi	L	1126	13/02/2009	54 145	45 596	8 549
2	Mankayi	N	1063	31/07/2008	341	3 578	(3 238)
3	Vundisa	N	3021	31/07/2008	337	3 578	(3 241)
4	Nguta	V	1102	03/10/2008	888	-	888
5	Perkins	B	1001	28/02/2009	10 122	21 022	(10 901)
6	Isaacs	M	1020	06/08/2008	(936)	-	(936)
7	Makalima	M	1169	26/09/2008	-	4 751	(4 751)
8	Dywili	S	1074	22/10/2008	8 107	-	8 107
9	Piliso	J M	1012	21/11/2008	13 043	-	13 043
10	Mdiniso	M	1167	06/07/2008	5 988	4 990	998

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11	Nombida	SK	1174	01/08/2008	3 499	-	3 499
12	Kwape	E T	1189	04/05/2009	2 215	-	2 215
							14 233

**Thirteenth cheque bonus**

Number	Surname	Initials	Employee Number	Termination Date	Amount Recalculated by the Auditors (R)	Payslips	Difference (R)
1	Nguta	V	1 102	03/10/2008	289	-	289
2	Isaacs	M	1 020	06/08/2008	2535	-	2 535
							2 824

This issue was not identified during the prior period audit.

**B. Provision for Leave Pay**

Section 62(1)(a) - (d) states: "The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure-

- (a) That the resources of the municipality are used effectively, efficiently and economically;
- (b) That full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards;
- (c) That the municipality has and maintains effective, efficient and transparent systems-
  - i. of financial and risk management and internal control; and
  - ii. of internal audit operating in accordance with any prescribed norms and standards;
- (d) That unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented."

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2. Non - Capturing of leave forms on the system

Certain leave forms were not captured onto the computer system.

Annual Leave

Number	Surname	Initials	Employee Number	Leave dates as per leave forms		Number of days not captured
1	GHU	L	3010	02/01/2009	02/01/2009	1
2	MNYAMANA	W	1070	30/01/2009	30/01/2009	1
3	NONGCAWULA	M	1062	06/02/2009	09/02/2009	4
						<u>6</u>

Special Leave

Number	Surname	Initials	Leave dates as per leave forms		Number of days not captured
1	Gashi	K	08/01/2009	09/01/2009	2

Sick Leave

Number	Surname	Initials	Employee Number	Leave dates per attendance register/leave forms		Number of days not captured
1	Kosi	K	1071	02/02/2009	06/02/2009	5
2	Nogcawula	M	1062	08/06/2009	08/06/2009	1
						<u>6</u>

This issue was not identified during the prior period audit

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3. No leave forms and not recorded in the leave register

Certain dates in the attendance register are not signed by the employee and marked off as leave. However no leave forms exist and the leave register has not recorded this leave

Number	Surname	Initials	Employee Number	Leave dates as per the attendance register	
1	GWAZILITYE	S	1087	23/09/2008	23/09/2008

This issue was not identified during the prior period audit.

4. Incorrect calculation of leave taken from leave forms

It was noted that the calculations of leave days taken as per the leave forms excluding weekends and public holidays was incorrect for the employee listed below:-

Number	Surname	Initials	Employee Number	Leave dates as per the leave forms		Leave days excluding weekends and public holidays	Recalculated leave days excluding weekends and public holidays	Difference
	FOKAZI	L	1126	24/12/2008	31/12/2008	4	5	1

1

This issue was not identified during the prior period audit

5. Leave forms do not match attendance register

During the performance of the audit. It was noted that the sick leave dates per the attendance register do not match to the leave forms.

Number	Surname	Initials	Employee Number	Sick leave per Attendance Register		Sick leave per Leave forms	
1	Nogcawula	M	1062	04/05/2009	04/05/2009	04/05/2009	06/05/2009

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This issue was not identified during the prior period

6. Leave Provision

It was noted that the leave provision was overstated by R18 152 as per the calculation performed by the auditors due to differences between leave days accruing to employees at year end as per the client and that of the auditors. As this is not a known error, the municipality cannot adjust due to the uncertainties surrounding the controls in respect of leave pay at the municipality.

C. Other Financial Matters

7. 2.5% Notch increase

According to the South African Local Bargaining Council a 2.5% notch increase was to be implemented in February 2009.

The amounts payable to employees in respect of the 2.5% could not be verified as no supporting documentation exists to account for the post and grade level of employees

Number	Employee Number	Initials	Surname	Notch Increase (R)
1	1 120	J P	DLAMINI	819
2	1 061	N A	KAPA	819
3	3 025	M	LENATHA	2 246
4	3 033	P	LESHUTA	2 255
5	1 099	D W	MABALEKA	2 142
6	1 079	M S	MAJANGAZA	74
7	3 031	L	MOOROSI	2 255
8	1 070	W	MNYAMANA	2 255
9	1 119	M	NANI	819
10	3 024	Z M	NKATANI	2 246
11	1 053	M	NXELANA	2 740
12	1 104	M	SAMYALA	2 255
				20 926



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This issue was not identified during the prior period audit

8. Notch increase of 2.5% per annum was duplicated.

As per the South African Local Government Bargaining Council agreement: "Municipalities are directed to implement the 2.5% incremental notch increase annually. Please note that this resolution applies to employees who have been placed on salary scales and have not reached the top of said salary scales."

As per the South African Local Government Bargaining Council agreement: All employers, excluding municipal managers and managers directly accountable to the municipal managers in terms of section 57 (6) of the Municipal Systems Act, shall receive an across the board increase of 8.3% with effect from 1 July 2008 calculated on their basic salary as at 30 June 2009.

Employees have not been placed on a salary post and grade level and no supporting documents exist to verify post and notch levels of employees. While scrutinising the calculations performed by the municipality in implementing the notch increase that was implemented in February 2009, the 8.3% annual increase that was implemented in July 2008 was identified as taken into account again

9. Housing Contracts not in accordance with the approved tariffs and amounts charged to employees not agreeing to contracts

The monthly lease chargers for the employees who are renting municipal buildings for residential purposes as stated in the contract are not in accordance with the municipality's approved tariffs

Number	Surname	Initials	Monthly Rental Charge as per the Contract (R)	Approved Tariffs (R)
Normal Employees				
1	Matyeni	V	1 400	1 471
2	Ghu	LC	333	263
3	Maqhubela	B	350	263
4	Tshaka	F	350	263
5	Petros	M	200	210
6	Vice	BC	1 750	920
7	Lehlapa	PR	200	210

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8	Mde	NL	333	876
9	Mvumvu	MS	642	920
10	Dumeko	S	333	350
11	Baduza	LS	1 100	1 156

Section 57 Managers

12	Gashi	K	1 108	920
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Councillors

13	Mvumvu	DD	1 750	447
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This also had an effect such that amounts charged to employees on the invoices issued monthly did not agree to the contracts.

Number	Surname	Initials	Rental amounts as per the tariffs (R)	Invoice Dates	Rental Chargers as per Contract (R)
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Normal Employees

1	Matyeni	V	1400	1/7/08 - 30/6/09	1 471
2	Ghu	LC	333.4	1/7/08 - 30/6/09	350
3	Maqhubela	B	350.35	1/7/08 - 30/6/09	350
4	Tshaka	F	350.35	1/7/08 - 30/6/09	350
5	Petros	M	200	1/7/08 - 30/6/09	210
6	Vice	BC	1750	1/7/08 - 30/6/09	1 839
7	Lehlapa	PR	200	1/7/08 - 30/6/09	210
8	Mde	NL	333.4	1/7/08 - 30/6/09	350
9	Mvumvu	MS	642	1/7/08 - 30/6/09	675
10	Dumeko	S	333.4	1/7/08 - 30/6/09	350
11	Baduza	LS	1100	1/7/08 - 30/6/09	1 156

S57 Managers

12	Matubatuba	S	1839.25	1/7/08 - 31/3/09	815
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Councillors

13	Mvumvu	DD	1750	1/7/08 - 30/6/09	1 839
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**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

14	Mthi	CK	525.5	1/7/08 - 31/3/09	420
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This issue was not identified during the prior period audit

10. Thirteenth cheque bonus provision

It was noted that Mr Kasumba was not taken into account in the calculation of the thirteenth cheque bonus provision to be raised as he terminated employment at 31 August 2009. Mr. Kasumba was still employed at the municipality as at 30 June 2009 and therefore as at 30 June 2009; an obligation exists for the municipality for this prorated bonus for the months of services that he has rendered to the municipality.

The prorated bonus that Mr. Kasumba is entitled to has been recalculated by the auditors as been an amount of R8 269.

This error was not identified during the prior period audit

11. Water and Sanitation

The journal passed relating to water and sanitation for employee costs was incorrect, the client prepared document received with regard to all employees and their costs for water and sanitation was different to the journal entry passed by the municipality.

There is no evidence of this occurring in the prior year.

12. Salary increase incorrectly calculated

As per paragraph 5.4 of Mr Matubatuba's employment contract: " The employee's all-inclusive annual remuneration package shall be adjusted annually with effect from 1 March linked to a cost-of-living increase based on the Consumer Price Index (CPI)..."

It was noted that the salary increase of Mr. Matubatuba was implemented in April. As the publishing of the Consumer Price Index by Stats SA, was delayed by one month, the municipality implemented the salary increase in April with a back payment to adjust for the salary prospectively. This back pay was incorrectly calculated

**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

	Authorised salary (R)	Amount as per pay slip (R)	Difference = Overpayment (R)
Basic Salary	31 107	34 878	(3 771)
Traveling	25 110	22 561	2 549
Housing	7 268	6 530	738
Calculation of back pay by auditors	6 445	6 929	(484)
	69 930	70 898	968

13. Note 22: Other compulsory disclosures as per Section 125 of MFMA

The municipality follows the Institute of Municipal Financial Officers with regards to the preparation and presentation of financial statements.

Note 22: Other compulsory disclosures as per section 125 of the MFMA did not take journal entry "JNL KG091231" that was passed in the accounting records to reverse the pension fund contributions made by employer to the Ukhahlamba Municipality employers.

**Root cause**

Information and Communication (Financial reporting information): Pertinent information is not identified, captured, used at all levels of the company and distributed in a form and time frame that supports the achievement of financial reporting objectives.

**Risk**

1. Leave Payouts and ProRata Bonuses paid upon termination of employment

- Employees are paid the incorrect amount in respect of the annual leave accruing to them upon termination of their employment, resulting in the misstatement of the employee costs recognised in the financial statements.
- Employees are not paid their annual leave accruing to them upon termination of their employment resulting in the contravention of the human resource policy and procedure manual and the understatement of the employee costs recognised in the financial statements.
- Employee costs of R29 955 936 as disclosed in Appendix B (Analysis of Operating Income and Expenditure) could be understated

2. Non - Capturing of leave forms on the system and
3. No leave forms and not recorded in the leave register and the provision for leave pay, amounting to R1, 2 million as disclosed in note 10, Accounts Payable could be overstated as leave records may be inaccurate and incomplete.
4. Incorrect calculation of leave taken from leave forms
5. Leave forms do not match attendance register: The provision for leave pay, amounting to R1.2 million as disclosed in note 10, Accounts Payable could be misstated as leave records are inaccurate
6. Leave Provision: The provision for leave pay, amounting to R1, 2 million as disclosed in note 10, Accounts Payable is overstated by R90 289
7. 2.5% Notch increase: Employee costs of 29 955 936 as in Appendix B (Analysis of Operating Income and Expenditure) is misstated by 119 056.22
8. Notch increase of 2.5% pa was taken into account twice: Employee costs of 29 955 936 as disclosed in Appendix B (Analysis of Operating Income and Expenditure) could be overstated
9. Housing Contracts not in accordance with the approved tariffs
  - Non compliance with the tariffs approved by the councillors of the municipality.
  - The understatement of income as employees are not charged the new increased and authorised tariffs.
  - Risk of litigation instituted by the employee against the municipality for charging rentals that are not in accordance with leasing contract signed by them.
10. Thirteenth cheque bonus provision
  - The provision for thirteenth cheque bonus calculation performed by the municipality is understated by R8 269
11. Water and Sanitation
 

Risk that the journal entry passed is misstated.  
Risk that the municipality is overstating there debtors.
12. Salary increase incorrectly calculated
 

Employee costs of R29 955 936 as disclosed in Appendix B (Analysis of Operating Income and Expenditure) is overstated by R968
13. Note 22: Other compulsory disclosures as per Section 125 of MFMA
 

Contravention of Section 125 of MFMA and financial statements that are not fairly presented and therefore a contravention of the Institute of Municipal Financial Officers

**Recommendation**

1. Leave Payouts and Prorata Bonuses paid upon termination of employment

Leave accruing to employees upon termination must be calculated and paid over to employees in month that their employment is terminated. The calculation must be reviewed and signed by a senior staff member.

To correct for uncorrect leave payouts in the current period, the following journal must be processed:

Dr Employee Costs R14 233  
Cr Creditors R14233

2. Non - Capturing of leave forms on the system

All leave forms should be captured timorously and an independent senior staff member should review the leave register generated to ensure that all leave forms are accounted for.

3. No leave forms and not recorded in the leave register

Annual leave should only be taken by an employee if an approved leave form exists. These leave forms should be captured timorously onto the system.

4. Incorrect calculation of leave taken from leave forms

Calculations on the leave form indicating the annual leave dates and the annual days taken excluding weekends and public holidays should be reviewed by an independent senior staff member and he/she should sign as evidence of review

5. Leave forms do not match attendance register

Leave forms should be reconciled to the attendance register before processing the leave on the system. Differences should be investigated.

6. Leave Provision

Calculations supporting the raising of the leave provision at year end must be reviewed and authorised by an independent senior staff member.

7. 2.5% Notch increase

All employees should be placed on a post and grade level as per the SALBC scales according to the weight, knowledge and skills required by the job performed by them. The Elundini Municipality should develop an approved list of post levels and grades as per the SALBC for different jobs listed on the approved ogonogram.

8. Notch increase of 2.5% pa was taken into account twice

Calculations concerning notch increases should be reviewed by manager and signed as proof of review. Only then should the notch increase be implemented.

**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

9. Housing Contracts not in accordance with the approved tariffs

Housing contracts with regards to renting of the municipal buildings by the employees must be updated or the terms stipulated in the contract must provide for the fact that the municipality will adjust the rental charged when the councillors approve a new tariff.

10. Thirteenth cheque bonus provision

The thirteenth cheque bonus provision should be increased by R8 269 to account for Mr. Kasumba's pro rata bonus

11. Water and Sanitation

It is recommend that the municipality should show the journal passed with regards to water and sanitation at the correct amount, to rectify the journal passed and the client prepared document a journal entry should be passed as followed:

	DEBIT	CREDIT
Contribution to UIF(4470/0070)(4800/0070)	R 2 811	
Contribution to medical aid (4470/0050)(4800/0050)	R 23 842	
Contribution to Pension Fund (4470/0060)(4800/0060)	R 341 056	
Annual Bonus (4470/0100)(4800/0100)	R 22 155	
Telephone allowance (4470/0120)(4800/0120)	R 6 600	
Standby allowance (4470/0130)(4800/0130)	R 651 120	
Ukhahlamba (W & S Debt) (4800/4800)		R 110 038
Salaries (4470/0010) (4800/0010)		R 28 051
Industrial levy (4470/0090)(4800/0090)		R 45
Traveling allowance (4470/0140)(4800/0140)		R 16 500.

12. Salary increase incorrectly calculated

The overpayment of 968 should be recovered from Mr. Matubatuba

13. Note 22: Other compulsory disclosures as per section 125 of MFMA

The pension fund contributions made by the municipality should be adjusted for the Ukhahlamba municipality employees

**Management Response**

1. Leave Payouts upon termination of employment

K Mdiniso – The appointment letter shows 1 November 2007 – employee was only captured into payroll only in December 2007. It therefore follows that the employee only worked as from Dec. 2007 and nothing was therefore due to her for November

**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

2007. The result is that the leave payout already made is correct as the difference revolves around November and December 2007.

M Nombida Staff 1174 - The employee started in June 2008 and resigned as at 1st August 2008. The employee received his salary on the 25th July 2008 and the same day he forwarded a letter of resignation to the employer. The calculations reflected above should be revised to take off one day unpaid leave. This will be rectified.

T Kwape Staff 1189 – No payment – employee was regarded as having absconded. Employee started working in March 09 and left the municipality as at end April 2009. He failed to give any notice and as a punishment, he had to forfeit a month's leave pay. He also took one day's leave in March 09. If he would be entitled to any leave pay, that would at most be a day's leave.

Name: S. R. MATUBATUBA  
Position: CORPORATE SERVICES MANAGER  
Date: 14TH OCTOBER 2009

Note: No management comments were received for the following:

Points 1 :Thirteenth cheque bonus

Points 1 B. Provision for Leave Pay

Points 2 - 14

**Auditor's Response**

1. The management comments noted. However, the exceptions still remain valid for the year ended.

Note: No management comments were received for the following:

Points 1 :Thirteenth cheque bonus

Points 1 B. Provision for Leave Pay

Points 2 - 14

We assume that management have accepted the finding and will implement the recommendations.



## Inventory: Financial Misstatements (Inventory)

### Audit finding

In terms of section 62(1) of the Municipal Finance Management Act 56 (2003) MFMA which states that "the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—

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

1. The stock count at year end did not agree with the auditor's roll back. In addition the weighted average cost per stock count report listing did not agree with the auditor's recalculated weighted average cost. Details of both of these issues are listed below:

Stock count "roll back" to year end

	Product Description	Client count amount (R)	Auditor's count amount (R)	Variance (R)
1	90mm VJ Couplings	2 709	2 935	(226)
2	63mm VJ Couplings	3 456	2 496	960
3	160mm VJ Couplings	4 469	5 688	(1 219)
4	Diesel	51 300	61 081	(9 781)
5	ABB (BUN)	10 283	-	10 283
6	Beka 250w	5 632	11 263	(5 632)

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7	Wall Unit	10 029	3 109	6 920
8	BEC 44	44 181	17 378	36 803
9	BEC UIU V	22 848	19 061	3 786
10	HTH Granular Dry Chlorine (50 kg)	8 862	5 064	3 798
11	HTH Granular Dry Chlorine	368	-	368
12	HTH Granular Dry Chlorine	1 298	325	974
13	20MM KSM STD3 Meter box	9 955	10 298	343
14	200 X 6M Ultraflo MPVX PR	13 478	-	13 478
15	PVC Pipe 110M Class 9 6M	13 117	3 896	9 221
16	Unleaded Petrol	30 690	8 204	22 486
17	Bip Tap 20mm	1 158	579	579
18	110MM VJ Couplings	3 355	4 575	(1 220)

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Management letter for the year ended 30 June 2009**

19	Straight Coupling 32MM	1 004	136,92	867,16
20	Straight Coupling 20 x 25mm	2 285	91	2 193
	Total			84 296

**Weighted Average Recalculation**

	Code	Description	Average Cost per stock report (R)	Quantity on hand per stock report	Recalculated Average Cost (R)	Variance (R)	Overstatement (Understatement) (R)
1	01C012	90mm VJ Couplings	226	12	195	31	371
2	01c014	63mm VJ Couplings	192	18	99	291	5 234
3	01P005	200 X 6M Ultraflo MPVC	749	18	-	749	13 478
4	01UPV5	160MM x 6m Upvc	313	70	200	113	7 902
5	01ER03	Rolls	15 377	3	-	15 377	46 130
6	01ES08	100W Sodium Vapour Bulb	91	72	107	(16)	(1 143)

**Elundini Municipality  
Management letter for the year ended 30 June 2009**

7	01ULP1	Unleaded Petrol	7	6 500	7	0	(895)
	Total					16 544	71 127

2. It was established that inventory purchased amounting to R78 200 (Cheque number 3076), could neither be traced to the control account nor to the stock ledger.

3. We were unable to trace the following stock items from the floor to the inventory master listing and management was unable to provide explanation for these differences:

	Product Description	Number of Items Counted
1	PVC Valves 110mm	7
2	PVC Valves 63mm	2
3	T's 110mm x 110mm	4
4	Butterfly Valves 110mm	12
5	Pared Coupler 110mm	3
6	Male Coupling 40mm	15

4. It was noted that a Fuel Register (detailing all receipts and issues) is not maintained by the municipality.

Accordingly the accuracy and completeness of fuel could not be verified with respect to an amount of R 81990.

**Root cause**

Control Activities (Operational): Directive, preventive and detective controls are not adequate and focused on achieving efficient resource usage and effectiveness, as measured by the extent to which specific control objectives are achieved.

**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

**Risk**

1. Inventory may be materially overstated/ understated in the annual financial statements.
2. Risk of fraud with regard to petrol is high.
3. Inventory relating to fuel owned by the municipality may be overstated/understated in the annual financial statements.
4. Inventory may be materially overstated/ understated in the annual financial statements.

**Recommendation**

1. Management should ensure that physical stock on hand is reconciled to the stock on the master listing, and stock ledger.

The following journal entry is required:

Dr	Inventory written off	R 84 297	
Cr	Inventory		R 84 297
	Inventory count not agreeing to stock count.		

2. Management should ensure that all purchases should are captured on the system.
3. Management should ensure the following:
  - A register of the fuels received and issued should be kept.
  - All receipts of fuel should be confirmed by dip readings, of which the results should be confirmed on the register.
  - The fuel registers should be reviewed daily by a senior independent official and signed as evidence thereof.
  - The register should be reconciled to the general ledger on a monthly basis.
4. Management should ensure that a variance analysis report is prepared and the reasons for the variances should be investigated, documented and cleared. The supporting documentation should then be attached to the journal as support for the amount being journalised.

## **Management Response**

1. This finding is acknowledged. Stores Management has been prioritised as an area that needs most attention. The main problems are arising due to lack of capacity in stores in terms of human resources. The Stores Management Clerk will be appointed before the end of October. In the meantime, the procurement clerk will be trained on the system so that he can be in a position to deal with the monitoring problems and ensure that all the issues and purchases can be reconciled on a weekly basis to avoid discrepancies. A quarterly stock count process will be done on the 30th of September 2009. The queries on the system will be addressed after the stock count.

The amount of R78 200 was ordered as stock and should be appearing on the system. We asked the consultant to assist in this regard and the response thereof will be availed to the auditors.

The stock items that could not be verified on the floor are the items that we have discovered that the storeman uses different names to the names of the system. The water superintendent has promised to avail himself for identification of these items on the floor.

The municipality keeps record of all requisitions and delivery notes for the issues and receipts of fuel. We are in the process of ensuring that stock reconciliations are done on a monthly basis and fuel will have separate register as per your recommendation.

2. The stock list was printed from the system and after the stock count all the items that could not be found on the system were written off. It is unfortunate that the person who deals with the stock on the system was on leave at that time. We asked the consultant how to process the stock take results and she showed us and we hoped that the system will show the reconciliation results. This will be rectified in the future stock counts as we now know better.

Name: Xoliswa Msuthu  
Position: Supply Chain Practitioner  
Date: 23 October 2009

3. The Elundini Municipality is a water services provider which needs to have in stock items to be used to repair the reticulation network as well as for the purification of water. Stock is purchased in bulk using the appropriate balance sheet vote, and only charged to the Ukhahlamba District Municipality when it is being issued for the purposes described above. In the circumstances, while it is not correct that the Elundini Municipality should not have water and sanitation stock. This is probably one of the cases that the proper accounting treatment should be given more weight to the legal form as per the agreement.

Name: Khaya Gashi  
Position: Municipal Manager  
Date: 23 October 2009

4. The municipality keeps record of all requisitions and delivery notes for the issues and receipts of fuel. We are in the process of ensuring that stock reconciliations are done on a monthly basis and fuel will have separate register as per your recommendation

**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

Name: Xoliswa Msuthu  
Position: Supply Chain Practitioner  
Date: 23 October 2009

**Auditor's Response**

1, 2, 3, 4 - Management comment is noted, the finding will be reported in the final management report.

**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

**Employee costs: Non-Compliance with Applicable Laws and Regulations**  
(Employee costs)

**Audit finding**

Submission of information to the Department of Labour  
According to section 10(2) and 10(3) of the Unemployment Insurance Contributions Act: "An employer must provide information as the Minister of Labour may prescribe by regulation, to the Unemployment Commissioner (UI Commissioner). This employee information must be submitted before the within seven days of changes to the municipality employees.

- The UI-19 form and details regarding the specified format may be obtained from the specification document on the UIF website [www.uif.gov.za](http://www.uif.gov.za).
- Irrespective of where the employer is registered for payment (South African Revenue Service or the UI Commissioner), the UI-19 declaration must ONLY be submitted to the UI Commissioner."

It was noted that the municipality does not comply with section 10(2) and 10(3) of the Unemployment Insurance Contributions Act.

This issue was not identified during the prior period audit

**2. Incorrect Calculation of Overtime Leave**

According to the Human Resources Policies and Procedures of the Municipality the employee is entitled to claim leave for overtime worked. Saturdays time will accrue at one and a half times and Sundays and public holidays will accrue at two time the time worked.

The calculations regarding the overtime leave that employees can claim for working overtime was incorrectly calculated as indicated below:-

	Surname	Initials	Overtime leave days granted	Overtime Leave Days Recalculated
1	BANGISO	D	5	6
2	DLAMINI	J P	6	7

This issue was not identified during the prior period audit.

**3. Post Level and Grade of employees to determine salaries**

The South African Local Bargaining Council (SALBC) required that salaries are in accordance with the SALBC scales. Employees are meant to be placed in a salary post and grade considering the skills and the knowledge required for the job.

No records regarding the post level and the grade are maintained for the employees listed below. It is therefore not possible to agree the salary to the approved SALBC rates.



**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

Number	Employee Number	Initials	Surname
1	2 019	D	BANGISO
2	1 008	C B	COETSER
3	3 010	L	GHU
4	1 087	S	GWAZILITYE
5	1 023	E B	JANUARY
6	1 071	K F	KOSI
7	2 002	C M	LE ROUX
8	1 099	D W	MABALEKA
9	1 079	M S	MAJANGAZA
10	1 052	T T	MATI
11	1 091	N H	MDITSHANE
12	1 070	W	MNYAMANA
13	1 062	M	NONGCAWULA
14	1 053	M	NXELANA
15	1 089	T	PULA
16	1 104	M	SAMYALA
17	1 068	F	TSHAKA

This issue was identified during the prior period audit.

**4. Long service awards**

According to the SALBC, as from 1 December 2008 an employee shall qualify for the following additional leave together with the following monetary awards as recognition for the continuous service at the completion of the following:

- 10 years' service: 10 days accumulative leave plus a once off payment equal to 3% of the employee's annual salary.
- 15 years' service: 15 days accumulative leave plus a once off payment equal to 4% of the employee's annual salary.
- 20 years' service: 15 days accumulative leave plus a once off payment equal to 5% of the employee's annual salary.
- 25 years' service: 15 days accumulative leave plus a once off payment equal to 6% of the employee's annual salary.

Certain employees' long service awards were calculated incorrectly

Employee Number	Initials	Surname	Amount Recalculated (R)	Amount as per Payslip (R)	Difference (R)
2 019	D	BANGISO	4 037	2 422	1 615
1 071	K F	KOSI	1 958	2 295	(337)

1 278

This issue was not identified during the prior period audit

## 5. UIF Calculations

According to Section 6 of the Unemployment Insurance Act: "the amount of the contribution payable in terms of section 5, by an employee, must be one per cent of the remuneration paid or payable to that employee by his or her employer"

Remuneration is defined in Section 1 of the Unemployment Insurance Act as: "remuneration as defined in paragraph 1 of the Fourth Schedule to the Income Tax Act, but does not include any amount paid or payable to an employee by way of any pension, superannuation allowance or retiring allowance; which constitutes an amount contemplated in paragraphs (a), (cA), (d), (e) or (eA) of the definition of gross income in section 1 of the Income Tax Act; or by way of commission; "

The differences below were identified between Unemployment Insurance Fund (UIF) paid, and UIF recalculated as correct for the current period. These differences arose due to the municipality including pension fund company contributions in the remuneration amount used to calculate UIF.

Number	Employee Number	Initials	Surname	Total UIF recalculated for the current period (R)	Total UIF deduction as per payslip (R)	Difference (R)
1	2 019	D	BANGISO	994	1 061	(68)
2	1120	J P	DLAMINI	479	476	3
3	1 087	S	GWAZILITYE	475	488	(13)
4	1 023	E B	JANUARY	670	689	(18)
5	1 061	N A	KAPA	482	513	(31)
6	1 071	K F	KOSI	1 041	1 064	(23)
7	3 025	M	LENATHA	562	615	(53)
8	3 033	P	LESHUTA	697	712	(16)
9	1 099	D W	MABALEKA	533	538	(5)
10	1 079	M S	MAJANGAZA	546	594	(48)
11	1 091	N H	MDITSHANE	1 141	1 112	28
12	3 031	L	MOOROSI	497	543	(45)
13	1 070	W	MNYAMANA	559	569	(11)
14	1 119	M	NANI	494	520	(26)

**Elundini Municipality  
Management letter for the year ended 30 June 2009**

15	3 024	Z M	NKATANI	549	582	(33)
16	1 062	M	NONGCAWULA	539	567	(27)
17	1 053	M	NXELANA	539	572	(33)
18	1089	T	PULA	993	995	(2)
19	1 104	M	SAMYALA	525	530	(5)
20	1 068	F	TSHAKA	940	957	(17)
						(441)

This issue was not identified during the prior period audit

**6. Employees tax annual certificates**

As per Paragraph30(1) of the 4th Schedule of the Income Tax Act: "any person will be guilty of an offence and liable on conviction to a fine or imprisonment where he / she fails to deliver IRP 5 / IT 3(a) certificates to employees or former employees within the prescribed periods."

The municipality does not submit an IT 3 for employees who do not pay income tax as their taxable income does not exceed the tax threshold of R46 000 (employees under the age of 65) and R74 000 (employees who are 65 years or older for the year of assessment ending 28 February 2009).

Employee Number	Surname	Initials	Employment Number
1	Mankayi	T G	1 063
2	Vundisa	L N	3 021
3	Nani	M	1 119
4	Dlamini	J P	1 120
5	Kapa	N A	1 061

**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

7. Accounting Policy in respect of Retirement Benefits

The municipality must comply with Institute of Municipal Financial Officers with regards to the preparation and presentation of financial statements.

Accounting policy number 6: Retirement Benefits in the annual financial statements for the year ended 30 June 2009 addresses the different pension funds that the municipality and the contributions by employees. However, the pension contributions by the Municipal Manager to the National Fund for Municipal Workers is not listed in this note and therefore this note in the annual financial statements is not complete. This is in contravention of the Institute of Municipal Financial Officers

**Root cause**

Information and Communication (Financial reporting information)– 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**

1. Submission of information to the Department of Labour

Risk of fines and penalties payable due to contravention of the Unemployment Insurance Contributions Act

Risk of employees that are not unemployed claiming funds from the Unemployed Insurance Contributions Fund

2. Incorrect Calculation of Overtime Study Leave

Employees granted the incorrect number of overtime leave days

3. Post Level and Grade of employees to determine salaries

Salaries paid to employees do not match the amount of skill and knowledge required for the job

**Elundini Municipality  
Management letter for the year ended 30 June 2009**

4. Long service awards

Employees were paid incorrect amounts that they were entitled to according to the bargaining council with SALBC.

5. UIF Calculations

Contributions are overstated therefore resulting in employees contributing more than required to the Unemployment Insurance Fund

6. Employees tax annual certificates: As per Paragraph30(1) of the 4th Schedule of the Income Tax Act: "any person will be guilty of an offence and liable on conviction to a fine or imprisonment.

7. Accounting Policy in respect of Retirement Benefit: The financial statements are not fairly presented as there has been a contravention of the Institute of Municipal Financial Officers

**Recommendation**

1. Submission of information to the Department of Labour.

Upon termination of employment, the UI-19 form should be completed and reviewed by an independent senior member of staff. This form should be submitted within 7 days of change of employment to the Unemployment Insurance Commissioner

2. Incorrect Calculation of Overtime Study Leave

Calculations should be reviewed by an independent senior staff member and sign the form as proof

3. Post Level and Grade of employees to determine salaries

The municipality should evaluate the skill, knowledge and the experience needed for all staff positions as per the organogram and then place employees within a post and grade level. An independent senior staff member should then authorise the post and grade levels. Authorised supporting documentation should then be placed in the employees file as proof of each employee's post and grade level.

**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

4. Long service awards

Calculations should be reviewed by an independent senior staff member before payment of long service awards is made.

5. UIF Calculations

The SEBATA system that automatically calculates the UIF contributions payable by the employee should be adjusted for the fact that remuneration excludes pension fund contributions made by the employer on behalf of the employee

6. Employees tax annual certificates

For employees who have taxable income that is below the tax threshold, the municipality needs to submit an IT3B

7. Accounting Policy in respect of Retirement Benefits

The accounting policy note number 6 in the financial statements: Post Retirement Benefits should be amended to include the fact that the municipal manager contributes to the National Fund for Municipal Workers

**Management Response**

1. Submission of information to the Department of Labour

The finding is acknowledged. The last return was submitted in September 2008 and the staff omitted to forward further returns. This matter is currently rectified.

2. Incorrect Calculation of Overtime Leave

Our calculation reflected 5,75 days for Bangiso and 6,50 days for Dlamini. It would appear that the AG rounded off these figure to get to 6 days and 7 days respectively. Our view is that the three quarters of a day does not translate into a full day.

**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

3. Post Level and Grade of employees to determine salaries

The above listed employees were employed in 2002 and given irregular salary scales ( scales that were not within the prescribed level for the Elundini Municipality). When this matter was presented before the bargaining council some years back, the principle of contractual to holder was proposed, which effectively meant that the salary scales as awarded to the employees upon their assumption of duty could not be tempered with. There is nothing much that the municipality can do about this, except to acknowledge that the said employees would not be in a position to benefit from notch increases as long as their salary scales are above the prescribed limits.

4. Long service awards

This finding is acknowledged and will be further investigated

Name: S Matubatuba

Date: 19 November 2009

Position: Manager – Corporate Services

5. UIF Calculations

We are following up this matter with Sebata Financial Management System vendors, so as to better understand the reasons for the discrepancies as identified by the AG. As soon as Sebata has reverted to us, we shall, where necessary, update and/ or amend the configurations in the payroll system

6. Employees tax annual certificates

The finding pertaining to the IT3 is acknowledged. This matter has been escalated to the SEBATA consultants to further assist.

Name: Khaya Gashi

Position: Municipal Manager

Date: 19 November 2009

**Elundini Municipality  
Management letter for the year ended 30 June 2009**

**Auditor's Response**

1, 3, 4, 5, 6, 7 - Management comments have been noted. However, the exception still stands for the year ended 30 June 2009.



**Elundini Municipality  
Management letter for the year ended 30 June 2009**

**Inventory: Compliance (Inventory)**

**Audit finding**

Payments were made on faxed copies of the following invoices:

	Description	Supplier	Requisition Number	Amount (R)	Comment
1	HTH Granular 50kg Chlorine	Pool and Patio	10314	7 610	Faxed from fax number 043-7351569, dated May 20. The fax number is on the Pool and patio Letterhead.
2	HTH Granular 50kg Chlorine	Doug Gibson	10314	7 850	Faxed from fax number 043-7351569, dated May 21, page 2.
3	HTH Granular 50kg Chlorine	Aqua-style	10214	7 799	Faxed from fax number 043-7351569, dated May 21, page 1.
	Total			23 259	

The following was paid on a faxed copy of the quotation:

Supplier	Requisition Number	Amount (R)	Date
ENGEN	11005	53 960	11/06/2009

**Root cause**

Control activities (Financial): Written procedures, authorisations, record keeping, management reviews and asset safeguards are not segregated to prevent fraudulent financial data and asset misappropriation.

**Risk**

There may be a risk of duplicated payments as well as possibly increase fraudulent transactions.

**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

**Recommendation**

No payments should be made unless there is adequate original supporting documentation.

**Management Response**

Quotations were sourced from three suppliers for water purification chemicals, which are only available in East London. One supplier (Pool and Patio) faxed through a quotation from facsimile number 043 735 1569 on 20 May 2009. On 21 May 2009, the Water and Sanitation Superintendent drove to East London while the other companies had not yet provided quotations. The Superintendent visited the suppliers in person, and got the remaining quotations from Doug Gibson and Aquastyle. There was a problems of lack of chemicals which was affecting the quality of water, hence the Superintendent wanted to come back from EL with the chemicals. In order to facilitate this, Pool and Patio, being the cheapest supplier, was approached for the purpose of utilizing their fax machine to fax all the quotations to Maclear. That is the reason for the same fax number.

Name: Thembelani Ngceba  
Position: Water and Sanitation Superintendent  
Date: 14 October 2009

It is the general practice of the suppliers of bulk fuel to insist on payment prior to delivery of fuel. The municipality pays the supplier and receives the invoice when the fuel is delivered. In the above case, invoice number IN250346 dated 26 June 2006 from East Cape Fuels is appended to the payment voucher.

Name: Khaya Gashi  
Position: Municipal Manager  
Date: 14 October 2009

**Auditor's Response**

Management comments have been noted. However the exception still remains valid for the year ended 30 June 2009

## **General IT Controls: Internal Control Deficiencies (General IT controls)**

### **Audit finding**

In terms of Section 62 (c) of the Municipal Finance Management Act, "An accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control."

The following control deficiencies were identified in the current period:-

#### **1. Access Controls around SEBATA FMS system**

Access controls (both physical and logical) to computers and the contained information are inadequate. User account management procedures have not been developed and implemented.

This issue was identified in the prior year.

#### **2. Data Backups**

Backups are not taken and tested regularly.

This issue was identified in the prior year.

#### **3. Lack of IT strategy or Master system plan**

No current IT strategy or Master system plan exist.

This issue was identified in the prior year.

#### **4. Lack of physical protection against fire hazards**

There is no adequate physical protection for the server room in the event of a fire.

This issue was identified in the prior year.

#### **5. Lack of regularly scheduled preventive maintenance of IT related hardware**

No regularly scheduled preventive maintenance of IT related hardware, hardware related faults may not be detected and corrected early.

This issue was identified in the prior year.

#### **6. Lack of formal written disaster recovery plan or business continuity plan.**

No formal written disaster recovery plan or business continuity plan exist.

This issue was identified in the prior year.

#### **7. No off-site storage of critical files, programs and systems documentation.**

There is no off-site storage of critical files, programs and systems documentation.

This issue was identified in the prior year.

8. Monitoring procedures and incident reporting procedures have not been developed and implemented.

Capacity monitoring procedures and incident reporting procedures have not been developed and implemented.

This issue was not identified in the prior year.

### **Root cause**

Control Activities (Information systems): 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**

The following risks have been identified:

#### 1. Access Controls around Sebata FMS system

Without formal procedures and clearly established responsibilities for the management of user accounts there is a risk that users might be granted or gain inappropriate access to functions in the system.

#### 2. Data Backups

Without backups being regularly made and tested, the entity may not be able to continue in the event of an incident which compromises the hardware or software.

#### 3. Lack of IT strategy or Master system plan

Without an IT strategy or Master system plan, IT projects or activities are not in line with the business plans, resulting in the business not achieving its goals that are reliant on IT; and unforeseen cost implications exist for the municipality as well as the risk of its objectives not being met.

#### 4. Lack of physical protection against fire hazards

Without adequate fire protection in the server room, the entity may not be able to continue in the event of a fire.

#### 5. Lack of regularly scheduled preventive maintenance of IT related

Without, regularly scheduled preventive maintenance of IT related hardware, hardware related faults may not be detected and corrected early.

#### 6. Lack of formal written disaster recovery plan or business continuity plan.

In the absence a formal written disaster recovery plan or business continuity plan there is a risk that operations and maintenance on the system being disrupted for a considerable period of time should a disaster occur.

**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

7. No off-site storage of critical files, programs and systems documentation.

In the event of a disaster operations of the municipality be hampered.

8. Monitoring procedures and incident reporting procedures have not been developed and implemented

Hardware and software failures may not be timeously identified.

**Recommendation**

The following recommendations have been made:

1. Access Controls around Sebata FMS system

User account management procedures should be developed, approved and implemented.

2. Data Backups

Backups should regularly be made and tested.

3. Lack of IT strategy or Master system plan

A formalised strategy should exist.

4. Lack of physical protection against fire hazards

Adequate fire protection should be implemented in the server room.

5. Lack of regularly scheduled preventive maintenance of IT related

Regularly scheduled preventive maintenance of IT related hardware.

6. Lack of formal written disaster recovery plan or business continuity plan.

Formal written disaster recovery plan or business continuity plan should be developed, approved, implemented and communicated to all users.

7. No off-site storage of critical files, programs and systems documentation.

Critical files, programs and systems documentation should be stored off-site.

8. Monitoring procedures and incident reporting procedures have not been developed and implemented

Capacity monitoring procedures and incident reporting procedures should be performed.

**Management Response**

1. Access Controls around Sebata FMS system

**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

Access to the Sebata FMS system is done in two ways:

Access through the Domain Name Server (DNS) to gain access to a computer on the domain

Access through Sebata FMS by means of a password that is changed on monthly bases.

Sebata FMS only runs on the designated user profile.

**2. Data Backups**

The municipality is in the process of acquiring a comprehensive data backup system. This has been budgeted for in the current financial year.

**3. Lack of IT strategy or Master system plan**

In order to address this challenge, a session was held with SITA on 29 September 2009 and a company contracted by SITA (Tech Knowledge Consultants) wherein a request was made to SITA who in turn made a presentation. The main challenge identified was lack of Municipal ICT Strategic document. To this end, a proposal was to be prepared and submitted. A copy is available upon request. With the assistance from the SITA, the municipality is to source funding to drive the formulation of the ICT Strategic document.

**4. Lack of physical protection against fire hazards**

We are in the process of acquiring a fire suppression system, raised flooring and access controlled door for the server room. This was previously procured but the service provider allocated the job could not proceed further as the sole director thereof passed away. This will be done and finalised during the current financial year.

**5. Lack of regularly scheduled preventive maintenance of IT related hardware**

All the hardware is fairly new and is still under manufacturer warranty. We also developed a Fault Reporting Database to monitor repeating faults and to help with problem diagnosis.

**6. Lack of formal written disaster recovery plan or business continuity plan.**

This will be covered in the MSP. See 3 above.

**7. No off-site storage of critical files, programs and systems documentation.**

Off-site storage will be identified once the backup system is acquired.

**8. Monitoring procedures and incident reporting procedures have not been developed and implemented.**

We have developed a database for fault and incident reporting to assist in system diagnosis.

**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

Name: Khaya Gashi  
Position: Municipal Manager  
Date: 20/11/2009

**Auditor's Response**

1. Access Controls around Sebata FMS system

Access controls (both physical and logical) to computers and the contained information are inadequate. User account management procedures have not been developed and implemented. Without formal procedures and clearly established responsibilities for the management of user accounts there is a risk that users might be granted or gain inappropriate access to functions in the system. As a result the finding stands.

2. Data Backups

This finding relates to the IT environment as it existed during the 2008/09 Financial year. It is noted that improvements are being effected, however the deficiency existed for the year under review and thus the finding stands.

3. Lack of IT strategy or Master system plan

This finding relates to the IT environment as it existed during the 2008/09 Financial year. It is noted that improvements are being effected, however the deficiency existed for the year under review and thus the finding stands.

4. Lack of physical protection against fire hazards

This finding relates to the IT environment as it existed during the 2008/09 Financial year. It is noted that improvements are being effected, however the deficiency existed for the year under review and thus the finding stands.

5. Lack of regularly scheduled preventive maintenance of IT related hardware

It is accepted that the existing hardware is still under manufacturer warranty. However, without, regularly scheduled preventive maintenance of IT related hardware, hardware related faults may not be detected and corrected early. The risk that data or service delivery loss may occur due to not having performed regular scheduled preventive maintenance of IT related hardware, thus the finding stands.

With regards to the development of a Fault Reporting Database to monitor repeating faults and to help with problem diagnosis, it is noted that improvements are being effected, however the deficiency existed for the year under review and thus the finding stands.

6. Lack of formal written disaster recovery plan or business continuity plan.

**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

This finding relates to the IT environment as it existed during the 2008/09 Financial year. It is noted that improvements are being effected, however the deficiency existed for the year under review and thus the finding stands.

7. No off-site storage of critical files, programs and systems documentation.

This finding relates to the IT environment as it existed during the 2008/09 Financial year. It is noted that improvements are being effected, however the deficiency existed for the year under review and thus the finding stands.

8. Monitoring procedures and incident reporting procedures have not been developed and implemented.

This finding relates to the IT environment as it existed during the 2008/09 Financial year. It is noted that improvements are being effected, however the deficiency existed for the year under review and thus the finding stands.



**Fruitless and Wasteful Expenditure: Non compliance with the MFMA (Fruitless & wasteful exp.)**

**Audit finding**

Liability and recoverability

In terms of section 32, sub-section 2 of the Municipal Finance Management Act, "A municipality must recover unauthorised, irregular or fruitless and wasteful expenditure from the person liable for that expenditure unless the expenditure:

- (a) in the case of unauthorised expenditure is authorised in the adjustments budget or certified by the municipal council, after investigation by a council committee as recoverable and written off by council; and
- (b) in the case of irregular or fruitless and wasteful expenditure, is, after investigation by a council committee, certified by the council as irrecoverable and written by the council.

As at the time of the audit testing, the fruitless and wasteful and unauthorised expenditure relating to the compensation commissioner interest and penalties was condoned in the council meeting held on the 14/10/2009. This was confirmed through inspection of the minutes of the council meeting from this date. As per discussion with Mr Gashi (MM), the council only meets four times a year and this is why this condonement occurred late after year end. However, this should be a continuous process within the municipality and not only occur at year end. Management should continuously be aware of any instances of fruitless and wasteful expenditure that are occurring throughout the year and should present these instances to council on a continuous basis.

This issue was not identified in the prior period audit.

Disclosure

As noted above, the disclosure relating to fruitless and wasteful, irregular and unauthorised expenditure is not complete for the current period due to the following:

No mention is made as to the recoverability of the amounts (whether they were recovered from the guilty party or written off by council)

The disclosure for fruitless and wasteful, irregular and unauthorised expenditure was found to not be fairly presented in the prior period.

**Root cause**

Control Environment (Participation by the accounting officer/authority): The accounting officer/authority does not understand and exercise oversight responsibility related to financial reporting and related internal control.

**Risk**

Possible non compliance with the Municipal Finance Management Act and inadequate disclosure of fruitless and wasteful expenditure.

**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

**Recommendation**

The Municipal Finance Management Act should be complied with in terms of regulations addressing unauthorised, irregular, fruitless and wasteful expenditure incurred by the municipality. The Accounting Officer should take ownership of the monitoring of compliance with this act in term of the requirements related to unauthorised, irregular, fruitless and wasteful expenditure.

**Management Response**

The fruitless and wasteful expenditure was reported to the Executive Committee and a report was presented to the council on 14 October 2009. This matter has also been reported to the Auditor General and the MEC for Local Government and Traditional Affairs.

Name: Khaya Gashi  
Position: Municipal Manager  
Date: 15 November 2009

**Auditor's Response**

Management's comment has been noted. However, the exception still stands as at 30 June 2009 as the reporting should have occurred more timeously. Although council meets only four times per annum, if the municipality continuously keeps council updated on fruitless and wasteful expenditure throughout the period, and not just at year end, this will allow for more timeous condoment of the fruitless and wasteful expenditure by council and consequently timelier reporting in terms of section 32 of the Municipal Finance Management Act.

**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

**Investments: financial misstatements (Investments)**

**Audit finding**

In terms of the Municipal Finance Management Act No. 56 of 2003, Section 62(c), "the Accounting Officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control."

The Finance Management Grant (FMG) investment account withdraws had the following errors:-

- duplicated withdraws for the same invoice

The municipality claimed the License and agreement expenditure for Syntell (cheque 876) twice from the MSIG investment account R200 350.

This issue was identified in the prior year audit.

**Root cause**

Information and communication (Financial reporting information): Pertinent information is not identified, captured, used at all levels of the company and distributed in a form and time frame that supports the achievement of financial reporting objectives.

**Risk**

Risk that the investment (Conditional grant) is being misused as no control is obtained over the withdrawing of monies.

**Recommendation**

Recommend that the MSIG investment be reimbursed with the following journals being passed:

Dr: Investment MSIG (9250/8510)	R200 350
Cr: MSIG Fund (9000/8280)	R200 350

All payment transactions through MSIG investments should be reviewed by management against the investment register and supporting documentation. This will prevent unnecessary errors from occurring.

**Management Response**

This is acknowledged. However, this was picked up in the course of the preparation of the financial statements, hence the R200 350.17 has been properly accounted for in the current liabilities (MSIG fund).

**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

Name: Khaya Gashi  
Position: Municipal Manager  
Date: 20/11/2009

**Auditor's Response**

Management comments are noted. However no adjustments were passed.  
Therefore the finding is still valid

## **Statutory & Trust Fund: Control over funds (Reserves)**

### **Audit finding**

Concomitant assets:

The following funds have inadequate concomitant assets:

#### 1. Statutory fund (Revolving fund):

A difference in the opening balance per the investment and statutory fund. The investment was short paid on sales of land; a payment was not claimed from the investment relating to the refund of sales of land.

#### 2. Trust Funds (Voters station):

The municipality has not deducted an amount out of the investment that relates to the financial year under review

#### 3. Trust Funds (Library):

The library investment and trust differs. The difference relates to the opening balance  
The municipality has not deducted amounts relating to 2007/08 financial year from the library trust,

#### 4. Trust funds (MSIG):

The municipality has not deducted amounts relating to 2007/08 financial year from the MSIG Trust.

#### 5. Trust funds (CMIP):

The municipality has not deducted amounts relating to 2007/08 off for the MSIG Trust and a VAT amount was claimed from the CMIP investment account but has not been debited off the trust fund.

#### 6. Trust Funds (MIG):

**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

An excess amount transferred to the trust. An amount received at year end but was never transferred to the investment account. The transfer only was processed in July 2009. There is a risk that the municipality is losing out on interest earned as the funds are not transferred to the investment timously.

Statutory fund:		
	Revolving	Amount (R)
1	Difference in opening balances- need to add to investment	237 011
2	Shortage- land sales to investment- need to add to investments	26 024
3	Payment not claimed from investment – need to claim from investment	(10 000)
4	Erroneous payment in to investment account	(110 400)
Trust Funds:		
Voter station		
5	Payment not deducted off investment at year end- need to claim off investment	98 751
Library		
6	Payment not deducted off investment for 2007/8- need to deduct off investment	246 538
MSIG		
7	Payment not deducted off investment for 2007/8- need to deduct off investment	628 334
CMIP		
8	Payment not deducted off trust for 2007/8- need to deduct off trust	152 587
9	Vat claimed from investment but not debited off trust- need deduct off trust	10 146
MIG		
10	Excess amount transferred to trust – deduct off trust fund	1 687 123

**Elundini Municipality  
Management letter for the year ended 30 June 2009**

11	Amount received on 30 June 2009 but not transferred to investment register/account until July- add to investment account	1 344 000
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**Root cause**

Control activities (Financial): Written procedures, authorisation, record keeping, management reviews and asset safeguards are not segregated to prevent fraudulent financial data and asset misappropriation.

**Risk**

Trust funds and statutory funds may be under or overstated. In addition, there may be inadequate control over the allocation of trust funds/statutory funds.

Statutory funds may be overstated by R142 635

Trust funds may be overstated/understated by R2 220 232

**Recommendation**

The investment, trust and statutory funds should be disclosed at the correct amounts in the annual financial statements.

Controls over withdrawing from the investment and debiting the reserves should be controlled. For every withdrawal from the investment account there should be supporting documentation and a debit off the trust/statutory funds.

1. Statutory fund:

Opening balance: the Municipal should find the supporting documentation relating to the difference in opening balance and claim from the investment fund.

Shortage on sales of land:

Note with regards to shortage on sales of land this is more of a control issue, there should always be a concomitant asset for all funds.

Payment not claimed off the investment:





**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

In order to avoid this situation in future, a system of review should be implemented where the investments are compared monthly to the project funds in order to ensure there is a concomitant asset for all funds. Differences should be followed up and the entire process should be overviewed and supervised by management.

**Management Response**

Once the audit is finalised, we shall harmonize the funds with the investments by reimbursing the fund or the operating account as the case may be.

Name: Khaya Gashi  
Position: Municipal Manager  
Date: 29 October 2009

**Auditor's Response**

Management comments are noted. However no adjustments were made by the municipality, therefore the finding is still valid.

## **Purchases and payables: Financial misstatements (Operating expenditure)**

### **Audit finding**

In terms of the Municipal Finance Management Act No. 56 of 2003, Section 65, "the Accounting Officer of a municipality is responsible for the management of the expenditure of the municipality."

#### 1. Creditors listing

The balance of the creditors listing at 30 June 2009 does not agree to the balance of the creditors control account in the general ledger, the creditors listing is R 23 779 less than the creditors control account.

This issue was not identified in the prior period audit.

#### 2. Legal Costs

It was found that an amount owing to Smith Tabata for legal costs was not included in the creditors' listing

### **Root cause**

Control Activities (Financial): Written procedures, authorisations, record keeping, management reviews and asset safeguards are not segregated to prevent fraudulent financial data and asset misappropriation.

### **Risk**

#### 1. Creditors listing

This indicates that the creditors control account is overstated.

#### 2. Legal Costs

This causes creditors to be understated

### **Recommendation**

#### 1. Creditors listing

Reconciliation should be performed to determine reasons and the difference corrected. A monthly reconciliation that is appropriately reviewed should be performed.

#### 2. Legal Costs

The municipality should recognise all invoices received from suppliers and creditors reconciliations should be performed monthly. If the municipality is disputing this liability, then consideration should be given as to contingent liability disclosure.

The following journal entry is needed to account for this:

**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

DR Legal Cost	R35 218.86	
CR Creditors Control (9250/9350/0000)		R35 218.86

**Management Response**

1. This matter has been addressed as part of the responses to the (approximately 75 items) Request for information issued on 16 October 2009

Name: Khaya Gashi  
Position: Municipal Manager  
Date: 5 November 2009

2. There was no management response for this point.

**Auditor's Response**

1. Management's response is acknowledged and the audit finding still stands.

2. The audit finding is still valid and the recommended journal entry has been added to the schedule of identified misstatements.

**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

**Related Parties: Lack of internal control (Related parties)**

**Audit finding**

In terms of section 62 (c) of the Municipal Finance Management Act, "An accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control."

The following councillors and employees had interests in affiliated entities but did not disclose the interest in the declaration of interest forms:

Employees	Position	ID No	Affiliated entity found	Type of Affiliation	Status
Mr Luyolo Fokazi	Former CFO	7308245899083	Inxili Investment	CC Member	Active
Ms Chuleza Nambisa Qotoyi	Technical Services Manager	7910250338087	Prideshef 1143	CC Member	Active
Mr Sandile Matubatuba	Corporate Services Manager	6604095381086	Njanjani- Greyling Construction	CC Member	Active
Mr Sandile Matubatuba	Corporate Services Manager	6604095381086	Victory Ticket 924	CC Member	Active

Councillor	Position	ID number	Affiliated entity found	Type of Affiliation	Status
L.S. Baduza	Speaker	5011160680080	Muruo Leisure Reports	Director in private company	Active
P.S. Leteba	Chairperson: Finance Standing Committee	6610090676081	Thusethe Trading Services	CC Member	Active

This issue was not identified in the prior year.

**Root cause**

Control Activities (Selection and development of control activities): Control activities are not selected and developed with consideration of their cost and their potential effectiveness in mitigating risks to the achievement of financial reporting objectives.

**Risk**

There is a possibility that should employees and councillors not declare their financial interests, that related party transactions may occur without the municipality's knowledge. This will lead to inadequate disclosure with respect to this component.

**Recommendation**

All councillors and employees should fully disclose all financial interests in other entities.

The declaration of interest form should be designed to ensure that all required disclosures are encouraged. This form should be further designed that it states that where there are changes in a particular persons circumstances, that it is their obligation to disclose this to the municipality.

### **Management Response**

Mr L Fokazi has left the employ of the Elundini Municipality and cannot provide a response herein.

Please refer to the affidavit with regard to her alleged involvement with Prideshef 1143

An affidavit was provided to the auditors in respect of the companies allegedly associated with Mr Matubatuba. Please find herewith a copy of the affidavit.

Councillor Baduza acknowledges that before she became a councillor, she was involved with the above company and she has not been active in the company since her assumption of service with the municipality. She will however disclose this matter in the relevant register until such time that she officially resigns from the entity.

Councillor Leteba has just constituted a company and was still awaiting original registration documents which would have enabled her to disclose her interests. She has undertaken to immediately complete the disclosure form whether the papers have arrived or not.

Name: Khaya Gashi

Position: Municipal Manager

Date: 20/11/2009

### **Auditor's Response**

Management comments are noted, however the findings are still valid at year end.

This is for the following reasons:

Although Mr Fokazi has left the employ of the municipality, he should have disclosed his interest in other affiliated entities for the period that he was still employed at the municipality.

Although an affidavit has been received from Ms Qotoyi disputing her involvement in Prideshef 1143, the CIPRO search did confirm this relationship and therefore this finding will remain as the employee should investigate and insist that this relationship be rectified in the CIPRO records.

An affidavit has also been received from Mr Matubatuba disputing his involvement in Njanjani- Greyling Construction, but this finding will remain for the reasons stated above. In addition Mr Matubatuba states in the same affidavit that he is aware of Victory Ticket 924 but that this came into existence in July 2009. However as per CIPRO the CC was registered in May 2009, therefore falling into the current financial year. This should have been disclosed in the 2008/09 declaration of interests.

Management comment is noted for councillor Baduza, however the finding is still valid

Management comment is noted for councillor Leteba, however the finding is still valid

## VAT: Apportionment (Taxes)

### Audit finding

According to Regulation No. 270 in the Government Gazette No. 29741 on 28 March 2007 - "With effect from 1 July 2006 a municipality must calculate input tax by using the turnover based method of apportionment on any goods and services acquired by it which are partly for consumption, use or supply in the course of making taxable supplies and partly for another intended use."

Per inspection of the VAT 201's for the period under review, it was found that the municipality calculates its Value Added Tax (VAT) at the standard rate of 14% without utilising the turnover based method of apportionment. If the turnover based method is utilised and based upon the prior period financial statements, an apportionment percentage of 92.61% would result.

Based upon an assessment of the expenditure per vote as reflected in the draft 2008/2009 financial statements, the following votes were considered to have produced a combination of exempt and taxable supplies and the impact thereof is as follows:

Vote	Vote No	Expenditure (R)	Salaries (R)	Expenditure Salaries (R)	Estimated VAT (R)	VAT Apportioned at 92.61%	Difference (R)
Community Serv - Admin	200	1 264 638	1 194 298	70 340	9 848	9 120	728
Community Serv - LED	201	642 362	149 263	493 099	69 034	63 932	5 102
Administration	205	5 619 202	3 587 927	2 031 275	284 378	263 363	21 016
Traffic	255	2 627 636	1 727 370	900 266	126 037	116 723	9 314
Admin - Stores	460	1 195 303	1 168 218	27 085	3 792	3 512	280
Housing	700	524 370	438 237	86 133	12 059	11 167	891
Libraries	615	404 240	346 361	57 879	8 103	7 504	599
Total							37 929

Therefore the VAT input claimed during the period under review was overstated by R37 929.

This issue was not identified in the prior period audit.

**Root cause**

Control environment (Financial reporting competencies): The entity does not have individuals competent in financial reporting and related oversight roles.

**Risk**

This could result in possible non-compliance with laws and regulations. In addition, unnecessary fines and penalties may be imposed by the South African Revenue Services, which would be considered fruitless and wasteful expenditure.

**Recommendation**

The municipality should calculate and utilise the apportionment formula and apply it henceforth to all VAT Input calculations. The municipality must ensure that the apportionment formula is authorised by the South African Revenue Services (SARS).

The following journal entry should be passed by the municipality:

Dr: Expenditure R 37 929  
Cr: VAT Input (9250/8910) R 37 929

Furthermore this amount should be claimed from SARS.

**Management Response**

These were found to be immaterial and no adjusting journals will be passed. However, there is a necessity for the relevant municipal staff to be trained in VAT legislation.

Name: Khaya Gashi  
Position: Municipal Manager  
Date: 20/11/2009

**Auditor's Response**

Management comment has been noted. However, the exception still stands as at 30 June 2009.

## **VAT: Control (Taxes)**

### **Audit finding**

In terms of Section 62(1) of the Municipal Finance Management Act 56 of 2003 – “the accounting officer of a municipality must take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control”.

The Value Added Tax (VAT) control account is meant to be utilised by the municipality as a control to ensure the net of the VAT Input and VAT Output account agrees to the value reflected on the VAT 201 as well as any refunds due from or payments due by the municipality to the South African Revenue Services. The VAT Input and VAT Output accounts should therefore be written off to the VAT control account on a monthly basis. Per inspection of the general ledger, all VAT transactions were accounted for in the VAT Input and VAT Output general ledger accounts during the period under review and only refunds received from SARS were reflected in the VAT control account. No write off occurred from the VAT Input and VAT Output accounts to the VAT control account.

During the year, a manual system (Microsoft Excel) was utilised, which may result in errors in calculating the VAT liability.

This issue was not identified in the prior period.

### **Root cause**

Control activities (Policies and procedures): Policies related 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**

There is a risk of misstatement of VAT Inputs and Outputs if the VAT control account is not utilised.

### **Recommendation**

All entries in the VAT Input and Output accounts should be written off to the VAT control account on a monthly basis.

All the matters referred to above should be reviewed by a member of senior management.

### **Management Response**

This finding is noted. This matter will be escalated to the incoming CFO for implementation.

Name: Khaya Gashi

Position: Municipal Manager

Date: 18 November 2009



**Elundini Municipality  
Management letter for the year ended 30 June 2009**

**Auditor's Response**

Management's response is noted. However, the exception still stands for the year ended 30 June 2009.

## VAT: Financial (Taxes)

### Audit finding

#### 1. Insurance

In terms of section 8(8) of the Value Added Tax Act No 89 of 1991 "where a vendor receives any indemnity payment under a contract of insurance or is indemnified under a contract of insurance by the payment of an amount of money to another person, that payment or indemnification, as the case may be, shall, to the extent that it relates to a loss incurred in the course of carrying on an enterprise, be deemed to be consideration received for a supply of services performed on the day of receipt of that payment or on the date of payment to such other person, as the case may be, by that vendor in the course or furtherance of his enterprise: Provided that this subsection shall not apply in respect of any indemnity payment received or indemnification under a contract of insurance where the supply of services contemplated by that contract is not a supply subject to tax under section 7(1)(a)".

VAT was not accounted for as a deemed supply for the following insurance receipts during the year:-

No	Date of Loss or Damage	Description	Damage	Amount (R)	Deemed Output VAT (R)
1	13/07/2008	Nissan Pathfinder - 000 ELM EC	Back door and tailgate	6 042	742
2	19/08/2008	Nissan Pathfinder - 000 ELM EC	Bumper, fender	6 848	841
3	17/10/2008	Toyota D/Cab - DSB 453 EC	Bumper, fender	3 952	485
4	13/10/2008	Isuzu - DZW 801 EC	Rear cab panel and cab glass	5 324	654
5	13/11/2008	Toyota Corolla - DSC 891 EC	Fender, grill, windscreen	17 915	2 200
6	16/11/2008	Nissan Hardbody - DZM 643	Front body damage	35 244	4 328
7	18/11/2008	Electrical Network	2 Town Feeders	60 746	7 460
8	03/01/2009	Transformer	Lightning	16 215	1 991
		Total		152 286	18 701

This issue was not identified in the prior period audit.

**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

2. Proceeds on the sale of fixed assets

According to section 8(16)(A) of the Value Added Tax Act No. 89 of 199, " The supply by a vendor of goods or services where such goods or services were acquired or imported by him partly for the consumption, use or supply in the course of making taxable supplies and were held or utilized by him partly for the said purpose immediately prior to the supply by him of such goods or services, shall be deemed to be made wholly in the course or furtherance of his enterprise."

Per inspection of the VAT 201's for the period under review, it was noted that Output VAT was not accounted for as a deemed supply for the following proceeds on disposal of fixed assets:

No	Description	Registration Number	Selling Price (R)	Deemed Output VAT (R)
1	Tractor	CSP 865 EC	25 080	3 080
2	Ford 5610 Tractor	CGP 212 EC	60 420	7 420
3	Toyota Bakkie	CNL 022 EC	66 120	8 120
4	Mercedes Benz 1517 Truck	CNN 561 EC	50 160	6 160
	Total		201 780	24 780

This issue was not identified in the prior period audit.

3. Entertainment

According to section 17(2) (a) of the Value Added Tax Act No 89 of 1991, "A vendor shall not be entitled to deduct from the sum of the amounts of output tax any amount of input tax in respect of goods or services acquired by such vendor to the extent that such goods or services are acquired for the purpose of entertainment."

In terms of section 1 of the Value Added Tax Act No.89 of 1991, entertainment is defined as "the provision of any food, beverages, accommodation, entertainment, amusement, recreation or hospitality of any kind by a vendor whether directly or indirectly to anyone in connection with an enterprise carried on by him."

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Management letter for the year ended 30 June 2009**

Per inspection of the VAT 201 supporting calculations for the period under review, vat input was claimed on the following entertainment expenditure:

No	Date	Description	Supplier	Amount excl VAT (R)	VAT (R)	Amount incl VAT (R)
1	02/11/2009	BOXES SANDWICHES MEMERIAL	Royal Hotel Maclear	260	36	296
2	10/17/2008	ROLLS & BUTTER 17/10/08	Royal Hotel Maclear	40	6	46
3	2/26/2009	SOFTDRINK DIS. HEARING LE	Royal Hotel Maclear	45	6	51
4	09/03/2008	T-BONE CHIPS & VEG	Royal Hotel Maclear	58	8	66
5	10/17/2008	SOFT DRINKS IDP OUTREACH	Royal Hotel Maclear	64	9	73
6	09/03/2008	LAMB CHOPS CHIPS VEG&EGG	Royal Hotel Maclear	70	10	80
7	09/03/2008	MIXED GRILL CHIP EGG MILK	Royal Hotel Maclear	72	10	82
8	10/14/2008	ROLLS WITH BUTTER 14/10/0	Royal Hotel Maclear	110	15	125
9	09/03/2008	CHCKEN SCHNITZEL PORKCHOP	Royal Hotel Maclear	116	16	132
10	2/26/2009	LAMB CHOPS VEG. CHIPS	Royal Hotel Maclear	120	17	137
11	10/17/2008	T BONE CHIPS & VEG	Royal Hotel Maclear	174	24	198
12	10/13/2008	DOUBLE SPARERIBS GRILLED	Royal Hotel Maclear	260	36	296
13	10/13/2008	LAMB CHOPS GRILLED	Royal Hotel Maclear	275	39	314
14	02/11/2009	SOFTDRINKS LATE BM NGCENG	Royal Hotel Maclear	300	42	342
15	10/14/2008	SOFT DRINKS IDP&BUDGET OU	Royal Hotel Maclear	330	46	376
		Total		2294	321	2615

This will result in an extrapolated error rate of R3 472.

This issue was not identified in the prior period audit.

**Elundini Municipality  
Management letter for the year ended 30 June 2009**

Per inspection of the VAT 201 supporting calculations for the period under review, vat input was claimed on the following entertainment expenditure:

No	DATE	DESCRIPTION	Vote No.	Vote Description	Amount (R)
1	12/22/2008	JAMESON IRISH WHISKY 750M	1100/2950/0000	STAFF PARTY	205
2	09/09/2008	MR MUSCLE FLOOR	5200/1740/0000	STAFF : TEA ROOM	200
3	7/24/2008	ONE STEP POTPOUR	2255/1740/0000	STAFF : TEA ROOM	94
Total					499

This issue was not identified in the prior period audit.

**4. VAT input not claimed from VAT vendors**

Per inspection of the VAT 201's, input VAT was not claimed on the following expenditure even though the suppliers were valid VAT vendors:

DATE	DESCRIPTION	DEBIT Entry	VOTE_NO	VOTE_DESC	VAT inclusive amount (R)	VAT on purchase (R)	SUPPLIER	VAT Number
3/23/2009	SETHATHI ACCESS ROAD	1 039 999	4430/3530/0000	MUNICIPAL INFRASTRUCTURE GRANT	1 185 599	145 600	Nosipho Distributors CC	4810206237
03/10/2009	TSITSARIVER - SOPHONIA AC	155 513	4430/3530/0000	MUNICIPAL INFRASTRUCTURE GRANT	177 285	21 772	Duffell Civil Engineering	4900248982
3/17/2009	DEV. MT FLETCHER INTERNAL	110 383	4430/3530/0000	MUNICIPAL INFRASTRUCTURE GRANT	125 837	15 454	Likotoz Projects	4290227224
5/21/2009	NXOTSHANA ACCESS ROAD	108 389	4430/3530/0000	MUNICIPAL INFRASTRUCTURE GRANT (continued)	123 563	15 174	Qumbiso Construction	4640225357
2/26/2009	MACLEAR MASTER PLAN PHASE	930 684	4805/3560/0000	NATIONAL ELECTRICITY REGULATOR	1 060 980	130 296	Racec Power (Pty) Ltd	4650197470
03/11/2009	NEW MACLEAR SUBSTATION	492 355	4805/3560/0000	NATIONAL ELECTRICITY REGULATOR	561 285	68 930	Fastmove Electrical CC	4920161231
Total						397 225		

This issue was not identified in the prior financial period.

**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

5. Consumer deposits

Output VAT was not accounted for on the following consumer deposits:

No.	Property	Account	Initials	Name	Totals (R)	Output VAT (R)
1	0A1065	S02259	HT	PERE	520	64
2	0A1500	000581	W	JORDAAN	429	53
3	0U0200	S02303		LM3 JOINT VENTURES	520	64
4	0U0200	Z00008		WBHO / MANDLETHU JV	520	64
5	0U0383	001503	T	VAN TONDER	1 676	206
6	0U0387	S01804	BE	LARUFFA	520	64
7	0U0393	Z00008		WBHO / MANDLETHU JV	1 020	125
8	0U0427	000453	S	GOVA	720	88
9	0U0492	S02170	LM	HLATHI	520	64
10	0U0501	001216	MK	MPAME	500	61
11	0U530C	S01554	TT	TWALA	500	61
12	0U530C	S01550	NS	MGEDEZI	995	122
13	0UC224	000099	ZC	BLAAUW	590	72
14	0UC415	S01104	PA	KURUVILLA	520	64
15	0UC530	002541	N	MJO	630	77
16	0UC530	002718	S	SIGEJE	650	80
17	0UC530	S00025	NL	GULENI	680	84
18	0UC530	002711	KA	MNGXEKEZA	650	80
19	0UC530	S00024	MN	MOALOSI	680	84
20	0UG530	002471		DAGBREEK PRIVATE HOSTEL	1 575	193
21	0UJ530	002709	M	BOTHA	834	102
22	0UJ530	001215	LT	MPAME	1 069	131
23	0UN530	S00005	JL	VAN DER WALT	620	76
24	0UP530	002408	DR	DICKS	1 120	138

**Elundini Municipality  
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25	5M0362	501135	T	MPIKO (HOUSE)	700	86
26	5M0761	001859	CS	SEBASTIAN	539	66
27	5M0973	500007		ANC CONSTITUENCY FUND	450	55
28	5M1161	501426		ROYAL TAVERN (1ST OLD ACC	450	55
29	5M2129	502248		NINHAM SHAND PTY (LTD)	301	37
30	5M2007	500001		MACLEAR ABBATOIR CC	450	55
	Total					2 571

This will result in an extrapolated error rate of R23 760.

This error was not identified in the prior period audit.

**Root cause**

Control Environment (Financial reporting competencies): The entity does not have individuals competent in financial reporting and related oversight roles.

**Risk**

There is a risk of non-compliance with the VAT Act if output VAT is not accounted for on insurance claims, the proceeds on disposal of fixed assets, qualifying revenue and consumer deposits as well as the claiming of input VAT on entertainment expenditure.

The failure to claim input VAT on expenditure may result in financial loss to the municipality

**Recommendation**

The finance department staff should be trained on VAT. Furthermore, a VAT reconciliation should be performed on a monthly basis between the control account and the management accounts to confirm that VAT has been recorded correctly.

1 and 2. Insurance and Proceeds on the sale of fixed assets

Output VAT should be accounted for on the proceeds from insurance claims and the proceeds on the disposal of fixed assets. The following journal entries should be processed:

Dr Insurance	(3000/2540)	R 18 702
Cr VAT Output	(9250/8930)	R 18 702

Dr	Proceeds on sale of assets	R 24 780
Cr	VAT Output (9250/8930)	R 24 780

### 3. Entertainment

VAT should not be claimed on entertainment expenditure. The following journal should be processed:

Known error:

Dr	VAT Input (9250/8910)	R 820
Cr	Entertainment (1110/1700)	R 321
Cr	Entertainment (1100/2950)	R 205
Cr	Entertainment (5200/1740)	R 200
Cr	Entertainment (2255/1740)	R 94

Extrapolated error:

Dr	VAT Input (9250/8910)	R 3 151
Cr	Entertainment (1110/1700)	R 3 151

### 4. VAT input not claimed from VAT vendors

Input VAT should be claimed on all qualifying expenditure, the following journal should be processed:

Dr	VAT Input (9250/8910)	R 397 225
Cr	Municipal Infrastructure Grant (4430/3530)	R199 225
Cr	National Electricity Regulator (4805/3560)	R 198 000

Staff should take care when processing to ensure that VAT is properly claimed as this results in loss to the municipality.



**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

5. Consumer deposits

Output VAT should be accounted for on all consumer deposits, the following journal should be processed:

Known Errors:

Dr	Consumer Deposits	R 2573
Cr	VAT Output	R 2573

Projected Errors:

Dr	Consumer Deposits	R 21 187
Cr	VAT Output	R 21 187

**Management Response**

1 - 5) No management response received

**Auditor's Response**

1 - 5) No management response received, we will assume management accepts our finding and implements the recommendation.

## Receivables: Financial misstatements (Receivables)

### Audit finding

In terms of Section 62(1) of the Municipal Finance Management Act 56 of 2003, "the Accounting Officer of a municipality must take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control."

This requirement has not been met for the following reason:

#### 1. Cut off

Receipts for the year end for Ugie were incorrectly recorded on 1 July 2009 as below: -

Total receipts for day in Ugie 1 July 2009	R40 192
Amounts which relate to July:	( R30 034)
Amounts which relate to June:	R10 158

### Root cause

Control activities (Financial): Written procedures, authorisations, record keeping, management reviews and asset safeguards are not segregated to prevent fraudulent financial data and asset misappropriation.

### Risk

1. Cut off of receipts which results in an understatement of R10 158 were not recorded at year end.

### Recommendation

1. Management should perform reviews at year end to ensure that cur-off of revenue and receivables in the financial statements is adhered to.

The journal entry to be passed in the 08/09 year end:

Dr Bank		R10 158
Cr General Rates	9250/9010/0000	R3 718
	Rent 9250/9090/0000	R872
	Electricity 9250/9030/0000	R1 658
	Water 9250/9050/0000	R3 462
	Refuse 9250/9070/0000	R346
	Miscellaneous 9250/4470/6010	R100

**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

Journal to be passed in the 09/10 year end

Dr	General Rates	9250/9010/0000	R3 718
	Rent	9250/9090/0000	R872
	Electricity	9250/9030/0000	R1 658
	Water	9250/9050/0000	R3 462
	Refuse	9250/9070/0000	R346
	Miscellaneous	9250/4470/6010	R100
Cr	Bank		R10 158

**Management Response**

1. The finding is acknowledged. Amount accepted as immaterial

Name: Khaya Gashi  
Position: Municipal Manager  
Date: 14 November 2009

**Auditor's Response**

1 No adjustment was passed by management; therefore the audit finding is still valid.

**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

**DORA: Non compliance with the Division of Revenue Act** (Grants/deferred income)

**Audit finding**

Duties of receiving officer in respect of Schedule 5 or 6 allocations:

In terms of section 12(4) (b) of the Division of Revenue Act, " A report by a municipality in terms of subsection (1) must set out for that month and for the financial year up to the end of that month the extent of compliance with the conditions of an allocation or part of an allocation provided for in a framework and with this Act."

In terms of section 12(6) of the Division of Revenue Act, "The receiving officer must, within two months after the end of the financial year and where relevant the municipal financial year, evaluate its performance in respect of programmes or functions funded or partially funded by an allocation and submit such evaluation to the transferring national officer."

1. Submission of monthly reports

Municipal Systems Infrastructure Grant

Out of the 12 months tested, it was noted that monthly reports relating to the Municipal Systems Infrastructure Grant (MSIG) was not submitted to National Treasury for three months in the current period (August 2008, December 2008 and January 2009). Error rate: 25%

This issue was not identified in the prior year.

Municipal Financial Management Grant

Out of the 12 months tested, it was noted that a monthly report relating to the Municipal Financial Management Grant (FMG) was not submitted timeously to National Treasury for one month in the current period (January 2009) Error rate: 8.3%. This report was submitted on the 25/06/2009.

This issue was not identified in the prior year.

National Electrification Reports (NER)

Out of the 12 months tested, the following was noted:

Reports were prepared for July 2008 to December 2008 by Ballenden and Robb Electrical Contactors regarding the municipality's NER expenditure progress, but there was no evidence provided to the auditors that these reports were actually submitted to the Department of Minerals and Energy.

Reports were not prepared for January 2009 to March 2009. The reason cited for this was that expenditure was completed on the project and therefore reporting was not necessary. However from inspection of the reports prepared by Ballenden and Robb Electrical Contactors, the project was noted as being scheduled for

**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

completion on the 31 March 2009. Therefore reporting should have continued for this three month period

This issue was not identified in the prior year.

2. Content of reports

Out of the Municipal Systems Infrastructure Grant, nine monthly reports submitted to National Treasury or the Mayor, six reports did not mention the extent of compliance with the conditions of the allocation provided for in the MSIG framework and with the Division of Revenue Act.

This issue was not identified in the prior year.

3. Submission after year end

No report was submitted to National Treasury two months after year end to discuss actual performance against the financial management improvement plan.

This issue was not identified in the prior period

**Root cause**

Control Activities (Selection and development of control activities): Control activities are not selected and developed with consideration of their cost and their potential effectiveness in mitigating risks to the achievement of financial reporting objectives.

**Risk**

The issues identified could result in non-compliance with the reporting requirements of Division of Revenue Act.

**Recommendation**

A system should be implemented whereby all reporting requirements in terms of the Division of Revenue Act complied with.

**Management Response**

1. Submission of monthly reports

Municipal Systems Infrastructure Grant

I would like to get the document with the identified errors as I have always submitted on or before the 10th working day of the month.

Municipal Financial Management Grant

I would like to get the document with the identified errors as I have always submitted on or before the 10th working day of the month.

Name : Funeka Mbaliswana

**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

Position: Municipal Manager

Date: 4 November 2009

National Electification Reports (NER)

The reports have been forwarded to the auditors under a separate email. The issue of the outstanding reports for the months of January and February 2009 is being followed by Ms Qotoyi with Ballenden and Robb.

2. Content of reports

We wish to record that the dplg/ Cogta have not raised issues with the reports that have been submitted. In the last meeting attended by the BTO, Elundini was praised for having submitted reports which showed good spending patterns.

3. Submission after year end

We are not aware of the legislative basis of this finding. Please favour us accordingly. In the meantime, we wish to acknowledge that this omission has not be raised with us by the National Treasury.

Name: Khaya Gashi

Position: Municipal Manager

Date: 4 November 2009

**Auditor's Response**

1. Submission of monthly reports

Municipal Systems Infrastructure Grant

Please note that the MSIG monthly reporting file was inspected again by the auditors, and the finding was still found to be valid.

Municipal Financial Management Grant

The MSG monthly reporting file was inspected by the auditors and the correct documents located except for January 2009. The exception was amended accordingly.

National Electrification Reports (NER)

Management comment is noted; however the audit finding is still valid.

2. Content of reports

Management comment is noted and taken into consideration in determining the validity of the exception. However, the finding is still valid as this requirement is as per section 12 (2) (f) of the Division of Revenue Act (not the MFMA as erroneously stated by the auditors previously)

**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

3. Submission after year end

The legislative basis of this finding is section 12(6) of the Division of Revenue Act (not the MFMA as erroneously stated by the auditors previously). The audit finding is therefore still valid.

**Elundini Municipality  
Management letter for the year ended 30 June 2009**

**DORA: Lack of internal control (Grants/deferred income)**

**Audit finding**

The following control deficiencies were identified in the current period in respect of Grant funding:

**1. Municipal Systems Improvement Grant**

Month	Issues identified when inspecting the reports
Jul-08	The report was not signed by MM. It only contained the signature of the CFO.
Sep-08	The report was not signed by MM. It only contained the signature of the CFO.
	Report did not cast and no indication of expenditure in report.
Oct-08	The report was not signed by MM. It only contained the signature of the CFO.
Nov-08	The report was not signed by MM. It only contained the signature of the CFO.
Mar-09	The report was not signed by MM. It only contained the signature of the budget and treasury officer.
	No explanation of current months expenditure
Apr-09	The report was not signed by MM. It only contained the signature of the CFO.
May-09	The report was not signed by MM. It only contained the signature of the CFO.
	No explanation of current months expenditure
Jun-09	The report was not signed by MM. It only contained the signature of the CFO.

These points indicate an overall lack of monitoring with respect to these monthly submissions. The content of the report should be reviewed by a more senior official than the preparer. As the Municipal Manager (MM) is the accounting officer of Municipality in terms of the Municipal Finance Management Act, it is a logical extension that he should be signing off these reports as correct and authorised.

This issue was not identified in the prior year.

**2. Municipal Finance Management Grant**

Month	Issues identified when inspecting the reports
Jul-08	The report was not signed by MM. It only contained the signature of the CFO.
Aug-08	The report was not signed by MM. It only contained the signature of the CFO.
Sep-08	The report was not signed by MM. It only contained the signature of the CFO. .
Oct-08	The report was not signed by MM. It only contained the signature of the CFO. .
Nov-08	The report was not signed by MM. It only contained the signature of the CFO. .
Dec-08	The report was not signed by MM. It only contained the signature of the CFO. .
Jan-09	The report was not signed by MM. It only contained the signature of the budget and treasury manager.
Mar-09	The report was not signed by MM. It only contained the signature of the CFO. .
Apr-09	The report was not signed by MM. It only contained the signature of the CFO.
May-09	The report was not signed by MM. It only contained the signature of the CFO.
Jun-09	The report was not signed by MM. It only contained the signature of the CFO.

These points indicate an overall lack of monitoring with respect to these monthly submissions. The content of the report should be reviewed by a more senior official than the preparer. As the Municipal Manager (MM) is the accounting officer of the municipality in terms of the Municipal Finance Management Act, it is a logical extension that he should be signing off these reports as correct and authorised.



This issue was not identified in the prior year audit.

### 3. Infrastructure and non-infrastructure grants

The following control deficiencies were identified:

- a. The grant expenditure amounts in the current period that reduced the balance of the project fund (liability) do not match the income statement/capital expenditure amounts in the general ledger. Therefore the unspent grant amount reflected as a liability at year end cannot be relied upon.
- b. The amounts removed from the investment funds as grant expenditure in the current period also does not match the income statement/capital expenditure amounts in the general ledger. Therefore the unspent grant amount reflected as an investment at year end cannot be relied upon.
- c. The current period grant expenditure as per the investment and project fund accounts also differ in the current period.

#### Non - Infrastructure Grants

Grant	Investment Vote	Expenditure as per the investment fund	Fund Vote	Expenditure as per the Project Fund (R)	Expenditure vote	Income statement / Capital Expenditure as per the General Ledger (R)	Difference between investment and fund expenditure (R)	Difference between Investment and IS/Capital expenditure (R)	Difference between Project fund and IS/Capital expenditure (R)
DEDEA	9250/8480/0000	244 473	9000/8250/0000	331 484.70	5201/1920/0000	178 499.30	-87 011.19	12 039.19	99 050.38
					Capitalised Assets	36 430.00			
					VAT added back	17 505.00			
					Subtotal	232 434.30			
DESRAC	9250/8520/0000	333 982.23	9000/7290/0000	333 982.23	5615/2010/0000	32 890.00	-	301 092.23	301 092.23
FMG	9250/8750/0000	754 962.41	9000/8380/0000	754 962.41	3000/2630/0000	29 402.52	-	740 511.23	740 511.23
					Adjustment passed	92 036.82			
					VAT	36 040.84			

**Elundini Municipality  
Management letter for the year ended 30 June 2009**

Adjustment passed	-125 464.00
VAT on adjustment	-17 565.00
Subtotal	14 451.18

MSIG	9250/8510/0000	1 275 516.75	9000/8280/0000	1 075 166.58	3000/2640/0000	402 121.78	200 350.17	374 821.96	174 471.79
					Adjustment passed	459 431.23			
					VAT	39 141.78			
					Subtotal	900 694.79			
							113 338.98	1 428 464.11	1 315 125.13

**N1**

This difference is made up of the accrual raised in project fund at year end but not recognised in the investment. (R 87 011)

The accrual should have also been recognised in the investment, through revenue and in expenditure/capital accounts in the general ledger. At the moment the expenditure has been removed from the fund (liability) and an accrual recognised. This is only one part of the recognition of this expenditure amount, hence the difference between the fund and the investment reconciliation.

**N2**

This difference is made up of current year expenditure amount of R 12 039 not recognised in the income statement or through a capital account. This should have been recognised in the current period

**N3**

This difference is made up of:

Expenditure not recognised in the income statement or through a capital account. This should have been recognised in the current year.	12 039
Accrual raised without taking this through to the income statement/capitalising an asset	87 011
Total	99 050

**Elundini Municipality  
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N4

A new schedule is to be resubmitted by management to address these differences. This will be audited when the new amounts as per the schedule are adjusted in the annual financial statements

N5

No explanation received from management thus far. Management is to still investigate differences.

N6

This difference can be explained by a duplicated transfer of aR200 350 out of the investment account (confirmed through inspection of the investment register reconciliation)

**Infrastructure Grants**

Grant	Investment Vote	Investment fund (R)	Fund Vote	Project Fund (R)	Expenditure vote	Income / Capital Expenditure (R)	Difference: investment and fund expenditure (R)	Difference: Investment and IS/Capital expenditure (R)	Difference: Project fund and IS/Capital expenditure (R)
MIG	9250/8470/0000	10 307 650	9000/8200/0000	11 703 622	4430/3530/0000	9 851 535	(1 395 972)	456 115	1 852 088
					VAT added back	1 327 820	-	(1 327 820)	(1 327 820)
	Total	10 307 650		11 703 622		11 179 355	(1 395 972)	(871 705)	524 268

This issue was not identified in the prior period

**4. Supporting Evidence for Journal**

Although the journal voucher was available for inspection, there were no supporting documents attached to verify and understand the following journal passed in the current period:

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Management letter for the year ended 30 June 2009**

TRXN_REF	DATE	DESCRIPTION	DEBIT	CREDIT	Person	VOTE_NO	VOTE_DESC
KG091202	08/06/2009	FMG EXPENDITURE TO MIG FU	-	(754 962)	SECOFR	3000/2630/0000	MUNIC FINANCE MANAGEMENT GRANT

The issue of limitation of scope was identified in the prior year

**5. VAT Vendors**

Out of a sample of 42 grant expenditure items selected for testing, two instances (error rate 4.8%) were identified where the individuals were paid a VAT inclusive amount but are not registered VAT vendors (as per inspection of the SARS website):

	DATE	DESCRIPTION	DEBIT	VOTE_NO	VOTE_DESC	VAT inclusive amount (R)	VAT on purchase (R)	SUPPLIER (R)	VAT Number
1	1/30/2009	FACILITATION STRAT. PLAN.	110 740	3000/2640/0000	MUN SUP IMPROVEMENT GRANT,	110 740	13 599	PSU International	4004112361
2	04/12/2009	MACLEAR MASTER PLAN PHASE	760 954	4805/3560/0000	NATIONAL ELECTRICITY REGULATOR	867 488	106 534	Racec Power (Pty) Ltd	4650197470
	Total		871 694			978 228	120 133		

This was not identified in the prior year.

**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

6. Grant allocations

In testing the Division of Revenue Act allocations for the 2008/09 municipal period, it was noted that the allocations recognised in the general ledger relating to the Municipal Infrastructure Grant did not amount to the total allocation for the period:

Municipal Infrastructure Grant	R'000
Grant allocated for 2008/09 as per the Division of Revenue Act:	R 11 975
Allocation relating to the 2008/09 municipal year	R 10 575
Grant allocations recognised as per the General Ledger Vote: 4430/4240/0000	R 16 590
Less: Allocation relating to the 2009/2010 year	R (6 015)
Difference	<u>R 1 400</u>

This difference is due to the national and the municipal financial year differing. Therefore Treasury pays the allocations according to their own national financial year and this is recognised in the books of the municipality when received. This does not effect revenue recognition as these allocations are immediately reversed out to the trust funds. However, all of the 2008/09 allocation could not be traced in the general ledger as received in the 2007/08 or the 2008/09 period (depending when received by the municipality). No evidence of the allocations making up the total amount received for the 2008/09 allocation was received. Only the actual amounts received into the bank accounts from July 2008 to June 2009 could be confirmed.

This issue was not identified in the prior period.

**Root cause**

Control Activities (Operational): Directive, preventive and detective controls are not adequate and focused on achieving efficient resource usage and effectiveness as measured by the extent to which specific control objectives are achieved.

## **Risk**

Municipal Systems Improvement grant.

There could be a lack of consistency and usefulness in the monthly reporting to the National Treasury relating to Municipal Systems Improvement Grant.

### 2. Municipal Finance Management Grant

A general lack of adequate control over the monthly reporting to the National Treasury relating to Municipal Systems Improvement Grant.

### 3. Infrastructure and non-infrastructure grants

Possible inconsistencies between project funds, investments and expenditure disclosed in the annual financial statements.

### 5. VAT vendors

SARS could sue vendors that are pretending to be VAT registered. If this vendor is involved in a large project with the municipality and goes bankrupt due to the SARS intervention, this will negatively affect the outcome of the project.

### 6. Grant allocations

The Municipal Infrastructure Grant could not be completely recognised by the municipality.

Inadequate monitoring of receipt of the DORA allocations received by the municipality

## **Recommendation**

1 and 2: Municipal Systems Improvement grant and Municipal Finance Management Grant.

All Municipal Systems Improvement Grant monthly reports should be reviewed by the Municipal Manager, or a more senior member of staff than the preparer, before submission.

### 3. Infrastructure and non-infrastructure grants.

Reconciliations should be performed between the project funds, investment accounts and income statement/capital expenditure accounts to ensure all expenditure amounts match. This should also be performed with respect to allocations and interest earned. This will ensure that the year end balances of these three different accounts reconcile correctly to each other.

### 5. VAT vendors

The municipality should check all vendors VAT numbers on the SARS website before paying them VAT inclusive amounts. In addition the municipality should do a 'check' on all vendors it associates with to ensure that these vendors are compliant

**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

and legally registered for VAT. This can be done through obtaining a tax clearance certificate for each vendor before orders are approved.

6. Grant allocations

A register should be kept of all grant income received and which financial period it relates to. Management should actively monitor the amount of grant income received against the municipality's allocation as per the DORA

**Management Response**

(1) Municipal Systems Improvement Grant and (2) Municipal Finance Management Grant

The issue of the signing of DORA reports has been delegated to the CFO. The instances where the BTO has signed these documents would have been where we did not have a CFO and the BTO was acting in the position

Name: Khaya Gashi  
Position: Municipal Manager  
Date: 4 November 2009

(3) Infrastructure and non-infrastructure grants

DEDEA grant

Transfer of R857 038 is made up of the following: -

R112 515 (Relates to expenditure incurred in the 07/08 FY, already accounted for)  
R 12 038 (Relates to expenditure re advertisement with Tourism Opts  
R155 295 (Relates to various payments made during the 08/09 FY  
R 77 140 (Relates to cheque # 2848 and 1787 made during the 08/09 FY  
R500 000 (Relates to EPWP grant erroneously paid into the tourism investment account.  
R50 is Bank charges

Expenditure correctly recognized as per the project fund is as follows: -

R 12 038  
R155 295  
R 77 140  
R 87 011 ( Relates to invoice received from Indwe Quantity Surveyors – not yet paid at 30/6/09)  
R331 484

As discussed with Lyndall Weyer, the R84 352 difference relates to EPWP expenditure and should not have been raised here.

The expenditure that has been debited to vote 5201/1920/0000 is the following (excluding VAT): -

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**Management letter for the year ended 30 June 2009**

R 155 295  
R 77 140  
R 232 435  
R 17 505 less VAT  
R 214 930  
R 36 430– these amounts relate to Elundini Welcome signs (12 143.63 X 3) which have been capitalized  
R 178 500

**DESRAC Grant**

A new reconciliation of the Library Fund which arose as a result of the DESRAC grant has been prepared and emailed on 26 October 2009. The reconstructed Library Fund reflects the project expenditure as R32 890, which compares with general ledger vote number 5615/2010/0000.

R246 538 transferred out of the investment – was already debited from the Library Fund in 2007/2008 hence it will not be debited again.  
R 54 554 was erroneously transferred out of the Library Investment – hence it will be paid back into the investment

**MSP Grant**

R236 979,85 transferred out of the MSP investment account was in respect of expenditure incurred during the 2007/2008 financial year.  
R 79 583.97 correctly debited to the fund, with the other legs debited to vote 3000/2900/0000 R69 810,50 and the remainder to VAT.  
We do not have a fund vote number 3000/0440/0000. When we looked at the income statement vote number bearing the same, we noted that the entry of R69 810.50 was transferred to 3000/2900/0000. Accordingly, we confirm that there was never an entry of R316 564 in the I/S vote number.

The differences noted are not applicable as a result of the above explanation.

**FMG Grant**

Pursuant to the auditing of the FMG, certain problems were identified, mainly relating to the duplication of transfers out of the FMG. The new expenditure out of the fund will now be R658 917. The difference between the amount of R754 962 and R658 917 will be added back to the FMG fund.  
In preparing the annual financial statements, the Accounting Officer has determined, in certain cases, that it would not be necessary to recognize revenue, hence all the expenditure under the FMG was transferred to the FMG fund. On second thought, it seems rational to actually recognize revenue and therefore re-instate the original expenditure incurred in terms of the financial management grant.

**MSIG Grant**

What is clearly discernible with regard to the difference between payments made out of the MSIG investment, amounting to R1 349 017 and the MSIG fund recognized payments of R1 075 167 are the following amounts: -



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R200 350 relating to a duplicated transfer out of the investment to the main bank account in respect of invoices due to Syntell  
R 73 500 bank error of which there is a contra deposit in the investment.

On close scrutiny of the MSIG fund reconciliation for 2007/2008, it has transpired that, although an amount of R459 431 was transferred out of the MSIG investment during the 2008/2009 financial year, it had in actual fact been already accounted for in the previous financial year's MSIG fund balance. In that context, it will be appropriate to reinstate this balance in the MSIG fund.

**NER Grant**

The difference between expenditure per vote 4805/3560/0000 and the investment/project fund expenditure is mainly attributable to VAT.

**MIG Grant**

According to our records, the transfers out of the MIG investment account amount to R10 488 212. The expenditure accounts are disclosed in the general ledger exclusive of VAT, while transfers are made out of the investments inclusive of the VAT.

**Grant allocations**

We have provided all the information that we could in respect of this matter. We are certain and have received confirmation from the COGTA that transfer payments to the Elundini Municipality during the period under review amounted to R19 133 847.

Name: Khaya Gashi  
Position: Municipal Manager  
Date: 4 November 2009

**Auditor's Response**

(1) Municipal Systems Improvement Grant and (2) Municipal Finance Management Grant

Management comment is noted, however the fundamental issue relates to the fact that there is a lack of overall monitoring of the submission of these documents. Even though they have been allocated to the CFO/BTM, if he is preparing them, they should be independently checked by a superior, which in the CFO's case is the MM (can be the CFO if the BTM is preparing the reports). However all the documents had one signature on them, indicating a lack of review.

**DEDEA Grant**

The DEDEA grant was re-inspected and the reconciling items provided by management taken into account. However there are still differences that will remain in the audit finding.

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**Management letter for the year ended 30 June 2009**

DESRAC

On adjustment of the new library fund reconciliation in the annual financial statements, this will be adjusted according (pending the adjustment by management first).

The remaining issues are to be followed up with Mr Gashi.

MSP

The reasons provided by management for the differences were investigated and found to be reasonable. This finding was removed from the exception.

FMG Grant

Management comment is noted; however the finding is still valid.

MSIG Grant

The reasons given for the differences between the investment and the fund expenditure was investigated. These were found to be reasonable explanations and the exception was adjusted accordingly

Please note that the remaining differences identified for this grant are still valid.

NER

These differences were followed up and was found to all relate to VAT. Therefore this finding was removed from the exception

MIG

These differences were followed up and although some of the difference was found to relate to VAT, the remaining difference was still unexplained by management. The audit finding was adjusted to just reflect the unexplained differences

Grant allocations

Management comment is noted, however as indicated above, R6, 015 of amounts recognised in the general ledger by 30 June 2009, related to the 2009/2010 year. This was confirmed through your correspondence with COGTA. The audit finding is therefore still valid.

**VAT: Compliance (Taxes)**

**Audit finding**

According to section 27 (3)(a) of the Value Added Tax Act No 89 of 1991 "A vendor shall fall within "Category C" if the total value of the taxable supplies of the vendor (including the taxable supplies of any branches, divisions, or separate enterprises of the vendor registered as separate vendors under section 50(2)) has in the period of twelve months ending on the last day of any month of the calendar year exceeded R30 million."

In terms of section 27(1) of the Value Added Tax Act No 89 of 1991 "for the purposes of this section, "Category C" means the category of vendors whose tax periods are periods of one month ending on the last day of each of the twelve months of the calendar year".

The municipality currently accounts for its Value Added Tax (VAT) as a "Category B" vendor and therefore submits returns on a two monthly basis, however, as they earn income in excess of R30 million per annum, they should be registered as a "Category C" vendor and therefore submit returns on a monthly basis.

This issue was not identified in the prior period audit.

**Root cause**

Control activities: Policies and procedures – Policies related 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**

There is a risk of non-compliance with the VAT Act.

**Recommendation**

The municipality should register as a "Category" C vendor with the South African Revenue Services. All the matters referred to above should be reviewed by a member of senior management.

**Management Response**

This finding is acknowledged and requires that the relevant staff be trained on the VAT Act.

Name: Khaya Gashi  
Position: Municipal Manager  
Date: 18 November 2009

**Auditor's Response**

**Elundini Municipality**

**Management letter for the year ended 30 June 2009**

Management's comment has been noted. However, the exception still stands for the year ended 30 June 2009, as this issue will have to be amended with the South African Revenue Service (SARS).

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**Management letter for the year ended 30 June 2009**

**Municipal Infrastructure Grant: Non-Compliance** (Compl. with legisl. (non-AFS))

**Audit finding**

1. Certain MIG projects commenced without a formal contract & payments made to these contractors without binding contract.

In terms of the Municipal Supply Chain Management Model Policy paragraph 10 (a), the demand management system must include timely planning and management processes to ensure that all goods and services required by the municipality are quantified, budgeted for and timely and effectively delivered at the right locations and at the critical delivery dates, and are of the appropriate quality and quantity at a fair cost.

And in addition, in terms of the Municipal Finance Management Act No. 56 of 2003, paragraph 65 (a), the accounting officer of a municipality is responsible for the management of the expenditure of the municipality. The accounting officer must take all reasonable steps to ensure that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds.

For the following Municipal Infrastructure Grant (MIG) projects reviewed, the formal contract agreement (being the form of acceptance) between the municipality and the contractor was not signed or was not signed timely by the municipality. In four of the five Municipal Infrastructure Grant (MIG) projects contracts reviewed, a legally binding copy of the contract agreement (being the form of acceptance) could not be obtained. Two of the five contracts were not signed by the appointed contractor, while four of the five contracts reviewed were not signed by the municipality (the municipal manager, acting on behalf of the municipality) at all. It has thus been determined that these projects commenced without a formal contract, and payments made to these contractors were made without this binding contract. The table below reflects the signing of the contract agreements for the four projects:

PROJECT DESCRIPTION	MIG NUMBER	PROJECT CONTRACTOR	Tender award date	Contract sign date by Contractor	Total value of payments made without formal contract (R)
Ward 8 - Ntabalanga - Nkamane Road Link	MIG/EC1165/R,ST/07/08	llangalethu Construction/ Ntabeni Construction JV	19/12/2007	Not determinable	448 644
Sethathi Access Road	MIG/EC1167/R,ST/07/08	MMM SABU JV	19/12/2007	29/11/2007	3 334 620
Total					3 783 264

2. Contractors not being settled within 30 days

In terms of the Municipal Finance Management Act No. 56 of 2003, S65 (2) (e), the accounting officer must for the purposed of subsection (1) take all reasonable steps to ensure - that all money owing by the municipality be paid within 30 days of

**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.

In the case of three infrastructure project payments to contractors, the payment period of 30 days were exceeded. The table below reflects the contractor, the progress certificate, dates and payment delay incidence in percent.

PROJECT DESCRIPTION	MIG NUMBER	PROJECT	CONTRACTOR	Progress Certificate Number	Invoice date	Payment date	Payment delay in weeks	Payment delay incidence in %
Ward 8 - Ntabalanga - Nkamane Road Link	MIG/EC1165/R,ST/07/08		Darson Construction	3	25/08/2008	01/10/2008	1	33.3
Development of Mount Fletcher Internal Streets	MIG/EC1143/R/07/08		Likotoz Projects	11	31/07/2008	06/10/2008	5	18.8
Development of Mount Fletcher Internal Streets	MIG/EC1143/R/07/08		Likotoz Projects	12	20/08/2008	02/12/2008	5	18.8
Development of Mount Fletcher Internal Streets	MIG/EC1143/R/07/08		Likotoz Projects	16	13/07/2009	20/08/2009	1	18.8

**3. Projects not completed in planned timeframes and no penalties instituted**

In terms of the Municipal Supply Chain Management Model Policy paragraph 10 (a), the demand management system must include timely planning and management processes to ensure that all goods and services required by the municipality are quantified, budgeted for and timely and effectively delivered at the right locations and at the critical delivery dates, and are of the appropriate quality and quantity at a fair cost.

And in addition, in terms of the Municipal Finance Management Act No. 56 of 2003, paragraph 65 (a), the accounting officer of a municipality is responsible for the management of the expenditure of the municipality. The accounting officer must take all reasonable steps to ensure that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds.

The construction phase of the Sethathi Access Road MIG infrastructure project was not completed on time. Planned completion was for 30 April 2008 while actual completion occurred on 20 March 2009, which was 324 days past the planned delivery date, while no extension was granted by the municipality. No penalties were instituted because institution thereof would have resulted in the sub-contractor becoming unable to complete the contract due to financial constraints.

**4. Contractor has defaulted on contract terms**

In terms of the Municipal Supply Chain Management Model Policy paragraph 10 (a), the demand management system must include timely planning and management processes to ensure that all goods and services required by the municipality are quantified, budgeted for and timely and effectively delivered at the right locations and at the critical delivery dates, and are of the appropriate quality and quantity at a fair cost.

**Elundini Municipality**  
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And in addition, in terms of the Municipal Finance Management Act No. 56 of 2003, paragraph 65 (a), the accounting officer of a municipality is responsible for the management of the expenditure of the municipality. The accounting officer must take all reasonable steps to ensure that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds.

The contractor, Darson Construction, appointed for the construction phase of the Ward 8 - Ntabalanga - Nkamane Road Link project, has defaulted on the terms of the contract. The contractor has not returned to site to continue construction with the construction and finalisation of the infrastructure projects despite formal attempts at compelling him to do so. This default will result in the delay of completion by seven months, however will not result in costs over and above the budgeted and approved costs.

**5. Scope limitation**

The following information was not made available to the auditors and have resulted in a scope limitation due to audit procedures not being able to be performed.

**6. Unspent funds information**

Records to determine whether MIG allocations to the municipality for the 2006/07 and 2007/08 financial years unspent as at 30 June 2008 were surrendered back to the National Revenue Fund. This could not be reliably determined due to the municipality not having maintained records at a per project level for the 2006/07 and 2007/08 financial years, as the municipality had only just established a project management unit in the 2008/09 financial year.

**Root cause**

Control Activities (Policies and procedures): Policies related 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**

1. Payments are made which the entity is not legally bound to make. Also, the municipality may not have any legal recourse in the absence of a binding legal contract.
2. The municipality is not complying with S65 (2) (e) of the Municipal Finance Management Act No. 56 of 2003.
3. MIG Projects aim to address infrastructure backlogs related to service delivery. Failure to be completed within planned timeframes leads to further delays in service delivery.
4. The municipality may be making payments in excess of what is legally required.

**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

5. Audit procedures could not be performed and compliance with policies and procedures of the municipality could not be confirmed.

**Recommendation**

1. The municipality should ensure that the formal contract agreement (being the 'form of acceptance') between the municipality and the contractor is signed by both parties, and that this should occur before the commencement of construction.

2. The municipality should 'received' date stamp all required documentation supporting a payment on the date that it is received, to maintain an audit trail confirming that when payment delays exist, these arise due to factors external to the municipality.

3. Where MIG projects are not completed within planned timeframes, formal extensions should be granted and unreasonable delays in excess of the extension should be penalised..

4. The municipality should attempt all avenues to ensure that contractors do not default, causing further delays in the availability infrastructure related to service delivery.

5. The municipality should keep proper records to maintain an audit trail to ensure compliance with all laws and regulations.

**Management Response**

Documents as per the schedule circulated in the meeting of the audit committee, relating to tender documents that could not be found, will be submitted to the AG on 20 November 2009.

Name: Khaya Gashi  
Position: Municipal Manager  
Date: 18 November 2009

**Auditor's Response**

1. Management's response is acknowledged. Documentation has subsequently been received, however not for all projects, therefore the audit finding still stands.



**Elundini Municipality  
Management letter for the year ended 30 June 2009**

**Receivables: Water and sanitation (Receivables)**

**Audit finding**

Water and sanitation revenue and expenditure does not form part of the municipality, but the district municipality. Water and sanitation the following revenue, expenditure and employee cost could not be verified as entirely water and sanitation:

**1. Expenditure**

Extrapolated error: R 134 385

Known errors which need to be adjusted for:

DATE	DESCRIPTION	VOTE NO	VOTE DESCRIPTION	Amount (R)
03/07/2008	DIESEL	4470/2760/0000	VEHICLE:FUEL & OIL,	3 504
11/08/2008	DIESEL	4470/2760/0000	VEHICLE:FUEL & OIL (continued)	552
9/18/2008	DIESEL CYG 068 EC	4470/2760/0000	VEHICLE:FUEL & OIL (continued)	578
7/25/2008	UNLEADED PETROL	4800/2760/0000	VEHICLE:FUEL & OIL,	569
06/05/2009	FUEL - DMJ 708 EC	4800/2760/0000	VEHICLE:FUEL & OIL (continued)	421
10/31/2008	ACCOMMODATION & B - C QOTO	4800/1980/0000	SUBSISTANCE & TRAVELLING,	5 995
07/11/2008	S & T	4800/1980/0000	SUBSISTANCE & TRAVELLING,	8 012
2/26/2009	SINGLE ACCOM. QOTOYI & LEN	4800/1980/0000	SUBSISTANCE & TRAVELLING (continued)	4 596
8/31/2008	ACC.C QOTOYI 27/07-01/08	4470/1980/0000	SUBSISTANCE & TRAVELLING,	12 749
10/20/2008	ACC. C.H.QOTOYI 17-20/09/	4470/1980/0000	SUBSISTANCE & TRAVELLING,	4 162
Total				41 138

**2. Revenue**

Date	Description	Vote No	Vote Description	Amount (R)
07/04/2008	MT FLETCHER OFFICE	4800/6490/0000	WATER SALES	(55.00)
2/25/2009	UGIE OFFICE	4470/6010/0000	SANITATION FEES	(10 355.00)
Total				(10 410.00)

**3. Payroll**

The client prepared document received with regard to all employees and their costs for water and sanitation was different to the journal entry passed by the municipality at year end.

	Total per client prepared (i)	Water 4800 journal passed (ii)	Sanitation 4470 journal passed (iii)	Total Journal passed (iv)=(ii)+(iii)	Difference (v)= (i)-(iv)
Salaries	2 524 895	1 440 266	1 056 579	2 496 845	28 051
Contribution UIF	24 303	15 654	11 460	27 115	(2 811)
Housing Sub	8 603	7 430	1 173	8 603	-
Contribution Medical aid	77 504	57 898	43 448	101 346	(23 842)
Contribution to Pension fund	368 561	220 031	182 636	402 667	(34 106)
Industrial Council Levy	1 615	818	752	1 570	45
Annual Bonus	169 388	109 422	82 122	191 544	(22 155)
Telephone Allowance	7 800	12 400	2 000	14 400	(6 600)
Standby allowance	108 679	149 331	24 468	173 799	(65 120)
Transport Allowance	43 500	16 250	10 750	27 000	16 500
Total	3 334 848				(103 438)

This issue was not identified in prior year audit.

### Root cause

Control activities (Financial): Written procedures, authorisations, record keeping, management reviews and asset safeguards are not segregated to prevent fraudulent financial data and asset misappropriation.

### Risk

This results in the journal entry passed at year end to be overstated/ incorrect and the risk that the municipality is overstating their debtors.

### Recommendation

1 - 3 )Only items relating to water and sanitation should be allocated to water and sanitation accounts that would be reversed out the account of the municipality. The municipality should show the consolidated journal passed with regards to water and sanitation at the correct amount as followed:

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Dr Expenditure	R41 138	
Dr: Contribution to UIF(4470/0070)(4800/0070)	R2 811	
Dr: Contribution to medical aid (4470/0050)(4800/0050)	R23 842	
Dr: Contribution to pension fund (4470/0060)(4800/0060)	R34 106	
Dr: Annual Bonus (4470/0100)(4800/0100)	R22 155	
Dr: Telephone allowance (4470/0120)(4800/0120)	R6 600	
Dr: Standby allowance (4470/0130)(4800/0130)	R65 120	
Cr: Ukhahlamba (W&S Debt) (4800/4800)		R140 766
Cr: Salaries (4470/0010) (4800/0010)		R28 0501
Cr: Water Sales (4800/6490/000)		R55
Cr: Sanitation Fees (4470/6010/000)		R10 355
Cr: Industrial levy (4470/0090)(4800/0090)		R45
Cr: Travelling allowance (4470/0140)(4800/0140)		R16 500
Dr: Water Sales (4800/6490/000)	R55	
Dr: Sanitation Fees (4470/6010/000)	R10 355	
Cr: Bank (9250/9550/000)		R10 410

In future, agreements between the District Municipality and the municipality should be properly reviewed and implemented timeously.

**Management Response**

Adjustments have been processed to the Ukhahlamba debtor.

**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

Name: Khaya Gashi  
Position: Municipal Manager  
Date: 14 November 2009

**Auditor's Response**

No adjustment relating to these journal entries have been passed in the current period. The audit finding is therefore still valid.

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**Management letter for the year ended 30 June 2009**

**Receivables: District Municipality (Receivables)**

**Audit finding**

Ukhahlamba DM (Water and Sanitation) - GL Account 9250/9100/0000	R 4 146	
Opening balance 1/7/2009		
	R 4 276 122	
Add: Water related expenditure		
Add: Sanitation related expenditure	R 1 837 194	
		R 6 117 463
Less: Payment made by UKDM	R (2 503 089)	
Less: Debtors payments xferred to UKDM debt	R (3 512 275)	
Less: Water connection & reconnection fees	R (13 706)	
		R 88 393
		R 224 526
Add: Sundry Invoices		
	R 141 980	
INV 00348	R 39 593	
INV 00347	R 22 487	
INV 00351	R 79 900	
	R 82 547	
INV 00358	R 80 374	
INV 00359	R 2 173	
Total due		R 312 919
Add: Stock transferred to UKDM	R 314 475	
Amount due by UKDM	R 627 394	

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**Management letter for the year ended 30 June 2009**

Amount per confirmation	R 861 702	
Difference		R 234 308

No reconciliations are performed to ensure that the amount owing as per the general ledger equals the amount as per the debtor's confirmation.

**Root cause**

Monitoring (Ongoing monitoring): Ongoing monitoring and supervision are not undertaken to enable management to determine whether internal control over financial reporting is present and functioning.

**Risk**

The risk is that receivables may not be recovered from the District Municipality. Furthermore interest income may be lost as there is no interest is earned on this outstanding amount.

**Recommendation**

The municipality should conduct an urgent meeting with the District Municipality to negotiate the terms of the agency agreement and determine the billing arrangement. The municipality's should perform a reconciliation on the account in order to determine the difference.

**Management Response**

A credit note will be passed in the debtors' ledger to reconcile the outstanding balance per the debtors' ledger to the general ledger.

Name: Khaya Gashi  
Position: Municipal Manager  
Date: 20/11/2009

**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

**Auditor's Response**

Management response is noted and this will ensure that the debtors ledger matches the general ledger after the water and sanitation journals are taken into account. However, this does not address the finding above as this relates to the difference between the district municipality and the local municipality's record of amounts owing as per their respective general ledgers Therefore the audit finding is still valid.

**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

**Eastern Cape Liquor Act: Non-compliance with applicable laws and regulations (Compl. with legisl. (Non-AFS))**

**Audit finding**

In terms of the requirement of regulation 3(2) from the Eastern Cape Liquor Act; "A ward committee must within 30 days of receipt of the FORM2, submit a report on the consultation with the community to the liquor board and to the relevant council"

It was found that liquor license applications are not going through the ward committee, and that applicants are going directly through their councilor. Per discussion with Mrs L. Mnqokoyi (Community Services Manager), the application is going to a councilor who is approving it and then the applicant is taking the application directly to the Liquor Board.

No evidence was found that the correct consultation was taking place, being the following:-

- The FORM 2 has not been submitted to the appropriate ward committee.
- The appropriate consultation took place, for example
  - (a) Notice advertised in an appropriate newspaper
  - (b) Minutes of meetings
  - (c) Attendance registers signed by community members

No evidence in council minutes that the report submitted to the liquor board was tabled in a council meeting for the following liquor license.

	Application number	Name and number of Ward	Name under which business is to be conducted and particulars of the erf, street or farm
1	ECP 16891	Ward 9 Elundini Municipality	Waterfall Tavern, Erf 225, Back Str, Mt Fletcher
2	ECP 16892	Ward 9 Elundini Municipality	Mampho Tavern, Isolomzi Loc, Castle Rock A/A, Mt Fletcher



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3	ECP 16893	Ward 12 Elundini Municipality	Ndikhumbule Tavern, Polokwe Loc, Kinira Poort A/A, Mt Fletcher
4	ECP 16883	Ward 15 Elundini Municipality	Siphathise Shebeen, Sakhutha Loc, Upper Tsitsana A/A, Maclear
5	ECP 16884	Ward 8 Elundini Municipality	Mangolong Tavern, Lithotheng Loc, Castle Rock A/A, Mt Fletcher
6	ECP 16885	Ward 16 Elundini Municipality	Kwa Manini Tavern, Chevy Chase A/A, Mt Fletcher
7	ECP 16886	Ward 10 Elundini Municipality	Haborona Tavern, Mpharane Loc, Tsolobeng A/A, Mt Fletcher
8	ECP 16887	Ward 10 Elundini Municipality	Two Brother Tavern, Tlokoeng Loc, Tsolobeng A/A, Mt Fletcher
9	ECP 16888	Ward 10 Elundini Municipality	Happy Rest Tavern, Tsolobeng A/A, Mt Fletcher
10	ECP 16889	Ward 12 Elundini Municipality	Sekoti Mpate Tavern, Zwelitsha Loc, Kinira Poort A/A, Mt Fletcher
11	ECP 16890	Ward 9 Elundini Municipality	Maphumphethe Tavern, Nkululekweni Township, Mt Fletcher

**Root cause**

Control activities (Policies and procedures): Policies related 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 non compliance with relevant laws and regulations.

**Recommendation**

The regulations and procedures set out by the Eastern Cape Liquor Act should be followed.

**Management Response**

In terms of the citation above, it appears that the link in terms of Form 2 is between the Liquor Board and the ward committee. There does not appear to be a requirement that the Form 2 must be forwarded to the municipality which must, in turn, escalate it to the relevant ward committee. Any omissions cited therefore can be attributed to the gap in the regulations.

The ward committee, particular in terms of its structure, would never be in a position to place advertisements. This is a service that could best be done by the municipality.

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As I have indicated to Mr Heetesh Kika, there has never been a report relating to the applications for a liquor licence in Elundini. I understand that the Manager Community Services has appraised Mr. Russell Bennet accordingly. It is accordingly re- affirmed that there is no council minute dealing with liquor licence applications.

The Elundini Municipality therefore respectfully submits that these findings are more relevant in the audit of the Liquor Board than the Elundini Municipality.

Name: Khaya Gashi  
Position: Municipal Manager  
Date: 12 November 2009

**Auditor's Response**

All findings: Management comments are noted; however the audit finding is still valid.

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**Management letter for the year ended 30 June 2009**

**Purchases and Payables: Internal control deficiencies (Payables/accruals)**

**Audit finding**

In terms of the Municipal Finance Management Act No. 56 of 2003, Section 62(c), the Accounting Officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

The following deficiencies in internal controls were identified:

1. Non-safeguarding of source documents

Unused requisition books and goods received books are not adequately safeguarded as they are stored in the strong room that is unlocked and kept open the whole day.

Blank cheques are not all locked away as they are exposed when loaded in the printer. There are however, the following mitigating controls in place: there is only one designated printer in which cheques are printed. The computer attached to the printer is profile restricted so only certain authorised personnel can gain access to the system and print cheques, with the use of an username and a password.

This issue was identified in the prior year audit.

2. Unsigned tender documentation

The following tender contracts were not signed by a representative of the municipality:

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	Bid No	Description	Contractor	Amount (R)
1	ELM/001/0809	Maclear Master Plan- Phase II	Racec Power (Pty) Ltd	3 518 532
2	MIG/R/EC/5021/07/08	Provision of Access Roads for Ward 1,5 and 6	Amadwala Trading 363	1 535 049
3	008/3/2008-2009	Construction of Maclear Marketing Stalls	Qhama and Qhawe Civils	1 000 000
	Total			6 053 581

This matter was not identified during the prior period audit.

**3. Steiner lease Agreement**

The details of the lease contract for the Steiner Hygiene lease agreement did not agree to the details per the invoice as follows:

	Description of Item	Amount per contract (R)	Amount per Invoice (R)	Difference (R)
1	Aerosol Air Fresheners	75	85	10
2	Hot Air Dryers	69	78	9
3	Mystique Paper Cabinets	52	58	7
4	Mystique Paper Rolls	39	53	14
5	Soap Dispenser	12	14	2
6	She Bin	35	40	5
7	TR3 Holder	7	8	1
	Total	289	336	47

This issue was not identified in the prior period audit.

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4. Cut-off

The following invoice relates to May 2008 but was accounted for in the 2008/2009 financial year:

	Account name	Account number	Supplier name	Date	Amount (R)
1	Rent: Office Equipment	2205/1190/0000	Nashua	15/05/2008	203

This issue was not identified in the prior period audit.

5. Subsistence and travel claims

There was a lack of evidence to support the following travel and subsistence claims:

	Date	Vote	Description	Amount (R)
1	01/04/2009	2206/1980/0000	S & T INTERVIEWS	650
2	1/31/2009	2255/1980/0000	S&T-JAN 2009	3 648
3	2/18/2009	1110/1980/0000	SOFT DRINKS	13
4	12/03/2009	1110/1980/0000	S&T	120
5	1/23/2009	2255/1980/0000	ACCOMMODATION TRAFFIC	1 586
6	8/28/2008	2205/1980/0000	S & T	60
	Total			6 077

This issue was not identified in the prior period audit.

6. Unapproved travel and subsistence claims

The following travel and subsistence claims were not appropriately approved:

	Date	Vote	Description	Amount (R)
1	2/18/2009	2205/1980/0000	S & T	360

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2	8/28/2008	2205/1980/0000	S & T	60
3	12/30/2008	1110/1980/0000	S & T	660
	Total			1 080

This issue was not identified in the prior year audit.

**7. Creditors Reconciliations**

Monthly reconciliations for creditors are not performed.

This issue was not identified in the prior year audit.

**8. Prior Chief Financial Officer's credit card**

When confirming the credit and petrol cards used by the municipality, it was noted that the credit card account for the prior Chief Financial Officer, Mr Kasumba, had not been closed and the card had not been destroyed.

This issue was not identified in the prior year audit.

**9. Payments not appropriately authorised**

The following is expenditure where payment which were not appropriately authorised by both the Municipal Manager and the Chief Financial Officer:

	DATE	DESCRIPTION	Vote No.	Vote Description	Amount (R)
1	08/12/2008	CLIPBOARD MASONITE A4	2205/0820/0000	PRINTING & STATIONARY	53
2	12/18/2008	CHAIRCOVERS 18/12/2008	2207/1700/0000	ENTERTAINMENT / CATERING	180
3	10/16/2008	MARK PENTEL MAXIFLO BULL/	3000/0820/0000	PRINTING & STATIONARY	108
4	11/14/2008	MISALLOCATION ON CREDITOR	5450/1180/0000	T/PLANNING & SURVEY	18 078

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5	1/30/2009	RENEWAL POSTBOX	2205/1860/0000	POSTAGE	254
6	8/30/2008	REPAIR INXU RIVER DRAINAG	2240/2510/0000	RELIEF	34 730
7	08/12/2008	TONER ORG HP L/JET 1200 7	2205/0820/0000	PRINTING & STATIONARY	9 016
	Total				62 419

This issue was not identified in the prior year audit.

10. Controls over subsistence and travel claims

Subsistence and travel claims for June 2009 were not accrued at year end due to poor controls over the travel claim process.

11. Limitation of scope

In the process of substantive testing it was found for the following transactions, no source documentation could be obtained:

	DATE	DESCRIPTION	Vote No.	Vote Description	Amount (R)
1	11/14/2008	MISALLOCATION ON CREDITOR	5450/1180/0000	T/PLANNING & SURVEY	18 078

12. Cell phone accounts (Value added report)

In the process of substantive testing it was found that there are 77 cell phones which are used by municipal staff. This appears to be an excessive number of cellphones that require control.

**Root cause**

Control environment (Participation by the accounting officer/authority): The accounting officer/authority does not understand and exercise oversight responsibility related to financial reporting and related internal control.

## **Risk**

### 1. Non-safeguarding of source documents

This could lead to possible instances of fraud, as unused source documents could be completed by a staff member who is not authorised to complete the source document, which could lead to unauthorised purchases or misappropriation of assets.

### 2. Unsigned tender documentation

This may result in irregular expenditure.

### 3. Steiner lease agreement

This may result in understatement of expenditure in the financial statements.

### 4. Cut-off

This may result in overstatement of expenditure in the financial statements.

### 5. The lack of proof to substantiate kilometers claimed in subsistence and travel claims

This could lead to unauthorised kilometers being claimed and financial loss to the municipality.

### 6. Unapproved travel and subsistence claims

This could lead to unauthorised kilometers' being claimed and financial loss to the municipality.

### 7. Creditors Reconciliations

This weakens the controls over creditors and could lead to creditors not being paid timeously and the under or overstatement of creditors at year end.

### 8. Prior Chief Financial Officer's credit card

This could lead to unauthorised purchases being made with the card and cause financial loss to the municipality.

### 9. Payments not appropriately authorised

This could lead to unauthorised, fruitless and wasteful expenditure.

### 10. Controls over subsistence and travel claims

This leads to travel and subsistence claims not being accrued at year end.

### 11. Limitation of scope

There is a limitation of scope as there are no supporting documents to inspect to verify the validity and accuracy of the transactions.



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**Management letter for the year ended 30 June 2009**

12. Cell phone accounts (Value added report)

This could lead to the unauthorised staff making use of cell phones and financial loss to the Municipality.

**Recommendation**

1. Non-safeguarding of source documents

All unused source documents should be kept locked away at all times.

2. Unsigned tender documentation

All tender documentation should be signed by a senior representative of the municipality; this should be reviewed by a member of management.

3. Steiner lease agreement

Management should inspect all lease agreements and confirm that the amounts included therein agree to the invoices.

4. Cut-off

Management should inspect all expenditure accounts and ensure that no transactions from the prior financial year are included therein.

5. The lack of proof to substantiate kilometres' claimed in subsistence and travel claims

A log should be kept of the exact kilometres travelled and attached to the subsistence and travel claim form. This should be inspected and authorised by the Municipal Manager.

6. Unapproved travel and subsistence claims

All travel and subsistence claims should be appropriately approved.

7. Creditors Reconciliations

Creditor's reconciliations should be performed and reviewed at the end of each month.

8. Prior Chief Financial Officer's credit card

This account must be closed and the card cut up.

9. Payments not appropriately authorised

For all payments, they should be appropriately authorised by both the Municipal Manager and the Chief Financial Officer.

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10. Controls over subsistence and travel claims

There must be an effort to approve claims as soon as possible and to keep track of claims close to year end to ensure that they are appropriately accrued.

11. Limitation of scope

There must be strict controls over source documents; it must be ensured that all transactions are backed by the applicable source documents and that these documents are correctly filed.

12. Cell phone accounts (Value added report)

A review should be performed to determine if so many phones are needed and to confirm who has use of one. Furthermore, the procedure that the cellphone costs are re-imbursed should be reviewed to ensure that there is no loss to the municipality.

**Management Response**

1. Only officials that have access to the strong room is the Finance Department staff. It is always locked when we knock off from work. The blank cheques are kept in the strong room at the end of each day; they are definitely not kept in creditor's clerk open office.

Name: Bukelwa Dlodlo  
Position: Chief Accountant  
Date: 5 November 2009

2. The documents being referred to in no.1 and 2 were signed by the Municipal representative, the only part that was not signed is the form of offer and acceptance, otherwise all pages were initialled by both parties. We acknowledge your finding and we will practice extra care and ensure that all pages are properly signed.

The document for construction of Maclear Marketing Stalls was sent to the consultants to make copies since the scope of works was amended to meet the available budget, the consultants have been requested to courier the documents.

Name: Xoliswa Msuthu  
Position: SCM Practitioner  
Date: 5 November 2009

3. The audit finding is acknowledged. We will further investigate this matter, having regard to:

- The signed agreements
- Whether there are any escalation provisions in the agreements
- Where overpayments have occurred, recovery of the overpayments

4. The audit finding is acknowledged. We will investigate this matter further, to see if this was not accrued in the previous financial year. Should this have not

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happened, we will accept that the outstanding payment was correctly paid and that we need to jerk up our creditors reconciliations.

5. The vouchers were checked and found that; there are supporting documents attached. Can the Auditors be more specific?

6. The subsistence and traveling claims are always approved by the HoD of the relevant department before a payment is made. The finding is ambiguous, and we require to be furnished with the specific claims that were allegedly not approved.

7. The audit finding is acknowledged.

The creditors' reconciliation is generated by the system; it is the reviewing part of it that is not being done. As this has identified, the creditors' reconciliation will be done.

8. This finding is acknowledged. The municipality's original intention was to apply for a credit card in the name of the municipality, but our bankers advised us that their systems only allow credit card applications in the name of a dedicated official. By virtue of the powers accorded to the Accounting Officer, he appointed the CFO as the person in whose name the credit card must be issued. When Mr. Kasumba left, there was no acting CFO appointed, and the Accounting Officer has directed that a new card be issued in the name of the Chief Accountant.

9. Journals are always approved by a senior person before they can be processed in the system. The file for the journals is available upon request.

10. This is acknowledged and the claims not accrued for will be included when an opportunity to revise the AFS is presented.

11. The source documents are available and can be inspected with Ms Pumza Nkangana.

12. This was journal passed and the source document is available.

Name: Bukelwa Dlodlo  
Position: Chief Accountant  
Date: 5 November 2009

**Auditor's Response**

1. Management's response is acknowledged and per further investigation, the printer is not always removed and locked away, but the blank cheques are removed and locked away in the strong room at the end of the day. Therefore we accept the controls over the safeguarding of blank cheques. In terms of access to the strong room, the strong room is left unlocked and so anyone can gain access, especially during lunch times and remove unused requisition books or goods received books. Therefore the audit finding over non-safeguarding of unused requisition books and goods received books still stands.

2. Management's response is acknowledged and therefore as management accepts points 1 and 2 and the tender documents for point 3 (Construction of Maclear Marketing Stalls) were provided, the audit finding still stands.

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3. Management's response is acknowledged and the audit finding still stands.
4. Management's response is acknowledged and the audit finding still stands.
5. Management's response is acknowledged and for the subsistence and travel claims which supporting documents have since been provided, they have been removed from the exception. However supporting documents were not provided for the rest and so the audit finding still stands.
6. Management's response is acknowledged and it was further communicated to management that in terms of the Subsistence and Travel Policy and the travel and subsistence claim forms, they need to be approved by the Municipal Manager. Therefore the audit finding still stands.
7. Management's response is acknowledged and the audit finding still stands.
8. Management's response is acknowledged and the audit finding still stands.
9. Management's response is acknowledged, however payments for expenditure need to be authorised by both the Municipal Manager and the Chief Financial Officer. As no documentation was further provided to prove this, the audit finding still stands.
10. Management's response is acknowledged and management has since accrued subsistence and traveling claims for June 2009 by passing the following journal entry:

DESCRIPTION	LEGER NO			DEBIT	CREDIT
Subsistence and traveling	2207	1980	0000	10 987	
Subsistence and traveling	1110	1980	0000	4 261	
Subsistence and traveling	1110	1980	0000	641	
Subsistence and traveling	5201	1980	0000	3 392	
Subsistence and traveling	4805	1980	0000	4 689	
Subsistence and traveling	3000	1980	0000	1 897	
Subsistence and traveling	1110	1980	0000	5 426	
Subsistence and traveling	1110	1980	0000	5 902	
Subsistence and traveling	4430	1980	0000	317	
Subsistence and traveling	1100	1980	0000	838	
Subsistence and traveling	1100	1980	0000	6 841	
Subsistence and traveling	1100	1980	0000	1 786	
Subsistence and traveling	5700	1980	0000	708	
Subsistence and traveling	1110	1980	0000	2 066	
Subsistence and traveling	2205	1980	0000	386	
Subsistence and traveling	3000	1980	0000	1 983	
Subsistence and traveling	3000	1980	0000	1 227	
Subsistence and traveling	5450	1980	0000	296	
Subsistence and traveling	1100	1980	0000	12 383	
Subsistence and traveling	1100	1980	0000	8 004	
Subsistence and traveling	1110	1980	0000	14 978	
Subsistence and traveling	5200	1980	0000	2 093	
Subsistence and traveling	2206	1980	0000	1 849	
Accruals	9250	9360	0000		92 950

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11. Management's response is acknowledged, however as no source documents have since been received, the audit finding still stands.

12. Management's response has been noted. However, the exception still stands for the year ended 30 June 2009, as we believe that the number of cellphones should be reviewed and the procedures relating to the costing.

**Purchases and Payables: Non-compliance** (Compl. with legisl. (non-AFS))

**Audit finding**

1. Goods received notes not being used

In terms of the Municipal Supply Chain Management Model Policy paragraph 10 (a), "the demand management system must include timely planning and management processes to ensure that all goods and services required by the municipality are quantified, budgeted for and timely and effectively delivered at the right locations and at the critical delivery dates, and are of the appropriate quality and quantity at a fair cost."

In addition, in terms of the Municipal Finance Management Act No. 56 of 2003, paragraph 65 (a), "the accounting officer of a municipality is responsible for the management of the expenditure of the municipality. The accounting officer must take all reasonable steps to ensure that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds."

Goods received notes are not being used and completed for all goods received. In three purchases sampled, no completed and signed goods received notes were present (error rate 100%):

	Order Number	Supplier	Invoice	Amount (R)
1	ORD00082	Aucamp Motors	19400	182
2	ORD00009	North and Robertson	10A49394	41 598
3	ORD00077	Loyiso ICT Consulting	648	31 986
	Total			73 767

It was confirmed that goods received notes or confirmations of services received are not being used. The following purchases did not have goods received notes or confirmations of services received:

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	DATE	DESCRIPTION	Vote No.	Vote Description	Amount (R)
1	08/12/2008	CLIPBOARD MASONITE A4	2205/0820/0000	PRINTING & STATIONARY	53
2	12/18/2008	CHAIRCOVERS 18/12/2008	2207/1700/0000	ENTERTAINMENT / CATERING	180
3	10/16/2008	MARK PENTEL MAXIFLO BULL/	3000/0820/0000	PRINTING & STATIONARY	108
4	12/22/2008	JAMESON IRISH WHISKY 750M	1100/2950/0000	STAFF PARTY	205
5	09/09/2008	MR MUSCLE FLOOR	5200/1740/0000	STAFF : TEA ROOM	200
6	6/30/2009	PETTY CASH FOR APRIL 2009	2205/1740/0000	STAFF : TEA ROOM	238
7	7/24/2008	ONE STEP POTPOUR	2255/1740/0000	STAFF : TEA ROOM	94
8	8/31/2008	SECURITY SERVICES RENDERE	2205/0490/0000	SECURITY COSTS	7 693
9	4/30/2009	ASSIST - VALUATION ROLL	3000/2630/0000	MUNIC FINANCE MANAGEMENT GRANT	8 026
10	09/04/2008	ELUNDINI GENERAL VALUATIO	3000/2770/0000	VALUATION FEES	377 818
11	6/26/2009	BASED LED STRATEGY PILOY	5201/1900/0000	PROFESSIONAL SERVICES	197 736
12	3/27/2009	MT FLETCHER HOUSING PROJE	5450/3620/0000	TOWN PLANNING & SURVEY	50 454
13	04/08/2009	PROJECT MNGMNT TRAIN. 6-8	2207/1780/0000	TRAINING	56 000
14	06/05/2009	FINANCIAL SYSTEM LICENCE	3000/2630/0000	MUNIC FINANCE MANAGEMENT GRANT	143 029
15	08/12/2008	TONER ORG HP L/JET 1200 7	2205/0820/0000	PRINTING & STATIONARY	9 016
16	11/10/2008	PROFESSIONAL SERVICES VAT	3000/1900/0000	PROFESSIONAL SERVICES	210 578
17	09/10/2008	ELUNDINI MUNI. BOUNDARY S	5201/1920/0000	TOURISM	36 431
	Total				1 097 859

This issue was identified in the prior year audit.

**2. List of accredited prospective providers of goods and services**

In terms of the Municipal Supply Chain Management Model Policy paragraph 14, the accounting officer must keep a list of accredited prospective providers of goods and services that must be used for the procurement requirements through written quotations and formal written price quotations. At least once a year through newspapers commonly circulating locally, the website and any other appropriate ways, invite prospective providers of goods or services to apply for evaluation and listing as accredited prospective providers; specify the listing criteria for accredited prospective providers; and disallow the listing of any prospective provider whose name appears on the National Treasury's database as a person prohibited from doing business with the public sector. The list must be updated at least quarterly to include any additional prospective providers and any new commodities or types of services. Prospective providers must be allowed to submit applications for listing at any time. The list must be compiled per commodity and per type of service. And in

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addition, in terms of the Municipal Finance Management Act No. 56 of 2003, paragraph 65 (a), the accounting officer of a municipality is responsible for the management of the expenditure of the municipality. The accounting officer must take all reasonable steps to ensure that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds.

It was identified that the municipality is not keeping an up-to-date listing of accredited prospective suppliers. It was also identified that the supplier database is maintained on an excel spreadsheet, which indicates problems relating to access controls and version control.

The accredited supplier listing was not used in selecting a supplier in the following purchases:

	DATE	DESCRIPTION	Vote No.	Vote Description	Amount (R)
1	08/12/2008	CLIPBOARD MASONITE A4	2205/0820/0000	PRINTING & STATIONARY	53
2	10/16/2008	MARK PENTEL MAXIFLO BULL/	3000/0820/0000	PRINTING & STATIONARY	108
3	12/22/2008	JAMESON IRISH WHISKY 750M	1100/2950/0000	STAFF PARTY	205
4	04/03/2009	T6AXI'S NOT ALLOWED	2255/2780/0000	ROAD SIGNS	1 825
5	7/24/2008	ONE STEP POTPOUR	2255/1740/0000	STAFF : TEA ROOM	94
6	8/31/2008	SECURITY SERVICES RENDERE	2205/0490/0000	SECURITY COSTS	7 693
7	4/30/2009	ASSIST - VALUATION ROLL	3000/2630/0000	MUNIC FINANCE MANAGEMENT GRANT	8 026
8	05/11/2009	ADVERT IDP & BUDGET OUTRE	3000/0280/0000	ADVERTISEMENTS	10 260
9	6/26/2009	BASED LED STRATEGY PILOY	5201/1900/0000	PROFESSIONAL SERVICES	197 736
10	3/27/2009	MT FLETCHER HOUSING PROJE	5450/3620/0000	TOWN PLANNING & SURVEY	50 454
11	04/08/2009	PROJECT MNGMNT TRAIN. 6-8	2207/1780/0000	TRAINING	56 000
12	08/12/2008	TONER ORG HP L/JET 1200 7	2205/0820/0000	PRINTING & STATIONARY	9 016
13	09/10/2008	ELUNDINI MUNI. BOUNDARY S	5201/1920/0000	TOURISM	36 431
	Total				377 901

This issue was not identified in prior year audit.

3. Subsistence and travel claims are not being processed through the payroll

In terms of the municipality Travel and Subsistence Policy, subsistence and travelling allowances shall be processed through the payroll irrespective of whether it is taxable or not.



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It was found that subsistence and travelling allowances are not being processed through the payroll, they are being paid directly to officials.

This issue was not identified in prior year audit.

**4. Creditors not being settled within 30 days**

In terms of the Municipal Finance Management Act No. 56 of 2003, Section 65 (2) (e), the Accounting Officer must for the purposes of subsection (1) take all reasonable steps to ensure - that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.

It was found that the following creditors were not paid within 30 days of receiving the invoice:

	Creditor	Invoice No.	Date of invoice	Date paid	Amount (R)
1	ARCUS GIBB	18	27-Mar-09	09-Jul-09	186 678
2	BJ CONCRETE PRODUCTS	1	21-May-09	09-Jul-09	206 400
3	VIEDGE TRADING	IN101811, 1002020	18 May and 29 June	09-Jul-09	243 867
	Total				636 945

It was identified that the above invoices were not stamped to indicate the date that they were received.

This issue was identified in the prior year audit.

**5. Goods and services requisitions and purchase orders**

In terms of the Elundini Local Municipality Financial Procedures, goods and services requisitions and purchase orders must be appropriately approved.

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It was found that for the following purchases, the goods and services requisitions or purchase orders were not appropriately approved or there were no requisitions or purchase orders on file:

	DATE	DESCRIPTION	Vote No.	Vote Description	Amount (R)
1	5/29/2009	CASUAL WAGES	5201/0520/0000	EXPANDED PUBLIC WORKS PROGRAM	1 400
2	1/30/2009	RENEWAL POSTBOX	2205/1860/0000	POSTAGE	254
3	11/17/2008	Clearing petty cash contr	1100/0820/0000	PRINTING & STATIONARY	172
4	02/04/2009	VEHICLE REGISTRATIONS	3000/1460/0000	LICENCE FEES	1 585
5	09/10/2008	ELUNDINI MUNI. BOUNDARY S	5201/1920/0000	TOURISM	36 431
	Total				39 842

This issue was not identified in the prior year audit.

**6. Non-compliance with Subsistence and travel policy**

For the following travel and subsistence claim the incorrect category of accommodation was used:

Date	Vote	Description	Amount (R)
11/18/2008	1110/1980/0000	S & T	8 320

In terms of the substantive and travel policy, only up to a three star hotel may be used, but in the above transaction, a four star hotel was used.

This issue was not identified in the prior year audit.

For the following travel and subsistence claim the incorrect travel rate was used:

Date	Vote	Description	Amount (R)
01 April 2009	2206/1980/0000	S & T INTERVIEWS	650

This issue was not identified in the prior year audit.

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7. Quotations not being obtained for purchases

In terms of the Municipal Supply Chain Management Model Policy, Section 12, (b) written quotations for procurements of a transaction value over R2 000 to R10 000 (VAT included); (c) formal written price quotations for procurements of a transaction value over R10 000 up to R200 000 (VAT included).

The following purchases there were not three quotations or an internal memo stating why three were not obtained:

	DATE	DESCRIPTION	Vote No.	Vote Description	Amount (R)
1	7/24/2008	ONE STEP POTPOUR	2255/1740/0000	STAFF : TEA ROOM	94
2	09/10/2008	ELUNDINI MUNI. BOUNDARY S	5201/1920/0000	TOURISM	36 431
	Total				36 525

This issue was not identified in the prior year audit.

8. Non-compliance with Section 43 of Supply Chain Management Policy

In terms of the Municipal Supply Chain Management Policy, section 43, (1); No award above R15 000 may be made in terms of this Policy to a person whose tax matters have not been declared by the South African Revenue Service (SARS) to be in order. (2) Before making an award to a person the accounting officer must first check with SARS whether that person's tax matters are in order. (3) If SARS does not respond within 7 days such person's tax matters may for purposes of subparagraph (1) be presumed to be in order.

There was no evidence of confirming the person's tax status with SARS nor were tax clearance certificates received from the supplier:

	DATE	DESCRIPTION	Vote No.	Vote Description	Amount (R)
1	04-Aug-09	PROJECT MNGMNT TRAIN. 6-8	2207/1780/0000	TRAINING	56 000
2	06-May-09	FINANCIAL SYSTEM LICENCE	3000/2630/0000	MUNIC FINANCE MANAGEMENT GRANT	143 029

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3	11-Oct-08	PROFESSIONAL SERVICES VAT	3000/1900/0000	PROFESSIONAL SERVICES	210 578
	Total				409 607

This issue was not identified in the prior year audit.

**9. Irregular Expenditure**

The following were found to be possible irregular expenditure due to it being expenditure not complying with laws and regulations or are not being appropriately authorised:

	DATE	DESCRIPTION	Vote No.	Vote Description	Amount (R)
1	06/03/2009	Clearing petty cash account	1100/0820/0000	PRINTING & STATIONARY	77
2	6/30/2009	PETTY CASH FOR APRIL 2009	2205/1740/0000	STAFF : TEA ROOM	238
3	5/29/2009	CASUAL WAGES	5201/0520/0000	EXPANDED PUBLIC WORKS PROGRAM	1 400
4	1/30/2009	RENEWAL POSTBOX	2205/1860/0000	POSTAGE	254
5	12/22/2008	JAMESON IRISH WHISKY 750M	1100/2950/0000	STAFF PARTY	205
6	11/14/2008	MISALLOCATION ON CREDITOR	5450/1180/0000	T/PLANNING & SURVEY	18 078
7	11/17/2008	Clearing petty cash contr	1100/0820/0000	PRINTING & STATIONARY	172
8	6/30/2009	PETTY CASH FOR APRIL 2009	3000/1860/0000	POSTAGE	115
9	02/04/2009	VEHICLE REGISTRATIONS	3000/1460/0000	LICENCE FEES	1 585
10	09/10/2008	ELUNDINI MUNI. BOUNDARY S	5201/1920/0000	TOURISM	36 431
11	08/12/2008	CLIPBOARD MASONITE A4	2205/0820/0000	PRINTING & STATIONARY	53
12	12/18/2008	CHAIRCOVERS 18/12/2008	2207/1700/0000	ENTERTAINMENT / CATERING	180
13	10/16/2008	MARK PENTEL MAXIFLO BULL/	3000/0820/0000	PRINTING & STATIONARY	108

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14	7/24/2008	ONE STEP POTPOUR	2255/1740/0000	STAFF : TEA ROOM	94
	Total				58 990

	Date	Vote	Description	Claim Form Amount (R)	Irregular Expenditure Amount (R)
1	2/18/2009	2205/1980/0000	S & T	360	360
2	1/23/2009	2255/1980/0000	ACCOMMODATION TRAFFIC	1 586	1586
3	8/28/2008	2205/1980/0000	S & T	60	60
4	1/31/2009	2255/1980/0000	S&T-JAN 2009	11 748	3 648
	Total				5 654

Total possible irregular expenditure: R 64 644

**10. Grant Expenditure**

Out of a sample of 42 grant expenditure items selected for tested, three (error rate: 7%) instances were identified where the expenditure was not inline with the supply chain management policy:

This issue was identified the prior period.

**Root cause**

Control Environment (Participation by the accounting officer/authority): The accounting officer/authority does not understand and exercise oversight responsibility related to financial reporting and related internal control.

## **Risk**

### 1. Goods received notes not being used

Due to goods received notes not being used and completed and delivery of goods not always being delivered to stores, this could lead to the loss of goods due to misappropriation or the accepting of damaged goods or goods that are of the incorrect quality or quantities.

### 2. List of accredited prospective providers of goods and services

As an up to date listing of accredited prospective providers of goods and services is not being kept, this could lead to purchasers being made from prohibited suppliers or purchasing from a supplier that can not provide the good or service at the required quality and specifications or at the best price.

### 3. Subsistence and travel claims are not being processed through the payroll

This could lead to staff not paying tax on certain claims received as claims can be mistakenly not included in their payroll records.

### 4. Creditors not being settled within 30 days

This will lead to the municipality not complying with S65 (2) (e) of the Municipal Finance Management Act No. 56 of 2003.

### 5. Goods and services requisitions and purchase orders

This could lead to unauthorised, fruitless and wasteful expenditure.

### 6. Non-compliance with Subsistence and travel policy

This leads to not complying with the Subsistence and travel policy and could lead to fruitless and wasteful expenditure.

### 7. Quotations not being obtained for purchases

Due to quotations not being obtained, this could lead to purchases from non-accredited suppliers or purchases of items that are over-priced and of the incorrect quality or specifications.

### 8. Non-compliance with Section 43 of Supply Chain Management Policy

This leads to non-compliance with the Supply Chain Management Policy and purchases being made from suppliers who in terms of the Supply Chain Management Policy are prohibited.

### 9. Irregular Expenditure

The existence of irregular expenditure results in the municipality not complying with the Municipal Finance Management Act No, 56 of 2003.

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10. Grant Expenditure

Possible non compliance with the supply chain management policy  
Possible irregular expenditure with respect to grants.

**Recommendation**

1. Goods received notes not being used

All goods received should be delivered to stores and a goods received note should be completed for all purchases.

2. List of accredited prospective providers of goods and services

An up to date listing of accredited prospective providers of goods and services should be maintained and used for all procurement requirements.

3. Subsistence and travel claims are not being processed through the payroll

All subsistence and travel claims should be processed through the payroll.

4. Creditors not being settled within 30 days

There must be stricter controls over receiving and payment of invoices. All invoices must be stamped when received.

5. Goods and services requisitions and purchase orders

For all purchase of goods and services there should be an approved goods and services requisitions and purchase orders.

6. Non-compliance with Subsistence and travel policy

Strict controls should be in place to only approve expenditure that is in line with the Travel and Subsistence Policy

7. Quotations not being obtained for purchases

For all purchases above R2 000.00, three quotations must be obtained or a memo explaining why three could not be obtained.

8. Non-compliance with Section 43 of Supply Chain Management Policy

Controls must be in place to ensure that for all purchases above R15 000.00, that the tax status of the supplier is confirmed with SARS.

9. Irregular Expenditure

Strict internal controls must be in place to prevent irregular expenditure. Furthermore, this finding is the result of a sample of expenditure; hence the municipality should review similar transactions to ensure no further irregular expenditure exists.

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10. Grant Expenditure

Compliance with the municipality supply chain management policy should be adhered to at all times.

**Management Response**

1. This finding is acknowledged. This happened due to the de-centralized procurement system that the municipality was using during the year under review. This has been rectified. The SCM Unit has been capacitated in terms of human resources to better deal with all procurement processes from the specifications until the receipt of goods whereby the quality and quantities are verified against the specification before payment to ensure that the municipality realizes value for money on all procured goods and services.

2. The Municipality did not have an appropriate Supplier Database management system during the year under review and the excel spreadsheet being referred to was just an interim measure to ensure that suppliers are recorded. The Municipality has proven to the auditors that the process of procuring a supplier database management system that is fully compliant with the MFMA was underway. It is now confirmed that the database management system is available, we are just in a process of capturing all existing forms on the system to ensure that we have a fully functional system that we can use and rely on.

We however would also want to raise certain fundamental principles around the use of the database and the findings of the AG, as follows:

The law does not prescribe that municipalities are confined to the service providers registered in the database.

In some of the instances highlighted, the procured services did not exist in the database – e.g. security services, general valuation, town planning etc

Some of the projects were procured via a public tendering process – e.g. the general valuation roll.

To advertise, we have only the Daily Dispatch and the Barkley East Reporter circulating in the area – where we place our advertisements, therefore, will be determined by the audience we want to reach, rather than be straight jacketed by the database system

Name: Xoliswa Msuthu  
Position: SCM Practitioner  
Date: 5 November 2009

3. The audit finding fails to mention that, in the next ensuing payroll run after the direct payment to officials, the claim is included in the payroll.

Name: Khaya Gashi  
Position: Municipal Manager  
Date: 4 November 2009

4. The procedure is that when invoices arrive in the municipality, it is sent to a relevant HoD of the department that acquired services from creditor for authorisation before that creditor can be paid. The issue has been prevalent with the Technical Services department, who must inspect the claim against the BoQ



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**Management letter for the year ended 30 June 2009**

and the quality. We note that the BJ Concrete Products payment was delayed because the supplier had claimed for VAT, for which he was not registered. Date stamp with "received" has been ordered for the Creditor's Clerk so as stamp every invoice on arrival at the Financial Services department.

5. It has been noticed that the above transactions are payments made to service providers who were appointed through the tender process. And other transactions are made from the petty cash. We only attach appointment letter when the service provider makes a first payment, we do not issue requisitions and orders as the procurement process has been done. We do not issue requisitions and orders for petty cash payments

6. When the 3 star hotels are fully booked, we have no option but to book to the available hotel but with approval of the HOD. It is accordingly submitted that in this is an isolated incident.

The audit finding is acknowledged. We will look further into this claim and determine whether there is scope to recover the excess monies paid

Name: Bukelwa Dlodlo  
Position: Chief Accountant  
Date: 5 November 2009

7. Some items that have been referred to above relate to open bids/tenders like Security costs, Valuation roll, Professional services. The license fees also cannot be procured through quotations because they are for the Finance Management system, they are part of the contract and are payable annually. The municipality had been operating through a de-centralised procurement system, so and there has been a problem with the database so it was difficult to have three quotations in some cases. However, your finding is noted and the SCM unit will ensure that we do not have occurrences of this nature in future.

8. Some of the items that have been referred to above are below R15 000 and therefore the Municipality did not have valid reasons to request tax clearance certificates or to confirm their tax matters. The others were done through an open bidding process and a tax clearance certificate is always a requirement for open bids. The license fees are part of a contract that was obtained through the normal bidding process, they are not newly awarded projects.

Name: Xoliswa Msuthu  
Position: SCM Practitioner  
Date: 5 November 2009

9. This is a very serious finding, that has serious repercussions in terms of section 32 of the MFMA. Unfortunately, the basis of the finding is both wide and wild and not properly substantiated. The laws allegedly violated have not been pronounced, and we do not know which ones are not properly authorised.

Name: Khaya Gashi  
Position: Municipal Manager  
Date: 7 November 2009

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10. Item no.1: It is not true that only one quote was sourced for the facilitation of the strategic planning session. Documents exist to prove that the following service providers were approached:

PSU International  
Tshani Consulting  
Hamish Scott Consulting  
Umhlaba Consulting

Hamish Scott declined to submit a quote due to work overload. Umhlaba did not respond and PSU and Tshani opted to joint venture.

Item No.2: Licence fees are part of a contract so it is impossible to get quotes from other service providers.

Item No.3: GR Bennet was appointed to install electrical meters for uniformity reasons, they had installed meters before so to appoint another contractor would be difficult in terms of standardising the work done.

Name: Xoliswa Msuthu  
Position: Supply Chain Practitioner  
Date: 05/11/2009

**Auditor's Response**

1. Management's response is acknowledged, but the audit finding still stands.
2. Management's response is acknowledged, tender documents have since been received for certain expenditure and these have been removed from the exception. However it is therefore confirmed that there was not an appropriate supplier database during the year under review and therefore the audit finding still stands.
3. Management's response is acknowledged, however travel and subsistence claims should be processed and paid through the payroll in order to prevent errors and omission of taxable receipts and fringe benefits. The audit finding still stands.
4. Management's response is acknowledged, but the audit finding still stands.
5. Management's response is acknowledged, tender documents have been received for some of the expenditure items and so these, along with the petty cash purchases, have been removed from the exception. No supporting documentation was received for the remaining items, therefore the audit finding still stands.
6. Management's response is acknowledged, however there should be an internal memo or some form of proof of this on file to substantiate the use of a higher rating hotel. As no evidence for this expenditure was received, the audit finding still stands.

Management's response is acknowledged and the audit finding still stands.

7. Management's response is acknowledged, for expenditure where the source documents have since been received, they have been removed from the exception. However the audit finding still stands.

**Elundini Municipality**

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8. Management's response is acknowledged, for items that documentation has subsequently been received they have been removed from the exception. However, for the remaining items, the audit finding still stands.

9. Management's response is acknowledged, the break down of irregular expenditure has been discussed with management and for those items for which documentation has subsequently been received, and they have been removed from the exception. However, the audit finding still stands.

10. Management's response is acknowledged, however as no further documentation has been received, the audit finding still stands.

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**Employee Costs: Control Deficiencies (Employee costs)**

**Audit finding**

Section 62(1)(a) - (d) states: "The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure: -

- (a) That the resources of the municipality are used effectively, efficiently and economically;
- (b) That full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards;
- (c) That the municipality has and maintains effective, efficient and transparent systems-
  - of financial and risk management and internal control; and
  - of internal audit operating in accordance with any prescribed norms and standards;
- (d) That unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented."

The following control deficiencies were identified: -

**A. Provision for Leave Pay**

**1. Attendance registers:**

Attendance registers are required to be signed daily by employees. The matters below were identified: -

**Technical Department**

- The attendance register is located in an open office, and hence anyone has access to it at anytime.
- Some employees do not sign in and sign out.

**Finance Department**

- Signing in and out by the employees is not supervised.
- The attendance register is not safeguarded due to the register being in an open office.
- Employees were signing for previous days that they had not signed the register.
- Employees were signing for other employees.
- It appears that employees only came to sign the register upon arrival of the auditor.

**Community Services**

- The attendance register is located in an open office, and hence anyone has access to it at anytime.
- The signing by employees is not supervised.
- Employees do not sign the register upon arriving and departing daily.

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This issue was identified during the prior period audit.

2. Attendance Register signed incorrectly when employee is on leave.

A signed leave form exists for the following employees', however the attendance register is signed as a day of work attended.

Annual Leave

Number	Surname	Initials	Employee Number	Annual Leave Dates as per leave forms/leave register	
1	BANGISO	D	2019	05/08/2008	05/08/2008
2	DLAMINI	J P	1120	26/06/2009	26/06/2009
3	GWAZILITYE	S	1087	03/12/2008	12/12/2008
				26/01/2009	26/01/2009
4	JANUARY	E B	1023	12/12/2008	12/12/2008
5	KOSI	K F	1071	07/11/2008	07/11/2008
				04/12/2008	04/12/2008
6	MATI	T T	1052	30/09/2008	30/09/2008
				07/05/2009	07/05/2009
7	MDITSHANE	N H	1091	01/07/2008	04/07/2008
8	MNYAMANA	W	1070	30/01/2009	30/01/2009
				06/05/2009	08/05/2009
9	NXELANA	M	1053	06/01/2009	09/01/2009

Study Leave

Number	Surname	Initials	Study Leave as per Leave Forms	
1	Pula	T	08/06/2009	08/06/2009

Sick Leave

Employee Number	Surname	Initials	Employee Number	Leave dates per leave forms	
1	Leshuta	P	3033	31/07/2008	31/07/2008
2	Kosi	K	1071	02/02/2009	06/02/2009
3	Nxelana	M	1053	03/06/2009	04/06/2009
4	Mnyamana	W	1070	01/06/2009	01/06/2009
5	Nogcawula	M	1062	01/12/2008	01/12/2008
6	Tshaka	F	1068	01/10/2008	01/10/2008

This issue was not identified during the prior period audit.

3. No leave forms

Leave recorded on the attendance register and the leave register are not always supported by leave forms as evidenced below: -

## Annual Leave

Employee Number	Surname	Initials	Employee Number	Annual leave dates as per the Attendance Register	
1	DLAMINI	J P	1120	26/06/2009	26/06/2009
2	MATI	T T	1052	07/05/2009	07/05/2009
3	NONGCAWULA	M	1062	30/12/2008	31/12/2008
4	NXELANA	M	1053	06/01/2009	09/01/2009

## Sick Leave

Employee Number	Surname	Initials	Employee Number	Leave dates per attendance register	
1	Leshuta	P	3033	07/04/2009	09/04/2009
2	Nogcawula	M	1062	08/06/2009	08/06/2009
				01/12/2008	01/12/2008
3	Dlamin	J P	1120	25/08/2008	29/08/2008

This issue was not identified in the prior period audit.

### 4. Approval of leave after the annual leave is taken

Certain leave forms were approved after the leave was taken as indicated below: -

## Annual Leave

Number	Surname	Initials	Employee Number	Leave dates as per the leave forms	
1	KOSI	K F	1071	04/12/2008	04/12/2008
2	LE ROUX	C M	2002	17/06/2009	19/06/2009
3	PULA	T	1089	15/06/2009	15/06/2009
4	TSHAKA	F	1068	26/06/2009	26/06/2009

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5	GASHI	K	1030	02/04/2009	02/04/2009
6	KASUMBA	KM	1005	14/04/2009	14/04/2009
7	QOTOYI	CH	1175	10/06/2009	12/06/2009
8	NXELANA	M	1053	06/08/2008	08/08/2008
9	NANI	M	1119	24/04/2009	30/04/2009
10	NONGCAWULA	M	1062	06/02/2009	09/02/2009

This issue was not identified during the prior period audit.

**5. Leave forms not authorised**

Certain leave forms were not authorised by the appropriate level of management as indicated below: -

**Annual Leave**

Number	Surname	Initials	Employee Number	Department	Leave dates as per the leave forms	
1	LESHUTA	P	3033	Community Services	07/07/2008	07/07/2008
					04/12/2008	31/12/2008
					02/01/2009	09/01/2009
2	MNYAMANA	W	1070	Community Services	23/10/2008	27/10/2008

**Overtime Leave**

Number	Surname	Initials	Leave Days as per Leave Forms/Attendance Register	
1	BANGISO	D	04/12/2008	10/12/2008

**Maternity Leave**

Number	Surname	Initials	Leave dates as per the leave form		Actual leave days
1	Mati	T T	01/12/2008	31/12/2008	20

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This issue was not identified during the prior period audit.

**6. Timely processing of leave forms**

Leave forms relating to the financial year ended 30 June 2009 were processed subsequent to year end: -

**Study Leave**

Number	Surname	Initials	Leave Dates as per Leave Forms/Attendance Register		Date of Capturing
1	Pula	T	08/06/2009	08/06/2009	03/07/2009
2	Tshaka	F	02/06/2009	05/06/2009	03/07/2009
3	Mditshane	N H	22/06/2009	23/06/2009	03/07/2009
			26/06/2009	29/06/2009	03/07/2009

**Sick Leave**

Number	Surname	Initials	Employee Number	Date of capturing	No of sick days
1	Nxelana	M	1053	03/07/2009	2
2	Mnyamana	W	1070	03/07/2009	1

It should be noted that the amounts were correctly reflected in the provision for leave pay.

This issue was not identified during the prior period audit.



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B. Other leave findings:

7. No medical certificate

According to Section 3.2.2 of the South African Local Bargaining Council (SALBC) agreement an employee shall be required to submit a medical certificate from a registered medical practitioner if more than two consecutive days are taken. The following employees were identified as employees who failed to submit a medical certificate when taking more than two consecutive days of sick leave.

Number	Surname	Initials	Employee Number	Sick Leave dates per attendance register/leave forms		Sick leave days
1	Nkatani	Z M	3024	29/10/2008	31/10/2008	3
2	Dlamin	J P	1 120	25/08/2008	29/08/2008	5

This issue was identified during the prior period audit.

8. Notice of employees' annual leave expiring not sent by the municipality

It is the informal policy of the municipality that communication is to be sent to employees by the municipality informing them of their remaining annual leave days to ensure that these leave days are utilised within their leave cycle.

It was identified that certain employees who did not take their compulsory leave days of sixteen days during their leave cycle, had no notice sent out by the municipality to warn them that their leave will expire should it not be taken by the employee.

Number	Surname	Initials	Employee Number	Recalculated no of leave days	Compulsory Days entitled	Difference
1	BANGISO	D	2019	8	16	8
2	DLAMINI	J P	1120	1	16	15
3	GHU	L	3010	13	16	3
4	LENATHA	M	3025	10	16	6
5	MAJANGAZA	M S	1079	15	16	1
6	NXELANA	M	1053	8	16	8
7	FOKAZI	L	1126	9	9	0
8	KASUMBA	KM	1005	3	4	1

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9	MQOKOYI	L	1128	8	16	8
						50

This issue was not identified during the prior period audit

**C. Other Employment Issues**

**9. No appointment letters**

According to the Human Resources Policies and Procedures, the municipality is required to issue an appointment letter to the employee upon employment. The municipality is then required to sign the appointment letter as evidence of authorisation of the employment

Certain employees do not have appointment letters filed in their employment files as indicated below:

Number	Employee Number	Initials	Surname
1	2 019	D	BANGISO
2	1 087	S	GWAZILITYE
3	1 079	M S	MAJANGAZA
4	1 070	W	MNYAMANA
5	1 062	M	NONGCAWULA
6	1 053	M	NXELANA
7	1 089	T	PULA

This issue was not identified during the prior period audit.

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10. No Guidelines/Policy in respect allowances paid to employees

Allowances paid to certain employees were not at amounts specified by the policy/guideline.

Number	Employee Number	Initials	Surname	Allowance	Amount (R)	Period Received
1	1 008	C B	COETSER	Telephone	3 585	July 08 - June 09
2	2 002	C M	LE ROUX	Housing Subsidy	489	July 08 - June 09
3	1 091	N H	MDITSHANE	Telephone	500	Jan-09

This issue was not identified during the prior period audit.

11. No authorisation of allowances

Employees below received allowances, but no supporting documentation to evidence the approval could be located: -

Number	Employee Number	Initials	Surname	Allowance	Amount (R)	Period Received
1	1 008	C B	COETSER	Telephone	3 585	July 08 - June 09
2	2 002	C M	LE ROUX	Housing Subsidy	489	July 08 - June 09
3	1 091	N H	MDITSHANE	Telephone	500	Jan-09

This issue was not identified during the prior period audit

12. Short Time

Employees who do not attend work without an approved leave form are regarded as absent. These employees are not paid for these days not worked and therefore the municipality deducts the employee's salary cost for days marked as absent. When performing the recalculation of short time, a difference arose between the short time calculated by the auditors and the amounts deducted in the pay slips for the year ended 30 June 2009.

The short time calculation by the municipality is based on the employees salary cost on the date that the short time is processed in Payroll. The auditor's calculation is on the date the employee was actually absent. Furthermore, short time was not processed at the financial year end for certain employees. The findings are below: -

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Number	Initials	Surname	Short Time Deduction (R)	Short Time Recalculated (R)	Difference (R)
1	J P	DLAMINI	(1 501)	(1 978)	(477)
2	N A	KAPA	(667)	(321)	346
3	S	GWAZILITYE	(527)	(682)	(154)
4	K F	KOSI	(1 943)	(3 013)	(1 070)
5	D W	MABALEKA	(165)	(160)	5
6	M S	MAJANGAZA	(983)	(852)	131
7	W	MNYAMANA	(348)	(992)	(644)
8	Z M	NKATANI	(174)	(169)	5
9	M	NONGCAWULA	(5 436)	(4 847)	589
10	M	NXELANA	(1 249)	(2 709)	(1 459)
11	M	SAMYALA	(973)	(922)	51
12	L	MOOROSI	-	(1 854)	(1 854)
13	M	LENATHA	-	(655)	(655)
14	M	NANI	-	(1 444)	(1 444)
15	T	PULA	-	(652)	(652)
16	C M	LE ROUX	-	(615)	(615)
					(7 897)

This issue was not identified during the prior period audit.

**13. Notice of Employee Resignations**

Employees who resign do not submit their notice in the format required as no reason for resignation is stated.

Number	Surname	Initials	Employee Number	Date of Termination
1	Perkins	B M	1001	28/02/2009

This issue was not identified during the prior period audit.

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14. Termination of employment

Termination of employment forms do not state the consideration of outstanding debt owing the employee to the municipality.

Number	Surname	Initials	Employee Number	Date of Termination
1	Nguta	V J	1102	03/10/2008
2	Piliso	JM	1012	21/11/2008
3	Isaacs	M J	1020	06/08/2008
4	Dywili	S	1074	22/10/2008
5	Fokazi	L	1 126	13/02/2009
6	Perkins	B M	1001	28/02/2009
7	Makalima	M	1169	26/09/2008
8	Mankayi	T G	1063	31/07/2008
9	Vundisa	L N	3021	31/07/2008

This issue was identified during the prior period audit.

15. Housing Contracts

Lease contracts for employees who utilise municipal buildings for residential purposes had expired.

Number	Surname	Initials	Contract Commencement Date	Contract Ending Day
	Normal Employees			
1	Matyeni	V	01/03/2008	28/02/2009
2	Ghu	LC	01/12/2007	30/11/2008
3	Vice	BC	01/11/2007	31/10/2008
4	Lehlapa	PR	01/08/2007	31/07/2008
5	Mde	NL	01/12/2007	30/11/2008
6	Mvumvu	MS	01/12/2007	30/11/2008
7	Dumeko	S	01/04/2008	31/03/2009
8	Baduza	LS	01/04/2008	31/03/2009
	s57 Managers			

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9	Gashi	K	01/12/2007	30/11/2008
	Councillors			
10	Mvumvu	DD	01/04/2008	31/03/2009

This issue was not identified during the prior period audit.

16.

In terms Section 63 of the Municipal Finance Management Act, Act 56 of 2003 (MFMA), The Accounting Officer of a municipality is responsible for the management of the liabilities of the municipality.

It was established that provision for leave pay for both Section 57 employees and other employees is based on basic salary instead of the total cost of employment. It was estimated that leave pay is understated by R548 764.

**Root cause**

Monitoring of controls (Ongoing monitoring): Ongoing monitoring and supervision are not undertaken to enable management to determine whether internal control over financial reporting is present and functioning.

**Risk**

A. Provision for Leave Pay

1. Attendance Registers
2. Attendance Register signed incorrectly when employee is on leave
3. No leave forms

The provision for leave pay, amounting to R1 222 030 as disclosed in note 10 to the financial statements, Accounts Payable may be overstated as leave records may be inaccurate and incomplete.

4. Approval of leave after the annual leave is taken

5. Leave forms not authorised

This may result in employees taking unauthorised leave.

6. Processing of leave forms

This results in the incorrect leave recorded on the employees records at 30 June 2009.

B. Other leave findings

7. No medical certificate attached

Employees taking sick leave when they are not in fact sick and should be utilising their annual leave.

8. Notice of employees' annual leave expiring not sent by the municipality

Employees morale decreasing as the result of the municipality's failure to sent out the notices and to act in the best interest of their employees.

C. Other Employment Issues

9. No appointment letters

Unauthorised employees will be employed by the municipality and employees may not follow the policies and procedures of the municipality.

Contraventions by the employee of stipulations contained in the employment letter

10. No Guidelines/Policy in respect allowances paid to employees

Employees are paid unauthorised allowances resulting in loss to the municipality.

11. No authorisation of allowances

Unauthorised employees and employees who do not meet the requirements are receiving allowances

12. Short Time

Employee costs are overstated. Employees are paid for days not actually worked

13. Notice of employee resignations

The risk of employees resigning due to irregularities (e.g. intimidation, threats etc) and the municipality not picking up these events which could effect the municipality's operations and profitability

14. Termination of employment forms

Debt outstanding from the employee not recovered by the municipality from the employee and an unnecessary loss incurred by the municipality

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15. Housing Contracts

Employees still living in the houses, but not compiling with the lease arrangements as per the lease agreement as the lease is no more valid and therefore risk of an increase in the obsolete of the municipal houses

16. Liabilities at year end may be understated.

**Recommendation**

A. Provision for Leave Pay

1. Attendance registers

The signing in and out of the attendance register by employees should be supervised. The name of employees who have not signed the register should immediately be supplied to the human resource department so they can follow up with the employee. Any irregularities (employees who have signed for other employees, employees who have signed for days and hours not actually worked) should be immediately reported to the Human Resource department.

The attendance register should be placed in a secure location (locked cupboard with safeguarding of the key) when not in use.

At month end, the attendance register should be reconciled to leave forms. Leave forms should then be reconciled to the payroll system.

2. Attendance register signed incorrectly when employee is on leave.

When supervisors approve the leave forms, they should immediately mark off the leave days in the attendance register

3. No leave forms

Leave forms should be completed by the employee before he/she wishes to take leave and leave should only be granted to an employee once the leave form is authorised

4. Approval of leave after the annual leave is taken

Leave should be approved prior to leave taken.

5. Leave forms not authorised

Leave should only be allowed to be taken by employees after a leave form has been authorised by the s57 Departmental Manager after considering the operational needs of the municipality.



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6. Timely processing of leave forms

Leave forms need to be processed in the relevant financial period to ensure that the individual employee records are accurate. A senior staff member should review the leave register and ensure that all leave forms have been processed

B. Other leave issues

7. No medical certificate

Medical certificates must be submitted before the municipality records sick leave on leave forms and leave register.

If no medical certificate is provided for more than 2 consecutive sick days taken, these days should be deducted from the employee's annual leave.

8. Notice of employees' annual leave expiring not sent by the municipality

The municipality should monitor the annual leave taken by employees and should employees not be taking their compulsory leave of sixteen days per annum, a notice should be sent out by the municipality warning the employee of their annual leave days due and emphasising the fact the employees will forfeit the leave days if not taken up within their leave cycle

C. Other Employment Issues

9. No appointment letters

Employees should only be able to commence work once the employment letter has been approved by management.

Appointment letters should be filed in the employees file and placed in a secure and locked cabinet.

10. No Guidelines/Policy in respect allowances paid to employees

Allowances should be paid based on approved guidelines or policies.

11. No authorisation of allowances

A set policy of requirements that are required to be met before an allowance is granted to an employee should be developed. An independent senior staff member should authorise supporting documentation as evidence of allowances entitled to by employees.

12. Short Time

When an employee is absent the calculations of salaries to deducted should be based on the employees salary cost on the date that he/she was absent. An independence senior staff member should review the calculations and sign the calculations as evidence. Only approved short time should be processed timorously and in the month that the employee was absent.

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13. Notice of Employees Resignations

The Human Resource Policy and Procedures should address the format of the notice required to be submitted when an employee wants to resign. Emphasis should be drawn to the fact that notices must specify the reason that employees are resigning or an exit interview should be conducted to identify the reason.

14. Termination of employment forms

The municipality must investigate if any money is owing to the municipality by an employee whose employment has been terminated. The termination form should include this amount and the amount recovered before final salary payment is made by the municipality.

15. Housing Contracts

A senior staff member should monitor the lease contracts and ensure when the expiration of the lease contract is approaching the employee is contacted and notified. Should the employee wish to extend the contract, a new contract should be drawn up and signed by the employee and the municipality. Employees should not be able to carry on leasing the municipal buildings if their contract has expired.

16. Liabilities at year end

The provision for leave pay should be calculated based on total cost to company (i.e. - including any pension fund contributions, travelling allowance and housing allowance).

The following journal entry is suggested based on projected amounts (estimated error):

Dr Expenditure	548 764
Cr Provision for leave pay	548 764

**Management Response**

1- 3. Attendance Registers

The custody of the departmental registers vests with the heads of departments who monitor and ensure that they are kept safely. The HODs are expected to oversee the signing in and out of the attendance registers. At this stage, we have not observed any problems with this practice,

Name: Tamie Koka  
Position: Assistant Manager – Human Resources  
Date: 28 September 2009

It was acknowledged that employees are signing the register as a day of work even when leave is taken. The council has been approached for a more accurate and less corruptible time keeping system (such as an electronic clocking in and out system). However the unions are resisting this change and he is still to approach the unions formally and in the correct manner to resolve this issue.

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Name: Khaya Gashi  
Position: Municipal Manager  
Date: 16 October 2009

4- 16. No management comment received

**Auditor's Response**

1 - 3. As per discussion with Tamie Koko (Human Resource Assistant Manager) on 30 September 2009 and Khaya Gashi (Municipal Manager) on 16 October 2009, the deficiencies surrounding attendance registers were noted. However, these deficiencies still existed for the year ended 30 June 2009 for audit purposes.

4 - 16. No management comment received, we assume management have accepted our finding and will implement the recommendation.

## **ANNEXURE C: ADMINISTRATIVE MATTERS**

### **6 Administrative matters**

#### **Consumer Deposits: Control Deficiencies.**

##### **Audit finding**

In terms of Section 62(1) of the Municipal Finance Management Act 56 of 2003, the Accounting Officer of a municipality must take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

#### 1. Consumer deposit application forms

For the application details listed below, the following deviations from the approved policy were noted:

- No evidence or approval on the application forms by way of supervisor signature.
- No certified identify document or passport attached to the application form.

	Name	Account Number	Comment	Amount (R)
1	Wang	S02481	R695 relate to Electricity and R160 relate to Water deposit.	855
2	Shufei	S02479	R2 426 relate to Electricity and R160 relate to Water deposit.	2 586
			Total	3 441

Only two new consumer deposits were made during the year, therefore a 100% error rate.

#### 2. Disconnections

It was established that consumers apply for disconnections of services, but the municipality does not disconnect the services as requested by the consumer. In addition, where there have been disconnections, the Debtors and Billing Clerk were unable to provide information relating to the amount paid back to the consumer or settled against the consumer's account:

	Name	Account Number	
1	Mfomo Lindelwa	Closed	N1
2	Elundini Butchery	Closed	N1
3	Vuyisa Gugu	Closed	N1
4	Henning Garden Basket	5M0924/502215	N2

N1: Limitation of Scope information not availed for audit purposes

N2: Confirmed through inspection of the account that a new customer had moved in but had not paid the required tariff amounts, however the municipality did not

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disconnect any services due to this non payment. Had the municipality disconnected the services applied for by the applicant, the new owner would have paid a tariffs amounting to R854.97, (Electricity single phase R694.97 and water R160).

**3. No Consumer Deposits Paid**

It was established that the following community members had not paid consumer deposits to the municipality:

	Property	Account	Initials	Name
1	0U0336	471	MA	GROOM
2	0U0342	290	TW	MHLABA
3	0U0337	2540	BP	DE KOCK
4	0U0334	S02297	LT	NOMGCA
5	0U0332	56	NG	NXELE
6	0U0324	2663	M	NDLEBE
7	0U0344	S02321	S	HATTINGH
8	0U0347	1818	CJ	RUTHERFORD
9	0U0312	S02378		UMSO CONSTRUCTION
10	0U0348	278	GA	DU RANDT
11	0U0325	471	MA	GROOM
12	0U0311	136	AMC	BROWN
13	0U0272	2220	JI	NOLAND
14	0U0232	418	S	GIGI
15	0U0229	S02362	AM	MAKABANA
16	0U0235	532	JJ	JACQUIRE
17	0U0215	2316	SJ	WINNAAR
18	0U0201	2745	R&F	VAN STAADEN
19	0U0226	2373	AJE	VENTER
20	0U0500	S02190		FARRINGTON FARMING PTY
21	0U0511	84	WCJ	BEZUIDENHOUT
22	0U0520	2231	CPJ	VAN JAARVELD
23	0U0521	685	TV	NGEDLE
24	0U0378	256		UGIE HIGH SCHOOL
25	0U0384	1686	V	OPPERMAN
26	0U0389	137	GJ	BRUMMER

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27	0U0390	S02190		FARRINGTON FARMING PTY
28	0U0392	1855	RA	SCHULTZ
29	0U0397	164	DE	CHARTERS
30	0U0398	1274	JM	MULLER
31	0U0399	552	DJ	VAN VUUREN
32	0U0401	2265	GF	VENTER
33	0U0404	83	PC	BEZUIDENHOUT
34	0U0408	2243	FJ	BESTER
35	0U0414	509		HILTONS SERVICE STATION
36	0U0417	2228	AC	KING
37	0U0429	331	IP	EKRON
38	0U0431	S02344	SE	DANIEL & DE KLERK
39	0U0439	1680		OOSKAAP KOOPERASIE
40	0UA256	S02333	GM	DE WET
41	0UA296	2160	TG	TOKOTA
42	0UA412	2409	TW	SKEYI
43	0UA428	2028		STANDARD BANK OF SOUTH
44	0UA453	6	RJ	VIEDGE
45	0UA467	138	FJ	BUCHLER
46	0UA534	471	MA	GROOM
47	0UB415	S02322		CLARENDON GASTEHUIS
48	5M0017	501176	S&NP	MZILENI
49	5M0020	501683	JJ	PRINSLOO
50	5M0021	501533	DH	SPARKS
51	5M0024	500559		MACLEAR HIGH SCHOOL (SW
52	5M0025	S01541		MACLEAR HIGH SCHOOL
53	5M0027	501268	NS	NOMBEKELA
54	5M0029	S02410	M	BURGER
55	5M0041	502236	ML	TAMAKO
56	5M0042	501325	M	PAGEL
57	5M0050	501423	E	ROSENTHAL
58	5M0052	500135	LF	COETZER
59	5M0062	S00017	C	VORSTER
60	5M0066	501837	KR	CLOETE

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61	5M0078	S02418	MN	MYAMBO
62	5M0088	S02430	P	COETZEE
63	5M0089	S02454	JL	VAN NIEKERK
64	5M0090	500570		MACLEAR OLD AGE HOME
65	5M0094	S02425		ELLERINE FURNISHERS (PT
66	5M0099	502248		NINHAM SHAND PTY (LTD)
67	5M0107	501104	SG	MKABILE
68	5M0115	S02420	SWJ	VILJOEN
69	5M0118	S00004	M	COETZEE
70	5M0120	502247	RN	WICKS (JNR)
71	5M0121	501546		STANDARD BANK OF SOUTH
72	5M0129	501743	NB	WEBSTER
73	5M0137	242		DEPT OF PUBLIC WORKS
74	5M0138	502229		WHITE EAGLE FUNERAL SER
75	5M0142	S02251	ELT	SONDLO
76	5M0148	S02379	NJ	BOTHA
77	5M0150	S00029	E&K	MOYO & NKANI
78	5M0154	500213		MACLEAR CLINIC
79	5M0167	500019	DS	AUCAMP - AUCAMP MOTORS
80	5M0194	501529		TELKOM SA
81	5M0198	S01544	M	PHOPHO
82	5M0198	S02376	A	LOUW
83	5M0220	S02416	MA	KHAN
84	5M0221	500173	E	PUTTER
85	5M0249	502219	AN	QINA
86	5M0262	501692	A	VAN ROOYEN
87	5M0267	S02164	JH	BRITZ
88	5M0269	501695	JA&L	VAN ROOYEN (BERRY)
89	5M0280	S02367	DJ	VAN NIEKERK
90	5M0294	501003	TA	QHEYA
91	5M0296	S02415	BNS	BRITZ
92	5M0297	501420	MN	MBAKAZA
93	5M0298	501747	B	WENTZEL
94	5M0302	501754	SH	WENTZEL

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95	0U0441	646	M	KNOETZE
96	5M0304	500077	AE	BOTHA
97	5M0318	501454		SCHENK & SONS, P (SHOP
98	5M0319	501738		MACLEAR AGENTSKAPPE (AL
99	5M0324	S02230	WF	SAUER
100	5M0328	501565	K	MOSIUOA
101	5M0329	500336	TO	GOSO
102	5M0332	501045	PM	MDLAZI
103	5M0350	501652		MACLEAR ROUND TABLERS
104	5M0351	501117	B	MOOLMAN (MACLEAR NI
105	5M0351	S02181		SHOPRITE CHECKERS - MAC
106	5M0354	501768		KWA WICKS (SPAR)
107	5M0365	502204		FNB BRANCH BANKING MACL

**4. Reconciliation of consumer deposits**

It was established that reconciliation of consumer deposits is neither signed by the preparer nor reviewer.

**Root cause**

Control activities (Operational): Directive, preventive and detective controls are not adequate and focused on achieving efficient resource usage and effectiveness, as measured by the extent to which specific control objectives are achieved.

**Risk**

**1. Consumer deposit application forms**

Non adherence to policies and procedures.

**2. Disconnections**

Fraud risk is high, as the misuse of the municipality assets could go undetected.

**3. No consumer deposits paid**

Outstanding debts from consumers may not be recovered resulting in the municipality incurring losses.

**4. Reconciliation of consumer deposits**

Consumer deposit disclosed in the annual financial statements could be misstated.



## **Recommendation**

### 1. Consumer deposit application forms

Management should ensure that all applications for consumer deposits are approved by a senior official. These should be signed as evidence of approval thereof. Certified copies of applicants should be obtained before a new account has been opened.

### 2. Disconnections

Management should ensure that financial records of the municipality are properly maintained and when consumers apply for disconnections, these should be disconnected and only connected when new tenants pay for deposits.

### 3. No consumer deposits paid.

Management should follow up with the consumer debtors and obtain deposits.

### 4. Reconciliation of consumer deposits

The debtors Clerk should sign this as evidence of performance. In addition, this reconciliation should be independently reviewed by a senior official and signed as evidence of their review.

## **Management Response**

1. Account number S02481 (Wang) is a business with a single phase electricity meter and its tariff for the 2008/9 financial year is R694.57. Account number S02479 is a business with a three phase 100 KVA meter whose tariff for the 2008/9 financial year is R2 425.50.

Due to shortage of staff and the unfortunate resignations of Revenue Accountant, it has not been possible to apply control measures, hence no supervisory signature.

2 (i) An application for the disconnection of services was received from Lindelwa Mfono, ID No 681201 111 6086 whose address per the application form is No 2331 Fourie Street. When we checked our records, property situate on 2331 in Fourie Street is registered in the name of Mr. T Mfono. In the circumstances, it was not possible to action the application for disconnection.

2 (ii) Elundini Butchery also trades as Mac's Butchery, operating from Van Riebeeck Street, Maclear. An application form was received for the disconnection of services. The business will be approached with the purpose of disconnecting the electricity supply, so that the new operators may apply to be connected.

2 (iii) VG Tywabi's application for the disconnection of services was received. VG Tywabi's account has since been closed, but there is an outstanding amount in respect of electricity in the amount of R298. This is an employee of the municipality and he has been asked to pay the amount.

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2 (iv) Henning Garden Basket operates from 4 Van Riebeeck Street in Maclear. The unpaid deposit fees will be billed to the customer.

3. The above are old accounts which presumably existed before the advent of the system of deposits. In order to align them with the new deposits system, the municipality will consider the option of billing for the deposits and weigh it against any potential social problem that may emanate as a result of this.

4. The finding is acknowledged. The reconciliations will be signed off henceforth.

Name: Coenie Bezuidenhout  
Position: Billing Clerk  
Date: 23 October 2009

Name: Khaya Gashi  
Position: Municipal Manager  
Date: 29/10/2009

**Auditor's Response**

1, 2, 3, 4 - Management comment noted; the finding will be reported in the final management report.

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**Fixed Assets; Compliance with Laws and Regulations** (Property, plant & equipment)

**Audit finding**

The following non-compliance with relevant laws and regulations were found with regards to the disposal of assets:-

1. The disposal of the vehicles listed below were not authorised by the councillors at a council meeting.
2. The fair market value for the disposal listed below was not determined before the sale of the assets listed below.
3. The writing off of vehicles listed below was not approved by councillors at a council meeting.

	Description	Registration number	Selling Price (R)
1	City Golf	DBC 754 EC	26 220
2	City Golf	DBC 748 EC	29 070
3	Toyota Conquest	CVM 256 EC	28 500
	Total		83 790

**Root cause**

Control activities (Operational): Directive, preventive and detective controls are not adequate and focused on achieving efficient resource usage and effectiveness, as measured by the extent to which specific control objectives are achieved.

**Risk**

Assets may be disposed and written off that are still required by the municipality (non compliance to section 90(2a) MFMA Act 56, of 2003).

In addition, assets may be disposed of at a value below the market value (non compliance to section 90(2b) MFMA Act 56, of 2003).

**Recommendation**

1. All disposals should be authorised by the councillors at a council meeting before disposal of an asset.
2. The market value of assets should be determined before the assets are disposed off.
3. Writing off of fixed assets should be authorised by the councillors at a council meeting before writing off of an asset.

**Management Response**

1. The vehicles were in actual fact disposed off subsequent a resolution taken in the council meeting of 11 August 2008.
2. In actual fact, Messrs Jacksons valuated the vehicles prior to them being sold, and submitted a report dated 11 September 2009. The report is available for inspection by the auditors (contact Anita).
3. Refer 1 above.

Name: Khaya Gashi  
Position: Municipal Manager  
Date: 23 October 2009

**Auditor's Response**

- 1, 2, 3 - Management comment is noted, the audit finding will be reported in the final management report.

**Contingent Liabilities: Inadequate internal control** (Contingent liabilities)

**Audit finding**

In terms of Section 62(1) of the Municipal Finance Management Act 56 of 2003, the accounting officer of a municipality must take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control .

1. Policies and Procedures

There is no documented policy in place within the municipality with respect to the identification and treatment of contingent liabilities.  
This issue was not identified in the prior period.

2. Disclosure

a) The auditee did not disclose comparatives for its contingent liabilities in the prior year.  
This issue was not identified in the prior period.

3. Accuracy

a) The auditee did not estimate potential legal costs arising from the formal claims raised against them and disclose this as part of contingent liabilities.  
This should be estimated through correspondence with legal council and should be performed for all formalised legal cases (ie: summon/notice of motion etc). This would relate to the following cases in the current period:

- SALA Pension Fund vs Elundini Municipality
- Matyeni vs Elundini Municipality

This issue was not identified in the prior year.

4. Correspondence

No direct confirmations were received from the following attorneys:

- Kirchmanns Inc.
- R.A. Matubatuba and Associates

This resulted in incomplete testing of the completeness of contingent liabilities. In addition, the Matyeni vs Elundini Municipality claim was not verified by a third party.  
This issue was not identified in the prior year

**Root cause**

Control Activities (Selection and development of control activities): Control activities are not selected and developed with consideration of their cost and their potential effectiveness in mitigating risks to the achievement of financial reporting objectives.

**Risk**

Possible understatement and mistreatment of contingent liabilities in the annual financial statements

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A possible lack of transparency with respect to the disclosure in annual financial statements.

**Recommendation**

1. A formal documented policy should be in place to identify contingent liabilities and ensure they are disclosed correctly.
2. Comparatives should be disclosed in the contingent liabilities disclosure note.
3. Legal costs should be estimated (with the help of correspondence from legal council) and disclosed as part of contingent liabilities arising from a formal claim/summons etc.
4. Management should encourage its legal council to co-operate with the auditors.

**Management Response**

1 - 4 No Management comment received.

Name: Khaya Gashi  
Position: Municipal Manager  
Date: 20/11/2009

**Auditor's Response**

Note that no management comment was received for point 1 - 4.

We therefore accept that management agrees with our finding and will implement corrective action.

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**Bank and Cash: non compliance with laws and regulations** (Cash and cash equivalents)

**Audit finding**

In terms of MFMA section 8(5), the accounting officer of a municipality must submit to the National Treasury, the relevant provincial treasury and the Auditor General, in writing, the name of the bank where the primary bank account of the municipality is held, and the type and number of the account. If the municipality wants to change its primary bank account, it may do so only after the accounting officer has informed the national treasury and the Auditor General, in writing, at least 30 days before electing the change.

It was discovered that Standard bank is no longer the municipality main bank account, the municipality now use First National Bank as their main bank account. No letter could be provided that the municipality informed the auditor general 30 days in advance of changing main bank accounts.

There is no evidence of this occurring in the prior year.

**Root cause**

Control environment (Policies and procedures): Policies related 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**

Non compliance of laws and regulations

**Recommendation**

Evidence of the letters to the Provisional Treasury and Auditor General should be maintained to ensure compliance with this Act.

**Management Response**

The previous Chief Financial Officer had sent letters informing the National Treasury, the Provincial Treasury and the Auditor General that the municipality's primary bank account would change with effect from 1 July 2008. We do not seem to find the copies of letters sent, hence the National Treasury letter was requested and received from Mr. Neo Smouse.

I have approached Mr. Steve Khusu of the Auditor General to help me get a copy of the letter remitted to the Auditor General, and he is tracing it from the EL office of the AG.

Name: Khaya Gashi  
Position: Municipal Manager  
Date: 20/11/2009

**Elundini Municipality  
Management letter for the year ended 30 June 2009**

**Auditor's Response**

Management comment was noted; however exception relating to non compliance remains valid, as the municipality should be able to provide a copy of the letter sent to the Auditor General before changing their main bank accounts.



**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

**Procurement: Internal Control Deficiencies (Value for money)**

**Audit finding**

The following matters in respect of the procurement process were identified:-

1. Incorrect calculation of tender points

As per Regulation 3 and 4 of the Preferential Procurement Policy Framework Act (5 of 2000):-

“The 80/20 preference points system –

(1) The 80/20 formula must be used to calculate the points for price in respect of tenders/procurement with a Rand value equal to, or above R30 000 and up to a Rand value of R500 000.

(2) A maximum of 20 points may be awarded to a tenderer for being an HDI and/or subcontracting with an HDI and/or achieving any of the specified goals stipulated in regulation 17.

The 90/10 preference points system –

(1) The 90/10 formula must be used to calculate the points for price in respect of tenders/procurement with a Rand value above R500 000.

(2) A maximum of 10 points may be awarded to a tenderer for being an HDI and/or subcontracting with an HDI and/or achieving any of the specified goals stipulated in regulation 17.”

The tender points on the following bids were found to be incorrectly calculated:-

	Bid No	Project Name	Tenderer	Points per Evaluation Report	Points Recalculated	Difference
1	ELM-MIG 001/2008	Construction and Rehabilitation of UGIE Streets Professional Engineering Services	AfricaDynamics JV Khwezi V3	82.66	82.21	0.45
2	MIG/R/EC/5021/07/08	Provision of Access Roads for Ward 1,5 and 6	Urban Africa Services	45.87	40	5.87
3	MIG/R/EC/5021/07/08	Provision of Access Roads for Ward 1,5 and 6	Sinesakhono Contracting Services	72.96	36.5	36.46
4	MIG/PMU/14/06/3/14	Construction of Zwelitsha, Sondaba Tsolobeng Access Roads	Amatshezi Investment CC	50.76	51.77	1.01

Although the points above were incorrectly calculated, they did not have any impact on the outcome of the tender process.

**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

This matter was identified during the prior period audit.

**2. Defaulting suppliers**

According to the Preferential Procurement Policy Framework Act No.5 of 2000 Regulations GN R725 of 10 August 2001 section 15: "(1) An organ of state must, upon detecting that a preference in terms of the Act and these regulations has been obtained on a fraudulent basis, or any specified goals are not attained in the performance of the contract, act against the person awarded the contract.

An organ of state may, in addition to any other remedy it may have against the person contemplated in sub regulation:

- (1) (a) recover all costs, losses or damages it has incurred or suffered as a result of that person's conduct;
- (b) cancel the contract and claim any damages which it has suffered as a result of having to make less favorable arrangements due to such cancellation;
- (c) impose a financial penalty more severe than the theoretical financial preference associated with the claim which was made in the tender; and
- (d) restrict the contractor, its shareholders and directors from obtaining business from any organ of state for a period not exceeding 10 years."

No action was taken against the following defaulting suppliers:

	Project Name	Contractors Terminated	Estimated losses incurred by the municipality (R)
1	Security Services	Golden Security Services	60 308
2	Driver's Licence Testing Centre	Incline and Decline	28 519
3	Driver's Licence Testing Centre	Lokotoz Projects	218 337
	Total		307 165

This matter was not identified in the prior period audit.

**Root cause**

Control activity (Financial): Written procedures, authorisations, record keeping, management reviews and asset safeguards are not segregated to prevent fraudulent financial data and asset misappropriation.

## **Risk**

### 1. Incorrect calculation of points

Possible non-compliance with the Preferential Procurement Policy Framework Act (5 of 2000). The incorrect calculation of tender points may also impact on the outcome of the tender award.

### 2. Defaulting suppliers

The lack of action taken against defaulting suppliers may result in financial loss to the municipality.

### 3. Tender advertising

The absence of evidence of advertisement of bids may result in non-compliance with the municipalities Supply Chain Management Policy which is required in terms of the Preferential Procurement Policy Framework Act (5 of 2000).

## **Recommendation**

### 1. Incorrect calculation of points

All tender points should be computed in accordance with the requirements of the Preferential Procurement Policy Framework Act (Act 5 of 2000). The bid evaluation committee should review the point's calculation for accuracy and compliance with the relevant legislation.

### 2. Defaulting suppliers

Should a contractor on a project default, the municipality should assess the losses incurred and take the necessary steps to recover the money.

## **Management Response**

1. This finding is acknowledged and the Bid Committees will apply more effort to scrutinise the repowers before they are signed.

2. For all the above-mentioned contractors, the contracts were terminated immediately. All the moneys that were paid were paid after verification of work done so the Municipality did not lose money. The issue of imposing penalties was looked at but the main problem that was identified is that we are dealing with emerging contractors who can barely afford to maintain their own companies, so the municipality would bear huge legal costs due to the cases being prolonged by non payment, increasing the Municipality's debtor's book with the debts that have a very low probability that they would be settled. The SCM Unit has recorded them as defaulters and they can no longer trade with the Municipality and we also give the information about their performance to other municipalities.

Name: Xoliswa Msuthu  
Position: SCM Practitioner  
Date: 5 November 2009

**Elundini Municipality  
Management letter for the year ended 30 June 2009**

**Auditor's Response**

1. Management's response is acknowledged and the audit finding still stands.
2. Management's response is acknowledged and the audit finding still stands.

## Inventory: Control Deficiencies (Inventory)

### Audit finding

Internal controls surrounding inventory were found to be inadequately maintained due to the following: -

#### 1. Reconciliations

There is no evidence that daily reconciliations between fuel received/issued, pump meter readings and deep readings are performed. In addition, there is no evidence of adequate review.

#### 2. Insurance

The municipality does not insure its inventory.

#### 3. Master stock list

Balances recorded on the stores master listing did not agree to the general ledger and stock count report at year end. This difference could not be resolved by the management. Refer to the following details:

	Product Code	Description	Stock report amount (R)	Master listing amount (R)	Variance (R)
1	01C012	90mm VJ Couplings	2 709	903	1 806
2	01C014	63MM VJ Couplings	3 456	-	3 456
3	01C016	160MM VJ Couplings	4 469	1 625	2 844
4	01DEL1	Diesel	51 300	100 329	(49 029)
5	01EA03	ABB (BUN 9)	10 283	42 674	(32 391)
6	01EF23	Beka 250w HPS	5 632	(5 632)	11 264
7	01EM24	Wall unit	10 029	(5 014)	15 043
8	01EM25	BEC 44 MCU	44 181	24 152	20 029

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Management letter for the year ended 30 June 2009**

9	01EM26	BEC UIU V	22 848	14 012	8 836
10	01M004	20MM KSM STD3	9 955	(13 044)	22 999
11	01P005	200 x 6M Ultraflo	13 478	-	13 478
12	01ULP1	Unleaded Petrol	44 330	29 476	14 854
13	01C013	110mm VJ Couplings	305	(305)	610
14	01C030	Straight Coupling	2 285	5 331	(3 046)
15	01UPV5	160mm x 6m UPVC	21 902	46 932	(25 030)
16	01EL01	Beka Street light	3 803	(3 803)	7 606
17	01ER03	Rolls	46 130	-	46 130
18	01ES08	100w Sodium Vapour	6 548	364	6 184
19	01ER01	Load Relays	4 514	(4 514)	9 028
20	01ES02	SF1G3 60A	2 209	(390)	2 599
	Total		310 366	233 096	77 270

**Root cause**

Control activities (Operational): Directive, preventive and detective controls are not adequate and focused on achieving efficient resource usage and effectiveness, as measured by the extent to which specific control objectives are achieved.

**Risk**

1. Reconciliations

The readings may not be in agreement resulting in inventory account balances being misstated.

2. Insurance

**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

In the event of theft, fire or any damages to inventory items the municipality will incur unnecessary losses, this would be considered fruitless and wasteful expenditure.

3. Master stock list

The inventory balance may be misstated in the annual financial statements, and as no checks are done misappropriation of inventory could go undetected.

**Recommendation**

1. Reconciliations

The stores clerk should prepare a reconciliation between fuel received/issued, pump meter readings and deep readings. The stores clerk should sign this as evidence of performance. In addition, this reconciliation should be independently reviewed by a senior official and signed as evidence of their review.

2. Insurance

Management should ensure that inventory is adequately insured.

3. Master stock list

Management should ensure that variances are investigated and cleared timeously

**Management Response**

(1). This finding is acknowledged and is due to the poor staffing of the logistics section within the SCM unit

(2). This finding is acknowledged. Quotations will be sourced from the insurance service provider and the stock will be insured henceforth.

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**Management letter for the year ended 30 June 2009**

Name: Khaya Gashi  
Position: Municipal Manager  
Date: 20 October 2009

(3). This will be followed up with the system administrator because the stock count report is inter connected to the stock control account and the stock master listing on the system and therefore all updates of the stock count are supposed to up date the other two accounts. The response from the administrators will be submitted as soon as it is available.

Name: Xoliswa Msuthu  
Position: Supply Chain Practitioner  
Date: 20 October 2009

**Auditor's Response**

1, 2, 3 - We noted management comment; the matters will be reported in the management letter.



**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

**Purchases and payables: Limitation of scope** (Difficulties during the audit)

**Audit finding**

The following transaction did not have source documentation:

	DATE	DESCRIPTION	Vote No.	Vote Description	Amount (R)
1	02/12/2003	ACCOMMODATION L.S. BADUZA	1110/1980/0000	SUBSISTANCE & TRAVELLING	(2 339)
	Total				(2 339)

Furthermore, there were a number of these items identified during the audit and the documentation subsequently located.

This issue was not identified in prior year audit.

**Root cause**

Control Environment (Participation by the accounting officer/authority): The accounting officer/authority does not understand and exercise oversight responsibility related to financial reporting and related internal control.

**Risk**

This expenditure may not be valid and correctly recorded.

Furthermore, inadequate documentation control may result in the following: -

- Increased audit cost, due to documents not been easily located.
- VAT problems should the South African Revenue Service perform a VAT audit.

**Recommendation**

There should be stringent controls over source documents to ensure that all transactions are supported by source documentation.

**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

**Management Response**

The source document is available and can be submitted to Auditors when requested.

Name: Bukelwa Dlodlo  
Position: Chief Accountant  
Date: 5 November 2009

All the above documents have been found and submitted to the auditors

Name: Khaya Gashi  
Position: Municipal Manager  
Date: 18 November 2009

**Auditor's Response**

Management's response is acknowledged, however no further documentation has been received and therefore the audit finding still stands.

**Elundini Municipality  
Management letter for the year ended 30 June 2009**

**Journal entry testing: Internal control deficiencies**

**Audit finding**

Journal entries were found to be not appropriately authorised

It was found that for the following journal entries, that they were not appropriately authorised and reviewed:

	CODE	TRXN_REF	DATE	DESCRIPTION	DEBIT (R)	CREDIT (R)	AMOUNT	VOTE_NO	VOTE_DESC
1	10	KG091231	6/30/2009	REALLOCATILY EXPENDITURE	2 496 367	-	SECOFR	4430/3540/0000	INSTALLATION OF SERV STEINHOF,
	10	KG091231	6/30/2009	REALLOCATILY EXPENDITURE	-	2 496 367	SECOFR	4800/3540/0000	INSTALLATION OF SERV STEINHOF,
2	10	KG091231	6/30/2009	TFR TO UKDM ACC	1 837 194	-	SECOFR	4800/4800/0000	UKHAHLAMBA (W & S DEBT),
	10	KG091231	6/30/2009	TFR TO UKDM ACC	-	1 056 579	SECOFR	4470/0010/0000	SALARIES,
	10	KG091231	6/30/2009	TFR TO UKDM ACC	-	1 173	SECOFR	4470/0030/0000	HOUSING SUBSIDY,
	10	KG091231	6/30/2009	TFR TO UKDM ACC	-	43 448	SECOFR	4470/0050/0000	CONTRIBUTION MEDICAL AID,
	10	KG091231	6/30/2009	TFR TO UKDM ACC	-	182 636	SECOFR	4470/0060/0000	CONTRIBUTION PENSION FUND
	10	KG091231	6/30/2009	TFR TO UKDM ACC	-	11 460	SECOFR	4470/0070/0000	CONTRIBUTION U I F
	10	KG091231	6/30/2009	TFR TO UKDM ACC	-	752	SECOFR	4470/0090/0000	INDUSTRIAL COUNCIL LEVY,
	10	KG091231	6/30/2009	TFR TO UKDM ACC	-	82 122	SECOFR	4470/0100/0000	ANNUAL BONUS,
	10	KG091231	6/30/2009	TFR TO UKDM ACC	-	2 000	SECOFR	4470/0120/0000	TELEPHONE ALLOWANCE,
	10	KG091231	6/30/2009	TFR TO UKDM ACC	-	24 468	SECOFR	4470/0130/0000	STANDBY ALLOWANCE,
	10	KG091231	6/30/2009	TFR TO UKDM ACC	-	10 750	SECOFR	4470/0140/0000	TRANSPORT ALLOWANCE
	10	KG091231	6/30/2009	TFR TO UKDM ACC	-	34 767	SECOFR	4470/1980/0000	SUBSISTANCE & TRAVELLING,

**Elundini Municipality  
Management letter for the year ended 30 June 2009**

	CODE	TRXN_REF	DATE	DESCRIPTION	DEBIT (R)	CREDIT (R)	AMOUNT	VOTE_NO	VOTE_DESC
	10	KG091231	6/30/2009	TFR TO UKDM ACC	-	243 793	SECOFR	4470/2760/0000	VEHICLE:FUEL & OIL
	10	KG091231	6/30/2009	TFR TO UKDM ACC	-	8 916	SECOFR	4470/3060/0000	R/M:TOOLS & EQUIPMENT
	10	KG091231	6/30/2009	TFR TO UKDM ACC	-	116 193	SECOFR	4470/3200/0000	R/M:VEHICLES&IMPLEMENTS
	10	KG091231	6/30/2009	TFR TO UKDM ACC	-	18 138	SECOFR	4470/3230/0000	MAINTENANCE - SEWAGE NETWORK,
3	10	KG091231	6/30/2009	TFR TO UKDM ACC	4 276 122	-	SECOFR	4800/4800/0000	UKHAHLAMBA (W & S DEBT),
	10	KG091231	6/30/2009	TFR TO UKDM ACC	-	1 440 266	SECOFR	4800/0010/0000	SALARIES,
	10	KG091231	6/30/2009	TFR TO UKDM ACC	-	7 430	SECOFR	4800/0030/0000	HOUSING SUBSIDY
	10	KG091231	6/30/2009	TFR TO UKDM ACC	-	57 898	SECOFR	4800/0050/0000	CONTRIBUTION MEDICAL AID,
	10	KG091231	6/30/2009	TFR TO UKDM ACC	-	220 031	SECOFR	4800/0060/0000	CONTRIBUTION PENSION FUND
	10	KG091231	6/30/2009	TFR TO UKDM ACC	-	15 654	SECOFR	4800/0070/0000	CONTRIBUTION U I F
	10	KG091231	6/30/2009	TFR TO UKDM ACC	-	818	SECOFR	4800/0090/0000	INDUSTRIAL COUNCIL LEVY
	10	KG091231	6/30/2009	TFR TO UKDM ACC	-	109 422	SECOFR	4800/0100/0000	ANNUAL BONUS,
	10	KG091231	6/30/2009	TFR TO UKDM ACC	-	12 400	SECOFR	4800/0120/0000	TELEPHONE ALLOWANCE,
	10	KG091231	6/30/2009	TFR TO UKDM ACC	-	149 331	SECOFR	4800/0130/0000	STANDBY ALLOWANCE,
	10	KG091231	6/30/2009	TFR TO UKDM ACC	-	16 250	SECOFR	4800/0140/0000	TRANSPORT ALLOWANCE,
	10	KG091231	6/30/2009	TFR TO UKDM ACC	-	6 384	SECOFR	4800/0210/0000	DEBTORS SUBSIDY,
	10	KG091231	6/30/2009	TFR TO UKDM ACC	-	85 566	SECOFR	4800/0300/0000	CHEMICALS
	10	KG091231	6/30/2009	TFR TO UKDM ACC	-	134 805	SECOFR	4800/0840/0000	WATER PURIFICATION,
	10	KG091231	6/30/2009	TFR TO UKDM ACC	-	5	SECOFR	4800/1740/0000	STAFF : TEA ROOM,
	10	KG091231	6/30/2009	TFR TO UKDM ACC	-	72 679	SECOFR	4800/1980/0000	SUBSISTANCE & TRAVELLING

**Elundini Municipality  
Management letter for the year ended 30 June 2009**

	CODE	TRXN_REF	DATE	DESCRIPTION	DEBIT (R)	CREDIT (R)	AMOUNT	VOTE_NO	VOTE_DESC
	10	KG091231	6/30/2009	TFR TO UKDM ACC	-	1 425 457	SECOFR	4800/2110/0000	FREE BASIC
	10	KG091231	6/30/2009	TFR TO UKDM ACC	-	1 091	SECOFR	4800/2380/0000	UNIFORMS/PROTECTIVE CLOTHING,
	10	KG091231	6/30/2009	TFR TO UKDM ACC	-	53 007	SECOFR	4800/2760/0000	VEHICLE:FUEL & OIL
	10	KG091231	6/30/2009	TFR TO UKDM ACC	-	1 130	SECOFR	4800/3060/0000	R/M:TOOLS & EQUIPMENT
	10	KG091231	6/30/2009	TFR TO UKDM ACC	-	10 408	SECOFR	4800/3200/0000	R/M:VEHICLES&IMPLEMENTS,
	10	KG091231	6/30/2009	TFR TO UKDM ACC	-	397 434	SECOFR	4800/3220/0000	R/M:WATER RETICULATION
	10	KG091231	6/30/2009	TFR TO UKDM ACC	-	58 658	SECOFR	4800/3540/0000	INSTALLATION OF SERV STEINHOF,
4	10	KG091232	6/30/2009	REVERSING OF UKDM BAD DEB	-	11 683 947	SECOFR	3000/2220/0000	BAD DEBT WRITTEN OFF ,
	10	KG091232	6/30/2009	REVERSING OF UKDM BAD DEB	7 031 842	-	SECOFR	9250/9050/0000	WATER
	10	KG091232	6/30/2009	REVERSING OF UKDM BAD DEB	4 652 105	-	SECOFR	9250/9060/0000	SANITATION
5	10	KG091232	6/30/2009	WRITTING OFF UKDM WATER D	896 054	-	SECOFR	3000/4530/0000	INTEREST ON DEBTORS
	10	KG091232	6/30/2009	WRITTING OFF UKDM WATER D	665 543	-	SECOFR	3000/6130/0000	VATINCOME,
	10	KG091232	6/30/2009	WRITTING OFF UKDM WATER D	4 011 022	-	SECOFR	4800/6490/0000	WATER SALES
	10	KG091232	6/30/2009	WRITTING OFF UKDM WATER D	-	5 572 618	SECOFR	9250/9050/0000	WATER
6	10	KG091232	6/30/2009	WRITTING OFF UKDM SAN. DE	372 828	-	SECOFR	3000/4530/0000	INTEREST ON DEBTORS
	10	KG091232	6/30/2009	WRITTING OFF UKDM SAN. DE	81 636	-	SECOFR	3000/6130/0000	VATINCOME,
	10	KG091232	6/30/2009	WRITTING OFF UKDM SAN. DE	273 021	-	SECOFR	4470/6010/0000	SANITATION FEES
	10	KG091232	6/30/2009	WRITTING OFF UKDM SAN. DE	-	727 485	SECOFR	9250/9060/0000	SANITATION

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Management letter for the year ended 30 June 2009**

	CODE	TRXN_REF	DATE	DESCRIPTION	DEBIT (R)	CREDIT (R)	AMOUNT	VOTE_NO	VOTE_DESC
	10	KG091232	6/30/2009	UKDM OPENING BALANCE	-	11 802 554	SECOFR	9250/9050/0000	WATER
	10	KG091232	6/30/2009	UKDM OPENING BALANCE	-	6 813 389	SECOFR	9250/9060/0000	SANITATION
	10	KG091232	6/30/2009	UKDM OPENING BALANCE	18 615 944	-	SECOFR	9250/9980/0000	APPROPRIATION ACCOUNT
7	10	KG091233	6/30/2009	IRO MIG FUND	1 344 000	-	SECOFR	3000/4230/0000	PROVINCIAL GOVERNMENT,
	10	KG091233	6/30/2009	IRO MIG FUND	-	1 344 000	SECOFR	9000/8200/0000	MIG FUND
8	10	KG091233	6/30/2009	REVERSING OF JNL CB091202	4 084 421	-	SECOFR	4800/4800/0000	UKHAHLAMBA (W & S DEBT),
	10	KG091233	6/30/2009	REVERSING OF JNL CB091202	-	4 084 421	SECOFR	9250/9110/0000	SUNDRY BILLINGS
9	10	KG091233	6/30/2009	UKDM RECEIPT INCORRECTLY	2 503 089	-	SECOFR	4800/4800/0000	UKHAHLAMBA (W & S DEBT),
	10	KG091233	6/30/2009	UKDM RECEIPT INCORRECTLY	-	2 503 089	SECOFR	9250/9110/0000	SUNDRY BILLINGS
10	10	KG091233	6/30/2009	UKDM PORTION OF OPENING B	4 146	-	SECOFR	9250/9100/0000	UKHAHLAMBA DM (WATER & SAN),
	10	KG091233	6/30/2009	UKDM PORTION OF OPENING B	-	4 146	SECOFR	9250/9110/0000	SUNDRY BILLINGS
11	10	KG091233	6/30/2009	INVOICE IRO INXU RIVER BR	141 980	-	SECOFR	9250/9100/0000	UKHAHLAMBA DM (WATER & SAN),
	10	KG091233	6/30/2009	INVOICE IRO INXU RIVER BR	-	141 980	SECOFR	9250/9110/0000	SUNDRY BILLINGS
12	10	KG091233	6/30/2009	INVOICE IRO 358 & 359	82 547	-	SECOFR	9250/9100/0000	UKHAHLAMBA DM (WATER & SAN),
	10	KG091233	6/30/2009	INVOICE IRO 358 & 359	-	82 547	SECOFR	9250/9110/0000	SUNDRY BILLINGS

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	CODE	TRXN_REF	DATE	DESCRIPTION	DEBIT (R)	CREDIT (R)	AMOUNT	VOTE_NO	VOTE_DESC
13	10	KG091233	6/30/2009	REVERSING OF KG091229	116 678	-	SECOFR	4800/4800/0000	UKHAHLAMBA (W & S DEBT),
	10	KG091233	6/30/2009	REVERSING OF KG091229	-	116 678	SECOFR	9250/9110/0000	SUNDRY BILLINGS
14	10	KG091233	6/30/2009	WATER & SAN UKDM	1 837 194	-	SECOFR	9250/9100/0000	UKHAHLAMBA DM (WATER & SAN),
	10	KG091233	6/30/2009	WATER & SAN UKDM	4 276 122	-	SECOFR	9250/9100/0000	UKHAHLAMBA DM (WATER & SAN),
	10	KG091233	6/30/2009	WATER & SAN UKDM	-	6 113 317	SECOFR	4800/4800/0000	UKHAHLAMBA (W & S DEBT),
15	10	KG091233	6/30/2009	WATER & SAN UKDM RECEIPT	2 976 026	-	SECOFR	9250/9050/0000	WATER
	10	KG091233	6/30/2009	WATER & SAN UKDM RECEIPT	348 159	-	SECOFR	9250/9060/0000	SANITATION
	10	KG091233	6/30/2009	WATER & SAN UKDM RECEIPT	188 090	-	SECOFR	4470/6010/0000	SANITATION FEES
	10	KG091233	6/30/2009	WATER & SAN UKDM RECEIPT	-	3 512 275	SECOFR	9250/9100/0000	UKHAHLAMBA DM (WATER & SAN),
16	10	KG091233	6/30/2009	INVOICE IN RESPECT OF INX	-	134 356	COENIE	2240/5020/0000	DISASTER MANAGEMENT RELIEF,
	10	KG091233	6/30/2009	INVOICE IN RESPECT OF INX	134 356	-	COENIE	4800/4800/0000	UKHAHLAMBA (W & S DEBT),
17	10	KG091233	6/30/2009	INCOME TFR TO UKDM ACC	13 368	-	COENIE	4800/4010/0000	CONNECTION FEES,
	10	KG091233	6/30/2009	INCOME TFR TO UKDM ACC	338	-	COENIE	4800/4070/0000	RECONNECTION FEES,
	10	KG091233	6/30/2009	INCOME TFR TO UKDM ACC	-	13 706	COENIE	9250/9100/0000	UKHAHLAMBA DM (WATER & SAN),

This issue was not identified in prior year.

**Elundini Municipality**  
**Management letter for the year ended 30 June 2009**

**Root cause**

Control activities (Financial): Written procedures, authorisations, record keeping, management reviews and asset safeguards are not segregated to prevent fraudulent financial data and asset misappropriation.

**Risk**

Journal entries not appropriately authorised.

This could lead to incorrect or fraudulent journal entries being passed.

**Recommendation**

Journal entries not appropriately authorised. All journal entries must be appropriately authorised and reviewed.

**Management Response**

In view of the then impending departure of the CFO, the Municipal Manager considered it extremely risky not to be directly involved with the preparation of the AFS. The MM prepared the accounting file and passed journal entries and reconciled the general ledger. It was not considered necessary to have the MM's journal approved by junior officials, nor was it found desirable for the Mayor to approve those journals as that is a forbidden activity.

Name: Khaya Gashi  
Position: Municipal Manager  
Date: 15 November 2009

**Auditor's Response**

Although the journal entries were prepared and approved at the highest level at the municipality, there is still a lack of segregation of duties which could result in errors or commissions.