



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

FINAL MANAGEMENT REPORT

RICHMOND MUNICIPALITY

30 June 2012





MANAGEMENT REPORT

RICHMOND MUNICIPALITY

30 June 2012

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FINAL MANAGEMENT REPORT TO THE ACCOUNTING OFFICER ON THE AUDIT OF THE RICHMOND MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2012

INTRODUCTION

1. Our responsibility is to express an opinion on the financial statements, to express a conclusion on the annual performance report in the management report and to report on material findings relating to compliance with specific requirements in key applicable laws and regulations as set out in the *General Notice* issued in terms of the Public Audit Act of South Africa, 2004 (Act No.25 of 2004). Our engagement letter sets out our responsibilities and the responsibilities of the accounting officer in detail.
2. This management report includes audit findings arising from the audit of the financial statements, reporting on predetermined objectives and compliance with laws and regulations for the year ended 30 June 2012 which were communicated to management and includes their response to these findings. The report also includes information on the internal control deficiencies that were identified as the root causes for the matters reported. Addressing these deficiencies will assist in ensuring an improvement in the audit outcomes.
3. The management report consists of an executive summary, annexure A regarding financial health ratios and trends and detailed audit findings which are contained in annexures B, C and D.

EXECUTIVE SUMMARY

SECTION 1: Meetings with oversight bodies and those charged with governance

4. During the audit cycle we met with key stakeholders to communicate matters relating to the audit outcomes of the municipality and emerging risks. Insight was provided on the drivers of the controls that impact these audit outcomes to enable corrective action to be taken.
5. Meetings were conducted as follows:
 - Executive authority: 20-06-2012; 2-10-2012
 - Accounting officer : 20-06-2012; 2-10-2012; and 9-11-2012
 - Audit committee: 27-08-2012; 21-09-2012. ; and 9-11-2012
6. At these meetings commitments were made to address improvements in the internal control environment with the objective of achieving clean administration. The commitments given and the progress made on previous commitments are included under section 2, part F – Status of implementation of commitments and recommendations.

SECTION 2: MATTERS RELATING TO THE AUDITOR'S REPORT

PART A – MISSTATEMENTS IN THE FINANCIAL STATEMENTS

7. Material misstatements in the financial statements were identified during the audit. These misstatements were not prevented or detected by the municipality's system of internal control. These material misstatements also constitute non-compliance with the MFMA.

Financial statement item	Material misstatements		Impact R current year	Impact R prior year
	Finding	Occurred in prior year ("Yes/ "No")		
Material misstatements corrected				
Non-current consumer debtors	Reallocation of consumer debtors	No	4 534 495	None.
Other non-exchange receivables	Reallocation of consumer debtors	No	1 918 788	
Commitments	Payment incorrect disclosed as a commitment	No	1 022 078	None.
Other expenses	Reallocation of expenses to correct line items	No	1 968 688	598 419
Grant expenses	Reallocation of expenses to correct line items	No	4 492 988	6 909 943
Accruals	Accruals not raised	No	95 061	
Unspent grants and commitments	Difference between unspent grant and commitments	No	559 073	None.
Retentions	Retentions not raised		185 576	
Finance costs	Incorrect unwinding of interest	No	28 179	51 463
Material misstatements not corrected				
None				



PART B – MATTERS TO BE BROUGHT TO THE ATTENTION OF THE USERS

EMPHASIS OF MATTER PARAGRAPH

The following emphasis of matter paragraph will be included in our auditor's report to draw the users' attention to matters presented or disclosed in the financial statements.

Material impairments

8. As disclosed in note 8 to the financial statements, the municipality had receivables for consumer debtors totalling R2,156 million at 30 June 2012, which had been outstanding for more than 12 months. The recoverability of these amounts is doubtful.

Restatement of corresponding figures

9. As disclosed in note 45 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of an error discovered during 30 June 2012 in the financial statements of the municipality at, and for the year ended, 30 June 2011.

ADDITIONAL MATTER PARAGRAPHS

The following additional matter paragraphs will be included in our auditor's report to draw the users' attention to matters regarding the audit, the auditor's responsibilities and the auditor's report:

Unaudited supplementary schedules

10. The supplementary information does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

PART C – CONCLUSION ON THE ANNUAL PERFORMANCE REPORT

Included below is our conclusion on the report on the annual performance report. All matters reported under the basis for conclusion and additional matter will be included in the auditor's report.

REPORT ON PREDETERMINED OBJECTIVES

Introduction

11. I have audited the annual performance report of the Richmond Municipality for the year ended 30 June 2012.

The accounting officer's responsibilities

12. The accounting officer is responsible for the preparation and fair presentation of the annual performance report in accordance with the requirements of the applicable laws and regulations, relevant frameworks, circulars and guidance issued by the National Treasury regarding the planning, management, monitoring and reporting of performance against predetermined objectives, and for such internal control as management determines necessary to enable the preparation of annual performance report that is useful and reliable.

The Auditor-General's responsibilities

13. As required by sections 4 and 20 of the PAA, read with *General Notice 839 of 2011*, issued in *Government Gazette 34783 of 28 November 2011*, my responsibility is to prepare an audit conclusion on the annual performance report.

14. I conducted my audit in accordance with the International Standards on Assurance Engagements (ISAE) 3000: *Assurance engagements other than audits or reviews of historical information*.

I will report on whether I have received all the information and explanations required to conduct the engagement, or if I became aware of additional information, the omission of which may result in the annual performance report being materially misstated or misleading.

15. I provide limited assurance with respect to the usefulness of the information contained in the annual performance report.

I further provide limited assurance with respect to the reliability of all performance indicators for the following selected material departments as set out in the annual performance report:

- Community services; and
- Technical services

16. The criteria used as a basis for the audit conclusion are as follows:

Usefulness of information:

Presentation: Performance against predetermined objectives must be presented in accordance with section 46 of the Local Government: Municipal Systems Act of South Africa, 2000 (Act No.32 of 2000) (MSA).

Consistency: Objectives, indicators and targets are consistent between planning and reporting documents as required by the National Treasury Regulations.

Measurability: Indicators are well defined and verifiable, and targets are specific, measurable and time bound, as required by the National Treasury *Framework for managing programme performance information*.

Relevance: The indicators/measures relate logically and directly to an aspect of the institution's mandate and the realisation of strategic goals and objectives, as required by the National Treasury *Framework for managing programme performance information*.

Reliability of information:

Validity: Reported performance has occurred and relates to the institution.

Accuracy: Amounts, numbers and other data relating to reported performance have been recorded and reported correctly.

Completeness: All actual performance that should have been recorded has been included in the reported performance information.

17. The audit involves performing procedures to obtain audit evidence about the usefulness of the annual performance report and reliability of the performance indicators for the selected departments as set out in the annual performance report. The procedures selected depend on the auditor's judgement, including our assessment of the risks of material misstatement of the annual performance report. Because of the test nature and other inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some, even material, misstatements may not be detected, even though the audit is properly planned and performed in accordance with the ISAE 3000. The procedures performed include the following:

- Understanding and testing the internal policies, procedures and controls relating to the management of and reporting on performance information.
- Evaluating and testing processes, systems, controls and review of documentation in place at a detail level in the audited institution to support the generation, collation, aggregation, monitoring and reporting of the selected performance indicators and targets.
- Evaluating, testing and confirmation of the existence and consistency of planned and reported performance information as well as the presentation and disclosure thereof in accordance with applicable requirements and guidance.
- Conducting detailed audit testing and obtaining sufficient appropriate audit evidence to verify the validity, accuracy and completeness of reported indicators and targets.

18. I believe that the evidence obtained from the work performed provides an appropriate basis for the limited assurance conclusions expressed below.

Conclusions

19. On the usefulness of the annual performance report on which I am required to express limited assurance.

Based on my work described in this report, nothing has come to my attention that causes me to believe that the annual performance report is not useful, in all material respects, in accordance with the predetermined criteria.

20. On the reliability of the performance indicators in the selected departments on which I am required to express limited assurance.

Based on my work described in this report, nothing has come to my attention that causes me to believe that the performance indicators in the selected departments set out in the annual performance report is not fairly stated in all material respects, in accordance with the predetermined criteria.

Additional matter

21. I draw attention to the matter below. My conclusion is not modified in respect of this matter:

Achievement of planned targets

22. Of the total number of 88 targets planned for the year, 20 of the targets were not achieved during the year under review. This represents 23% of total planned targets that were not achieved during the year under review. This was due to under spending of the budgets in the community and technical services departments.

Audit findings in auditor's report

23. All audit findings included under the "Additional matter" section of this report, will be reported in the auditor's report.

PART D – FINDINGS ON COMPLIANCE WITH LAWS AND REGULATIONS

Included below are material findings of non-compliance with specific requirements in key applicable laws and regulations.

Annual financial statements

24. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 (1) of the MFMA. Material misstatements of

consumer debtors, payables, provisions and commitments identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

25. The accounting officer did not make public the council's oversight report on the 2010-11 annual report within seven days of its adoption, as required by section 129(3) of the MFMA.

PART E – INTERNAL CONTROL

IMPLEMENTATION OF THE DRIVERS OF INTERNAL CONTROL

26. The implementation of effective internal control helps in the achievement of important objectives and sustained and improved performance. Objectives are derived from the regulatory environment and fall into the following categories:

- Operations – Effectiveness and efficiency of operations including goals for operational and financial performance and safeguarding resources against loss (financial and performance management)
- Reporting – Pertaining to the reliability of reporting including internal and external reporting of financial and non-financial information
- Compliance – Pertaining to compliance with laws and regulations.

27. Objectives are driven by the mandate and the mission and vision of the organisation. Setting objectives is a prerequisite to internal control and a key part of strategic planning.

28. Internal control is a multi-dimensional iterative process of ongoing tasks and activities, affected by the people not just policies and systems, which provide assurance concerning the achievement of objectives. The fundamental principles contained in the drivers of internal control below must be present and operate together in order for the system of internal control to be effective.

29. For purposes of focusing corrective action, the principles of the different components of internal control have been categorised under leadership, finance and performance management and governance. These are the drivers of internal control.

30. The leadership of an organisation sets the tone from the top regarding the importance of internal controls and expected standards of conduct. This establishes the control environment which is the foundation for the other components of internal control and provides discipline, process and structure. In order to establish what control activities (e.g. policies and procedures) are required to ensure achievement of the control objectives a risk assessment should be conducted. The availability of accurate and complete information and the communication of information, another component of internal control, are required to carry out the day-to-day internal control activities. Thereafter there should be ongoing monitoring of activities (good governance) to ascertain whether all components of internal control are present and functioning.

31. When internal control is effective, management and those charged with governance have reasonable assurance that operations are managed effectively and efficiently, financial and non-financial reporting is reliable and laws and regulations are complied with.

32. Below is our assessment of the implementation of the drivers of internal control based on significant deficiencies identified during our audit of the financial statements, the annual [performance report / insert name of performance report] and compliance with laws and regulations. Significant deficiencies occur when internal controls either do not exist or are not appropriately designed to address the risk or are not implemented and which either had or could cause the financial statements or the annual [performance report / insert name of report] to be materially misstated and material non-compliance with laws and regulations to

occur. When the required preventative or detective controls are in place, it is assessed with a 😊, when progress on the implementation of such controls were made but improvement is still required, it is assessed with a 😐, while 😞 indicates that internal controls are not in place and intervention is required to design and implement appropriate controls. The movement in the status of the drivers from the previous year-end to the current year-end assessment is indicated, collectively for each of the three audit dimensions under the three fundamentals of internal control, with a ↑ (improved), ↔ (unchanged) or a ↓ (regressed).

The audit dimensions Fundamentals of internal control	Financial	Performance objectives	Compliance with laws and regulations
Leadership			
Movement from previous assessment	↓	↔	↔
• Provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the best interests of the entity	😊	😊	😊
• Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls	😐	😊	😐
• Implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored	😐	😊	😐
• Establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities	😊	😊	😊
• Develop and monitor the implementation of action plans to address internal control deficiencies	😊	😊	😊
• Establish an IT governance framework that supports and enables the business, delivers value and improves performance	😊	😊	😊
Financial and performance management			
Movement from previous assessment	↓	↓	↓
• Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting	😊	😊	😊
• Implement controls over daily and monthly processing and reconciling of transactions	😐	😊	😐

<ul style="list-style-type: none"> • Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information 			
<ul style="list-style-type: none"> • Review and monitor compliance with applicable laws and regulations 			
<ul style="list-style-type: none"> • Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information 			
Governance			
Movement from previous assessment			
<ul style="list-style-type: none"> • Implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored 			
<ul style="list-style-type: none"> • Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively 			
<ul style="list-style-type: none"> • Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment including financial and performance reporting and compliance with laws and regulations 			

LEADERSHIP

Oversight responsibility

33. The accounting officer did not adequately review the financial statements prior to their submission for audit resulting in material misstatements identified in the following balances being corrected in the financial statements as listed below:

- Consumer debtors;
- Retentions;
- Capital commitments;
- Provisions; and
- Accounting policies.

Human resource management

34. An assessment of human resources management has identified the following deficiencies:

Management of vacancies



- The overall vacancy rate remained at 14,4%, when compared to the prior year.
- The senior management vacancy rate increased from 0% in the previous year to 40% in the current year.
- The chief financial officer had been vacant for 6 months, and the Senior Manager (Technical services) had been vacant for three months.

FINANCIAL AND PERFORMANCE MANAGEMENT

Daily and monthly processing and reconciling of transactions

35. Management did not implement the following monthly controls as designed for the municipality's business processes:

- Monthly fixed asset reconciliations were not prepared;
- Commitments and retention monies were not reviewed for accuracy and completeness; and
- Creditor's reconciliations were not prepared.

Regular, accurate and complete financial and performance reports

36. As indicated in section 2, part A of this report, the financial statements contained numerous misstatements that were corrected. This was mainly due to staff members not fully understanding the requirements of the financial reporting framework, as well as inadequate reviews by the finance unit and accounting officer.

Compliance monitoring

37. Non-compliance with laws and regulations could have been prevented had compliance been properly reviewed and monitored.

IT systems

User access control

38. A formally documented and approved user account management process had not been established to manage the granting of access to users of the ABAKUS financial system.

39. Formal access request documentation was not completed for registering users, changing access rights, effecting password resets and terminating access rights.

40. Processes were not in place to ensure that reviews were periodically undertaken to determine whether employees' current access and privileges on the system were commensurate with their job responsibilities.

41. No processes were in place to ensure that the activities of the systems administrator/IT manager who granted user access to the financial system system would be reviewed.

42. Usernames on the ABAKUS financial system were not uniquely assigned to specific users to identify a user and to establish accountability. If users are not required to have unique user identifiers to distinguish one user from another, accountability cannot be established.

Change control

43. Formally documented and approved program change control policies and procedures were not in place to detail the process that should be followed when system updates were made to ABAKUS application system.

44. There are no formal change requests forms in place for performing system upgrades.

Security management

45. Vendors had unlimited and unmonitored access to the production environment. Vendors will thus inevitably gain inside knowledge of the municipality information, which could result in a breach of confidentiality.

IT service continuity

46. There is no approved back up and retention strategy. Furthermore, although back ups are performed there are no controls in place for effective monitoring thereof.

47. Formal off-site backup arrangements for the ABAKUS financial system had not been documented and approved by management. Consequently, backups were not taken to the off-site backup location periodically.

GOVERNANCE

Risk management activities and risk strategy

48. The risk management strategy is in draft phase and has therefore not been approved and implemented.

49. The risk assessment conducted did not identify control deficiencies and therefore appropriate responses to address the following:

- All financial reporting requirements that were necessary to ensure complete and accurate financial statements; and
- IT risks that impacted on the availability and protection of information.

Audit committee

50. Although an audit committee was in place, the financial statements and monthly management information was not adequately reviewed for misstatements, as evidenced by the errors that arose during the auditing process.

SUMMARY

51. The matters above, as they relate to the findings on compliance with laws and regulations, will be summarised in the auditor's report as follows:

Leadership

52. The accounting officer did not exercise adequate oversight over financial and performance reporting and compliance as well as internal control. In this regard, the accounting officer did not periodically assess whether staff members had essential skills and knowledge to support the achievement of credible reporting. In addition, key vacancies were not timely filled in order to mitigate deficiencies to achieve desired control objectives.

Financial and performance management

53. Adequate processes were not in place to communicate timely and relevant information to those charged with governance, in that monthly reporting was not operating effectively. This is evidenced by material corrections in the financial statements as well as weaknesses in the usefulness of performance reporting. In addition security management, user access controls, change controls and backup and continuity processes over information technology systems were inadequate as formal controls over the reliability of the systems and protection of information revealed internal control deficiencies.

Governance

54. The audit committee did not adequately assess the effectiveness of controls and responses

to risks, as evidenced by material corrections in the financial statements and deficiencies in the annual performance report. Moreover, the impact of information technology risks was not given due consideration.

PART F – STATUS OF IMPLEMENTATION OF COMMITMENTS AND RECOMMENDATIONS

55. Below is our assessment of the progress on commitments made by the accounting officer and audit committee to address audit outcomes in the prior and current years. The municipality is encouraged to strengthen its internal monitoring by assessing the fundamentals of internal controls on a frequent basis to ensure sustainable clean administration.

No	Commitment	Made by	Date	Status
1.	Clean administration to be a standing agenda item in council meetings	Mayor	2012/06/02	In Progress
2.	Compliance checklist to be monitored by MM and feedback to be given to MPAC and Council on areas that need action.	Mayor	2012/06/20	In Progress
3.	Monthly financial, performance and compliance reports to be submitted to MPAC and Council for discussion.	Mayor	2012/06/20	In Progress
4.	IT back up, security and risks to be managed by accounting officer and feedback to be given on progress in council meetings.	Mayor	2012/06/20	In Progress
5.	Asset register and general ledger reconciliation to be independently prepared and reviewed, monthly.	Mayor	2012/06/02	Not honoured
6.	Quarterly financial statements are produced that are fully reconciled to underlying records.	Mayor	2012/06/02	Not honoured

56. Four audit recommendations accepted by management in the prior year were implemented or alternative actions were taken which resolved the prior year audit findings. Four recommendations are still in the process of being implemented and two have not been addressed or very limited progress has been made. Detail on the status of these recommendations is provided in the summary of detailed findings in this report (section 8.)

PART G – OTHER REPORTS

INVESTIGATIONS

57. Investigations in progress:

Description	Reason		
	Supply chain management	Fraud	Financial misconduct
Investigation in respect to financial misconduct of senior manager: Technical Services (Suspended in April 2012)			Ongoing Investigations and prosecutions

58. Investigations completed during the financial year:

Description	Reason		
	Supply chain management	Fraud	Financial misconduct
Fees paid were not paid to Indonsa Projects CC for the following projects;- 1) Smozomeni Sportsfield 2) Patheni Sportsfield 3) Richmond Taxi Rank This matter has since been settled through an arbitration process	Completed		
Allegations of unfair practices and other as made by the community via a protest march. An investigation was conducted by the internal Auditors (uMnotho) and there were no findings to substantiate the allegations.			Completed

SECTION 3: SPECIFIC FOCUS AREAS

PART A – FINANCIAL INDICATORS

59. Management is responsible for the sound and sustainable management of the affairs of the municipality and to implement an efficient, effective and transparent financial management system for this purpose, as regulated by the MFMA. Our audit included a high-level assessment of selected financial indicators as at year-end. The purpose of the assessment is to provide management with an overview of financial indicators to enable timely remedial action where financial health and service delivery may be at risk. The information should be used to complement rather than be a substitute for management’s own financial assessment.

The municipality’s financial indicators have been assessed according to the following areas and are set out in the table below:

- budgets
- expenditure management
- conditional grants
- revenue management
- asset and liability management

The analyses on which the information in the table is based are contained in annexure A. The table is followed by overall high-level comments on the risks posed by the assessment of the financial indicators.



FINANCIAL INDICATORS AS AT 30 JUNE 2012					
(Limitation = unable to obtain sufficient appropriate information)					
BUDGETS					
1.1	Percentage over-spending of the final approved operating expenditure budget.	Not over-spent		% over-spent	Limitation
		✓			
1.2	Percentage under-spending of the final approved capital budget.	Not under-spent		% under-spent	Limitation
				36.6%	
EXPENDITURE MANAGEMENT					
2.1	Creditor-payment period.			Days	Limitation
				35	
CONDITIONAL GRANTS					
3.1	Percentage under-spending of conditional grants received.	Not under-spent		% under-spent	Limitation
				27.6%	
3.2	Percentage by which unspent conditional grants received exceed cash available at year-end.	Bank in overdraft	Not exceeded	% exceeded	Limitation
			✓		
REVENUE MANAGEMENT					
4.1	Debtor-collection period (before impairment).			Days	Limitation
				165	
4.2	Debtor-collection period (after impairment).			Days	Limitation
				154	
4.3	Percentage of debtors written-off.			% debtors impaired	Limitation
				7%	
4.4	Percentage of revenue not collected. (Bad debt written-off.)			% revenue not collected	Limitation
				2.9%	
4.5	Percentage water losses incurred.			% water losses	Limitation
				0	
4.6	Percentage electricity losses incurred.			% electricity	Limitation

			losses	
			0	
ASSET AND LIABILITY MANAGEMENT				
		No	Yes	Limitation
5.1	A deficit for the year was realised (total expenditure exceeded total revenue).	✓		
		No	Yes	Limitation
5.2	A net current liability position was realised (total current liabilities exceeded total current assets).	✓		
		No	Yes	Limitation
5.3	A net liability position was realised (total liabilities exceeded total assets).	✓		
		No	Yes	Limitation
5.4	The year-end bank balance was in overdraft.	✓		
			% PPE and intangible assets impaired	Limitation
5.5	Percentage of PPE and / or intangible assets impaired.		0	
			% loans and investments impaired	Limitation
5.6	Percentage of loan receivables (loans awarded) and/or investments impaired.		0	
		Negative/no cash flows	Long-term debt to cash flow ratio	Limitation
5.7	Long-term debt to operating cash flow ratio.		0.6	
		Negative/no cash flows	Employee benefit obligations to cash flow ratio	Limitation
5.8	Employee benefit obligations to operating cash flow ratio.		0.3	

SECTION 4: EMERGING RISKS

Accounting and compliance matters

- New pronouncements/requirements:

60. The Accounting Standards Board (ASB) has issued the following 12 additional Standards of GRAP:



- GRAP 18 *Segment reporting*
- GRAP 20 *Related-party disclosures*
- GRAP 21 *Impairment of non-cash-generating assets*
- GRAP 23 *Revenue from non-exchange transactions (Taxes and transfers)*
- GRAP 24 *Presentation of budget information in financial statements*
- GRAP 25 *Employee benefits*
- GRAP 26 *Impairment of cash-generating assets*
- GRAP 103 *Heritage assets*
- GRAP 104 *Financial instruments*
- GRAP 105 *Transfers of functions between entities under common control*
- GRAP 106 *Transfers of functions between entities not under common control*
- GRAP 107 *Mergers*

The Minister of Finance prescribed an effective date of 1 April 2012 in the *Government Gazette* for those Standards of GRAP on the above list that are highlighted in grey. No effective date has been set for the remaining six Standards of GRAP.

The ASB extended the application of Standards of GRAP to trading entities in terms of Directive 9 *The application of the standards of GRAP by trading entities*, with effect from 1 April 2013.

- New legislation

Municipal regulations on minimum competency level

61. Minimum competency regulations were issued on 15 June 2007. As per regulation 15 and 18, all municipalities must ensure that their staff comply with the competency requirements with effect from 1 January 2013. This means that the requirements are not yet applicable for the financial year 2011-12 (financial period ending 30 June 2012). However, municipalities will need to start aligning their recruitment policies to the regulations and put measures in place to ensure that they comply with the requirements by 1 January 2013.

SECTION 5: ENTITIES CONTROLLED BY THE MUNICIPALITY

62. There were no entities controlled by the municipality.

SECTION 6: RATINGS OF DETAILED AUDIT FINDINGS

63. 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.
 - Other important matters – These matters should be addressed to prevent the likelihood that these matters may in future lead to material misstatements of the financial statements, material findings on predetermined objectives and compliance with laws and regulations.
 - Administrative matters – These matters are unlikely to result in material misstatements of the financial statements, material findings on predetermined objectives and compliance with laws and regulations.

SECTION 7: CONCLUSION

64. The matters communicated throughout this report relate to the three fundamentals of internal control which should be addressed to achieve sustained clean administration. The AGSA staff remain committed to assisting in the process of identifying and communicating good practices to improve governance and accountability, so as to build public confidence in government's ability to account for public resources in a transparent manner.

Yours sincerely

Sudesh Sivenarain
Senior Manager: KZN 4

30 November 2012

Enquiries: Areeb Khan
Telephone: 033 264 7400
Fax: 033 264 7596
Email: Areebk@agsa.co.za

Distribution:
Municipal Manager
CFO
Audit committee
Head of internal audit

SECTION 8: SUMMARY OF DETAILED AUDIT FINDINGS

Page no.	Finding	Classification					Rating			Number of times reported in previous 3 years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
	Matters affecting Auditors Report										
	ANNUAL REPORT										
28	Oversight report not made public			✓			✓				
	BUDGETS										
29	Non-timely submission of budget			✓				✓			
	Other important matters										
	TRADE AND OTHER PAYABLES										
30	Retentions are incompletely recorded	✓						✓			
31	Accrual not raised at year end	✓						✓			
	COMMITMENTS										
32	Commitment in respect of a grant does not agree to unspent grants	✓						✓			
33	Incorrect accounting treatment										
	DISCLOSURE										
34	Consumer debtors not correctly presented	✓						✓			
34	Trade and other payables not fairly presented	✓						✓			
	PROPERTY, PLANT AND EQUIPMENT										
36	Fully depreciated asset still in use	✓						✓			
	PROVISIONS										
37	Error in unwinding of Interest calculation	✓						✓			
	NON-COMPLIANCE										
38	Monthly reconciliations between the fixed asset register and the general ledger not performed			✓				✓			
38	Creditors reconciliation not prepared				✓			✓			



Page no.	Finding	Classification					Rating			Number of times reported in previous 3 years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
39	Weak controls over master file amendments				✓			✓			
40	Weak controls in journal processing				✓			✓			
44	Monthly budget statements, mid-year budget and performance assessment report not placed on website				✓			✓			
44	Information on compliance with prescribed minimum competencies not reflected on annual report				✓			✓			
45	Draft annual report does not include an assessment of any arrears on municipal taxes and service charges				✓			✓			
46	Monthly budget statements do not include an analysis of variances from the service delivery agreement and business plan				✓			✓			
	GENERAL IT										
47	Approved process on user access management				✓			✓			
47	Formal request access documentation				✓			✓			
48	User access and privileges				✓			✓			
49	Independent reviews on activities of personnel that grants user access				✓			✓			
50	No approved process in place to manage upgrades to the IT systems				✓			✓			
50	No formal request documentation for update/upgrade of system				✓			✓			
51	Vendors have unmonitored access to the production environment				✓			✓			
52	Back up and retention strategy				✓			✓			
52	Backups are not secured offsite				✓			✓			



Page no.	Finding	Classification					Rating			Number of times reported in previous 3 years	Status of implementation of previous year(s) recommendation
		Misstatements in financial statements	Misstatements in annual performance report	Non-compliance with laws & regulations	Internal control deficiency	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters		
	PREDETERMINED OBJECTIVES										
52	Annual Budget does not Include development priorities or objectives				✘			✘			
	OTHER										
53	Risk Management policy not approved				✘			✘			



ANNEXURE A: FINANCIAL INDICATOR ANALYSES

The analyses on which the financial indicators and discussion in *PART A – FINANCIAL INDICATORS* under *SECTION 3: SPECIFIC FOCUS AREAS* are based are set out below.

BUDGETS

Indicator reference	Financial statement amounts	Adjustments for material uncorrected misstatements	Financial statement amounts after adjustments for material uncorrected misstatements
	2011/12 R'000	2011/12 R'000	2011/12 R'000
Final approved operating expenditure budget	49,132,901		49,132,901
Under/(over) spending of the final approved operating expenditure budget	5,036,210		5,036,210
Final approved capital budget	24,179,474		24,179,474
Under/(over) spending of the final approved capital budget	8,841,516		8,841,516
			2011/12 %
Percentage over spending of the final approved operating expenditure budget	1.1		Not overspent
Percentage under spending of the final approved capital budget	1.2		36.6%



EXPENDITURE MANAGEMENT

	Indicator reference	Financial statement amounts 2011/12 R'000	Adjustments for material uncorrected misstatements 2011/12 R'000	Financial statement amounts after adjustments for material uncorrected misstatements 2011/12 R'000
Accounts payable		5,719,181		5,719,181
Total purchases		59,434,649		59,434,649
Creditor-payment period (Accounts payable ÷ Total purchases x 365)	2.1			2011/12 Days 35



CONDITIONAL GRANTS

	Financial statement amounts	Adjustments for material uncorrected misstatements	Financial statement amounts after adjustments for material uncorrected misstatements
	2011/12 R'000	2011/12 R'000	2011/12 R'000
Conditional grants received	21,796,259	0	21,796,259
Under/(over) spending of the conditional grants received	6,021,676	0	6,021,676
Unspent conditional grants received at year-end	21,765,192	0	21,765,192
Cash and cash equivalents / (bank overdraft) at year-end	37,721,545	0	37,721,545
			2011/12 %
Percentage under-spending of conditional grants received	3.1		27.6%
Percentage by which unspent conditional grants received exceed cash available at year-end	3.2		Not exceeded

REVENUE MANAGEMENT

	Financial statement amounts	Adjustments for material uncorrected misstatements	Financial statement amounts after adjustments for material uncorrected misstatements
Indicator reference	2011/12 R'000	2011/12 R'000	2011/12 R'000
Accounts receivable (before impairment)	5,299,633	0	5,299,633
Debtors impairment provision at year-end	370,406	0	370,406
Total revenue for services rendered for the year	11,692,457	0	11,692,457
Debtors written-off for the year	333,574	0	333,574
			2011/12 Days



	Indicator reference	Financial statement amounts	Adjustments for material uncorrected misstatements	Financial statement amounts after adjustments for material uncorrected misstatements
Debtor-collection period (Days) (Accounts receivable [before impairment] ÷ Total revenue for services rendered x 365)	4.1			165
Debtor-collection period (Days) (Accounts receivable [after impairment] ÷ Total revenue for services rendered x 365)	4.2			154
				2011/12 %
Debtors impairment provision at year-end as a percentage of accounts receivable	4.3			7.0%
Debtors written-off for the year as a percentage of total revenue for services rendered for the year	4.4			2.9%
				2011/12 %
Material water losses (Total of technical/real/physical losses plus non-technical/apparent/commercial losses; i.e. portion of total input into system/volume available not able to be billed)	4.5			0
Material electricity losses (Total of technical losses plus non-technical losses; i.e. portion of total input into system/kWh available not able to be billed)	4.6			0



ASSET AND LIABILITY MANAGEMENT

	Indicator reference	Financial statement amounts 2011/12 R'000	Adjustments for material uncorrected misstatements 2011/12 R'000	Financial statement amounts after adjustments for material uncorrected misstatements 2011/12 R'000
Total revenue for the year		53,256,209		53,256,209
Total expenditure for the year		44,096,691		44,096,691
Surplus / (deficit) for the year	5.1	9,159,518		9,159,518
Total current assets		42,951,305		42,951,305
Total current liabilities		27,846,822		27,846,822
Net current assets / (liabilities)	5.2	15,104,483		15,104,483
Total non-current assets		97,519,066		97,519,066
Total non-current liabilities		9,057,563		9,057,563
Net non-current assets / (liabilities)		88,461,503		88,461,503
Total assets		140,470,371		104,470,371
Total liabilities		36,904,385		36,904,385
Net assets / (liabilities)	5.3	103,565,986		103,565,986
Cash and cash equivalents / (bank overdraft)	5.4	37,721,545	0	37,721,545
Year-end carrying amount of the category(ies) of PPE that were subject to impairment		1,057,999	0	1,057,999
Year-end carrying amount of the category(ies) intangible assets that were subject to impairment		0	0	0
		1,057,999	0	1,057,999
Year-end carrying amount of investments, if subject to impairment		0	0	0
Year-end carrying amount of loan receivables (loans awarded), if subject to impairment		0	0	0
		0	0	0
PPE impairment provision at year-end		0	0	0
Intangible assets impairment provision at year-end		0	0	0



	Indicator reference	Financial statement amounts	Adjustments for material uncorrected misstatements	Financial statement amounts after adjustments for material uncorrected misstatements
		0	0	0
Investments impairment provision at year-end		0	0	0
Loan receivables (loans awarded) impairment provision at year-end		0	0	0
		0	0	0
Long term employee benefit obligations		5,297,000	0	5,297,000
Net cash in- / (out-) flows from operating activities		16,164,458		16,164,458
				2011/12
				%
PPE and intangible assets impairment provisions at year-end as a percentage of the carrying amount of the category(ies) of PPE and intangible assets subject to impairment	5.5			0.0 %
Loan receivables (loans awarded) and investments impairment provisions at year-end as a percentage of the carrying amount of investments and loans subject to impairment	5.6			-
				2011/12
				Ratio
Long-term debt to operating cash flows ratio	5.7			0.6
Employee benefit obligations to operating cash flow ratio	5.8			0.3



ANNEXURE B: MATTERS AFFECTING THE AUDITOR'S REPORT

Annual report

1. Oversight report not made public after being adopted by council

Audit Finding

The accounting officer did not make public the council's oversight report on the 2010-11 annual report within seven days of its adoption, as required by section 129(3) of the MFMA.

Internal control deficiency

The accounting officer does not exercise oversight responsibility regarding compliance with the MFMA.

Recommendation

The reasons for non-adherence must be immediately provided to this office.

Management response

Noted.

Name: Mr. E S Sithole

Position: Municipal Manager

Date: 31 October 2012

Auditor's conclusion

The reasons have not been provided hence the response is inadequate. Please provide a more concise response in this regard.

ANNEXURE C: OTHER IMPORTANT MATTERS

Budgets

2. Non-timely submission of budget

Audit Finding

As per section 24(3) of the MFMA, The accounting officer of a municipality must submit the approved annual budget to the National Treasury and the relevant provincial treasury, within 10 working days after approval by council.

Section 28(7) of the MFMA further states, "Sections 22 (b), 23 (3) and 24 (3) apply in respect of an adjustments budget, and in such application a reference in those sections to an annual budget must be read as a reference to an adjustments budget.

Regulation 20 of GN 393 of 17 April 2009: Municipal budget and reporting regulations further states, "

1. The municipal manager must comply with section 24 (3) of the Act within ten working days after the municipal council has approved the annual budget.
2. The municipal manager must submit to the National Treasury and the relevant provincial treasury, in both printed and electronic form:
 - the supporting documentation within ten working days after the municipal council has approved the annual budget;
 - the approved service delivery and budget implementation plan within ten working days after the mayor has approved the plan; and
 - any other information as may be required by the National Treasury."

On inspection of council minutes of meeting the budget was approved on the 28 April 2011. Further inspection of a letter to Treasury dated 27 May 2011 in which the annual budget was submitted revealed submission was made after 10 working days.

These results in non compliance with section 24(3), 28(7) of the MFMA and regulation 20(1) and (2) of GN 393 of 17 April 2009: Municipal budget and reporting regulations.

Internal control deficiency

Leadership does not exercise oversight responsibility over compliance with the requirements above mentioned sections of the MFMA and GN 393 of 17 April 2009: Municipal budget and reporting regulations.

Recommendation

The accounting officer should ensure

- a) the annual budget is submitted to National Treasury and the relevant provincial treasury within 10 working days after approval.
- b) a compliance checklist is compiled detailing requirements of the MFMA and GN 393 of 17 April 2009: Municipal budget and reporting regulations, which is reviewed and monitored.

Management response

Noted. The budget was approved by Council on 28 April 2011. Unfortunately due to the elections, there was a delay in forwarding the report to National Treasury. Every endeavour will be made to avoid this in future.

Name: Mr. E S Sithole
Position: Municipal Manager
Date: 31 October 2012

Auditor's conclusion

The steps taken to prevent future incidences of non-compliance will be followed up in January 2013. It is evident that basic controls are failing in the municipality, which is a concern.

Trade and other payables**3. Retentions incompletely recorded****Audit Finding**

In terms of section 62(1)(b) of the MFMA, the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

During the audit of retentions it was noted that retentions amounting to R185,576 as listed below was not accounted for in the 2011-12 financial statements, as creditors.

Project: Mpofana Sports field

On inspection of payment certificate number 4 dated 23/04/2012 an amount of R 106,766 related to retention money for the supplier Siyaya Aluminium and structures. However on inspection of the fixed asset register it was confirmed that the amount relating to retentions was not capitalised. This results in work in progress being understated by R 106,766.

Mkhobeni Access Road

The retention as per the payment certificate of R78,810 was not raised at year-end.

Internal control deficiency

The accounting officer did not adequately monitor daily and monthly processing of retentions.

Recommendation

- a. All contracts should be re-visited to ensure that creditors are raised completely and accurately at year-end.
- b. The noted errors should be investigated and updated in the financial statements.
- c. Contracts must be monitored monthly and retentions raised where applicable, in the monthly/quarterly financial statements.

- d. Confirmations from contractors should be obtained at year-end to substantiate the recorded retention at year-end.

Management response

The retentions in respect to the following projects have been accounted for:-

- 1) Mpofana Sportsfield
- 2) Mancinza Access Road
- 3) Ndaleni Sidewalks

Retention in respect for R78,810 in respect to Mkhobeni Access road will be added and the Annual Financial Statements amended accordingly.

Name : Mr E S Sithole
 Position : Municipal Manager
 Date : 01 November 2012

Auditor’s conclusion

This matter will be reported as a material correction as the financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA.

4. Accrual not raised at year-end

Audit Finding

In terms of section 62(1)(b) of the MFMA, The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards

In this regard, accruals were not raised for the following invoice totalling R95,061.

Supplier	Invoice date	Invoice Reference	Vat Excl.	Accruals not raised
Rob Business Enterprise CC	26.04.2012	no reference- no invoice attached - paid on Statement balance	95,061	No reference- no invoice attached- paid on Statement balance. Invoice was dated for 04 April 2012 and paid on 25.07.2012
		Total	95,061	

Internal control deficiency

Monthly creditor’s reconciliations are not performed to identify any invoices not accounted for.

Recommendation

The accounting and chief financial officers should:



- a. review the accrual listing and trade creditors to ensure all accruals and invoices are completely accounted for.
- b. adjust the financial statements for all changes identified and made to the accrual listing.
- c. provide all supporting documents to the auditors for adjustments made in the financial statements.

Management response

The finding is noted and the required adjustment will be effected accordingly.

Name: Mr E S Sithole
 Position: Municipal Manager
 Date: 01 November 2012

Auditor's conclusion

This matter will be reported as a material correction as the financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA.

Capital commitments

5. Commitment in respect of a grant does not agree to unspent grant

Audit Finding

A comparison of the note on commitments in relation to conditional grants and the note on unspent grants revealed an unexplained difference of R503,763 and R55,310 as stated below:

Project	Vote	Amount as per schedule of commitments - Note 34	Amount as per unspent grants - Note 18	Difference
MIG Unspent	10/05/65/1548/000	R 9 274 846.56	R 8 771 083.00	R 503 763.56
Small Town Grant unspent	10/05/65/1590/000	R 6 171 297.09	R 6 115 987.00	R 55 310.09

Internal control deficiency

The financial statements were not thoroughly reviewed for completeness and accuracy prior to submission for auditing purposes by the accounting and chief financial officers as well as the audit committee.

Recommendation

- a) The accounting officer must immediately follow up and rectify the noted differences and provide plausible explanations and supporting documents where necessary.
- b) Action plans and checklists must be immediately put in place to avoid a further recurrence of such errors.

Management response

The finding above is noted. The commitment figures will be amended.

Name : Mr E S Sithole



Position : Municipal Manager
Date : 29 October 2012

Auditor's conclusion

This matter will be reported as a material correction as the financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA.

6. Incorrect accounting treatment

Audit Finding

Through inspection of the completion certificate dated 02/08/2010, it was noted that the Siyathuthuka housing project phase 1 was completed with the houses foundation and top structures, water services, sanitation, roads, storm water and refuse management, which was certified complete by the project manager on the 24/11/2008. Furthermore, through inspection of the close out report dated 09/05/2011, it was noted that the Siyathuthuka phase 1 project was completed with the installation of a 2 km of MV power line and 10 km of LV ABC power line to supply electricity to the 760 households.

Furthermore, the progress report dated 07/05/2012 revealed that the Phatheni housing project for the construction of 700 houses was completed.

Therefore the amount of R1,022,078 disclosed as a commitment did not meet the definition of a commitment as the project is completed.

Commitments are therefore overstated by R1,022,078 and inventory for housing projects were understated.

Internal control deficiency

Adequate reviews and monitoring were not in place to ensure that the capital commitments register is updated accordingly when projects are in progress or completed.

Recommendation

- a) The accounting officer should review the commitments schedule for all capital commitments on which projects have been initiated and amend the schedule accordingly.
- b) The misstatement identified above must be followed up and the necessary adjustments processed to correctly reflect commitments and inventory balances at year-end.

Management response

The finding above is noted. The commitment figures will be amended.

Name : Mr E S Sithole
Position : Municipal Manager
Date : 31 October 2012

Auditor's conclusion

This matter will be reported as a material correction as the financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA.

Disclosure**7. Consumer debtors not correctly presented****Audit finding**

Consumer debtors (R4,929 million), other receivables from non-exchange transactions (R5,275 million) and trade and other receivables (R51,353) are not split up between the current portion and long-term portion in terms of GRAP 1. In accordance with GRAP 1 (68(c)) current assets are expected to be realised within twelve months after the reporting date and non-current assets are generally expected to be realised more than 12 months after reporting date. This distinction has not been made in the financial statements.

Internal control deficiency

The accounting officer and audit committee did not ensure that the financial statements complied with all accounting requirements prior to submission. In addition, staff members in the finance unit did not fully understand all the relevant reporting requirements.

Recommendation

All balances, transactions and disclosures in the financial statements should be compared to the GRAP checklist that has been issued by National Treasury to avoid incidences of non-compliance. The accounting officer should review and sign off on the checklist to confirm that all the requirements had been met, prior to audit submission.

Management response

Consumer debtors and other receivables from non-exchange transactions will be analysed to assess which debtors (if any) are not expected to be realized within twelve months of the reporting date and these will then be disclosed as non-current assets. Other receivables relate to accrued interest and income and are expected to be received within twelve months of the reporting date.

Name : Mr E S Sithole
Position : Municipal Manager
Date : 14 September 2012

Auditor's conclusion

This matter will be reported as a material correction as the financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA.

8. Trade and other payables not fairly presented**Audit finding**

A maturity analysis for financial liabilities that shows the remaining contractual maturities; and a description of how the municipality manages the liquidity risk is not disclosed in terms of IFRS 7 (39).

Internal control deficiency

The accounting officer and audit committee did not ensure that the financial statements complied with all accounting requirements prior to submission. In addition, staff members in the finance unit did not fully understand all the relevant reporting requirements.

Recommendation

All balances, transactions and disclosures in the financial statements should be compared to the GRAP checklist that has been issued by National Treasury to avoid incidences of non-compliance. The accounting officer should review and sign off on the checklist to confirm that all the requirements had been met, prior to audit submission.

Management response

A suitable maturity analysis will be included in the financial statements.

Name : Mr E S Sithole
Position : Municipal Manager
Date : 14 September 2012

Auditor's conclusion

Management's response is noted. However this will be followed up during the next audit.

9. General expenses not fairly presented

Audit finding

The following matters are not fairly presented for general expenses:

- a. Other expenses for the current and prior year were not broken down into an appropriate financial statement line items for presentation purposes; and
- b. A detailed breakdown of the government grant expenditure for the current (R4,493 million) and prior year (R6,910million) is not presented.

Internal control deficiency

The accounting officer and audit committee did not ensure that the financial statements complied with all accounting requirements prior to submission. In addition, staff members in the finance unit did not fully understand all the relevant reporting requirements.

Recommendation

All balances, transactions and disclosures in the financial statements should be compared to the GRAP checklist that has been issued by National Treasury to avoid incidences of non-compliance. The accounting officer should review and sign off on the checklist to confirm that all the requirements had been met, prior to audit submission.

Management response

Agreed. The amounts referred to will be further analysed in the notes to the financial statements.

Name : Mr E S Sithole
 Position : Municipal Manager
 Date : 14 September 2012

Auditor’s conclusion

This matter will be reported as a material correction as the financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA.

Property, plant and equipment

10. Fully depreciated asset still in use

Audit Finding

The following asset was identified as having been fully depreciated at year-end however it was still in use by the municipality. In this regard, it was evident that the municipality did not correctly apply standards of GRAP to correctly review useful lives at the end of every financial year.

Asset No.	Asset Description	Historical Cost	Book Value
JL0026	Taxi Rank, Richmond, 189,0	R 267,169.33	R 0.00

Consequently, depreciation and accumulated depreciation relevant to the asset is understated.

Internal control deficiency

The accounting officer and chief financial officer were not aware of the accounting requirements of GRAP 17 and GRAP 3.

Recommendation

- a) Useful lives, residual values and the depreciation methods must be reviewed annually to ensure adherence to standards of GRAP. If the municipality correctly applied standards of GRAP in the prior periods and the useful lives are subsequently amended, due to new or additional information becoming available, this should be accounted for as a change in estimate.
- b) If standards of GRAP were not correctly applied in the prior periods, any resulting changes in useful lives and residual values should be accounted for as prior period errors in terms of GRAP 3.

Management response

The audit finding and recommendation is noted and agreed with. This was an oversight. The full population has been reviewed and three assets have been identified as an omission. These assets will be corrected and the remaining useful lives will be extended. The remaining useful lives will again be reassessed during the 2013 financial period.

The correction will result in a net adjustment to the 2012 depreciation charges amounting to R 14,947.17.



Name: Mr. E S Sithole
 Position: Municipal Manager
 Date: 22 October 2012

Auditor's conclusion

Management's response is noted. However this will be followed up during the next audit.

Provisions

11. Error in unwinding of interest calculation

Audit Finding

GRAP 19 paragraph 51-53 refers in this regard.

On recalculation of the provision for landfill site rehabilitation, it was noted that the current year amount is overstated by R79,643.50 and the prior year amount is overstated by R 51,563.54. This is due to the unwinding of the interest being calculated incorrectly.

Details	Calculation as per client R	Recalculation R	Difference R
PV as at 30 June 2010	2,328,454.96	2,328,454.96	0.00
Unwinding of interest @10% - 2011	284,309.00	232,845.50	51,463.50
Provision as at 30 June 2011	2,612,763.96	2,561,300.46	51,463.50
Unwinding of interest @10% - 2012	284,310.00	256,130.05	28,179.95
Provision as at 30 June 2012	2,897,073.96	2,817,430.50	79,643.46

This results in provision for land rehabilitation being overstated by R79,643.36 (2011: R51,463.50).

Internal control deficiency

This is due to inadequate reviews performed by the chief financial officer on calculations, as well as insufficient knowledge of GRAP financial reporting requirements.

Recommendation

The accounting officer must immediately follow up and rectify the noted differences and provide plausible explanations and supporting documents where necessary.

Management response

Noted. The difference will be adjusted accordingly.

Name : Mr E S Sithole
 Position : Municipal Manager
 Date : 22 October 2012

Auditor's conclusion



This matter will be reported as a material correction as the financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA.

Compliance

12. Monthly reconciliations between the fixed asset register and the general ledger not performed

Audit Finding

As per section 62 (1) (c) of the MFMA, "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 systems that the municipality has and maintains effective, efficient and transparent systems of internal control."

The municipality does not have a control in place currently to reconcile the asset register to the general ledger on a monthly basis.

There is a risk that errors in accounting for all purchases, donations, disposals and scrapping of assets may not be identified and corrected timely.

Internal control deficiency

This is due to chief financial officer not implementing adequate controls over monthly processing.

Recommendation

The asset register and accounting records must be reconciled on a monthly basis by the finance unit, coupled with reviews by the accounting and chief financial officers. In addition, discrepancies must be followed up monthly and rectified.

Management response

Noted.

Name : Mr E S Sithole
Position: Municipal Manager
Date : 22 October 2012

Auditor's conclusion

Compliance with the recommendations will be followed up in the quarterly dashboard interactions to ensure that reconciliations are undertaken monthly. In addition, an action plan from management is required after the audit report is issued to address this finding.

13. Creditor reconciliations not prepared

Audit Finding

In terms of section 65(2)(c) and (j) of the MFMA, the accounting officer must take all reasonable steps to ensure that the municipality has and maintains a system of internal

control in respect of creditors and payments, and that all financial accounts of the municipality are closed at the end of each month and reconciled with its records.

Discussions with the finance department personnel revealed that creditor's reconciliations are not prepared.

Consequently, the creditor's amount reflected in the annual financial statements may be misstated, and the non-payment of creditors on a timely basis may lead to interest being charged and possible fruitless and wasteful expenditure.

Internal control deficiency

Creditor reconciliations are not prepared on a monthly basis and reviewed by the appropriate level of management.

Recommendation

- a) Creditor reconciliations should be performed on a monthly basis for major accounts between invoices and statements.
- b) The reconciliations must then be independently reviewed and matched to the financial records and certified by the accounting and chief financial officers, monthly.

Management response

Noted. Reconciliations per creditor are done on the invoice and statement as paid monthly. The reconciliation is therefore undertaken on the expenditure voucher.

An outstanding order report is printed monthly and reconciled to the order commitments reports.

At the end of the financial year both these reports are cleared before roll over to the new-year.

Name : Mr E S Sithole
Position : Municipal Manager
Date : 29 October 2012

Auditor's conclusion

Compliance with the recommendations will be followed up in the quarterly dashboard interactions to ensure that reconciliations are undertaken monthly. In addition, an action plan from management is required after the audit report is issued to address this finding.

14. Weak control over supplier master file amendments

Audit Finding

In terms of section 115(1) (b) of the MFMA, the accounting officer must take all reasonable steps to ensure that proper mechanisms and separation of duties in the supply chain management system are in place to minimise the likelihood of fraud, corruption, favouritism and unfair and irregular practices.

Per enquiry and observation it was established that changes to the supplier database are not delegated to an independent SCM official. Furthermore, there are no specific procedures implemented over vendor master file controls for adding, deleting or changing

the master file resulting in duplication of certain supplier accounts, the lack of VAT and physical addresses.

Internal control deficiency

Reviews and internal checks over the database of suppliers was not performed routinely to ensure that the supplier information was complete and accurate.

Recommendation

It is recommended that management design and implement adequate, formal controls over IT systems to ensure the reliability of the information systems and master file amendments to promote the accuracy, completeness, availability and protection of supplier records.

Management response

Noted.

Name: Mr. E S Sithole
 Position: Municipal Manager
 Date: 29 October 2012

Auditor’s conclusion

Compliance with the recommendations will be followed up in the quarterly dashboard interactions to ensure that reconciliations are undertaken monthly. In addition, an action plan from management is required after the audit report is issued to address this finding. It should also be noted that weaknesses in master file amendments can increase the risk of fraud, which requires decisive action.

15. Weak controls in journal processing

Audit Finding

An audit of journal entries revealed the weaknesses as denoted below:

- Certain journal vouchers were not authorised by either the preparer and/or reviewer;
- Not all supporting documents were attached to journal vouchers ; and
- General ledger reconciliations were not performed on a monthly basis before the preparation of the journal resulting in certain journals being processed in error.

Journals						
No	Jnl ref	Month	Debit	Credit	Rand Value	Comment
1.	0044	1-Jul-11	Pension Fund Retirement	Medical Aid	1,360	GL account, supporting doc and Reconciliation not attached as supporting document, Journal Voucher was not authorised
2.	0045	1-Jul-11	MAP	Comm- Salary	27,917	
3.	0045	1-Jul-11	MAP	UIF	279	
4.	0046	1-Jul-11	Trade Creditors	FMG	67,297	
5.	0047	1-Jul-11	FMG Grant	FMG Income prior year	63,297	
6.		1-Jul-11	Vat Input Creditors	Trade Creditors	99,532	



Journals						
No	Jnl ref	Month	Debit	Credit	Rand Value	Comment
7.	0049	1-Jul-11	Trade Creditors	Accrued Liabilities	103,257	GL account, supporting doc and Reconciliation not attached as supporting document, Journal Voucher was not authorised
			Vat Input			
8.	0119	1-Aug-11	Trade Creditors	Khunane Comm Hall	584,244	GL account was not attached as supporting document, Journal Voucher was not authorised
9.	0121	1-Aug-11	Inhlazuka Unspent	Inhlazuka RG	186,000	GL account was not attached as supporting document, Journal Voucher was not authorised
10.	0223	1-Sep-11	Small Town Unspent	Small Income Town	403,051	GL account and Reconciliation not attached as supporting document, Journal Voucher was not authorised
11.	0155	1-Sep-11	Leave Encashment	Leave Provision	16,667	GL account and Reconciliation not attached as supporting document,
12.	0189	1-Sep-11	Audit fees	Leave Provision	16,667	GL account and Reconciliation not attached as supporting document, Journal Voucher was not authorised
13.	0229	1-Sep-11	FMG Prior year	FMG Current year	63,119	GL account was not attached as supporting document, Journal Voucher was not authorised
14.	0403	1-Dec-11	Housing Call	Housing	825	GL account was not attached as supporting document, Journal Voucher was not authorised
15.	0404	1-Dec-11	Zwelethu Call	Zwelethu Unspent	1,058	GL account was not attached as supporting document, Journal Voucher was not authorised

Journals						
No	Jnl ref	Month	Debit	Credit	Rand Value	Comment
16.	0405	1-Dec-11	Patheni Housing	Patheni Unspent	618	GL account was not attached as supporting document, Journal Voucher was not authorised
17.	0406	1-Dec-11	Siya Phase 2	Siya Unspent	3,114	GL account was not attached as supporting document, Journal Voucher was not authorised
18.	0407	1-Dec-11	Medical Aid	Medical Aid	9,996	GL account was not attached as supporting document, Journal Voucher was not authorised
19.	0935	1-Jun-12	Assets Donated	Donations Library Service	67,929	Supporting documents: cash receipts, Donor details , invoices for asset expenses, asset barcodes /FAR , and Reconciliation of cash received was not attached
20.	0948	1-Jun-12	FMG Grant	FMG receipts	293,900	GL account, supporting document, Schedule of expenses and Reconciliation was not attached
21.	0949	1-Jun-12	MSIG unspent	MSIG Receipts	144,933	GL account, supporting document, Schedule of expenses and Reconciliation was not attached
22.	0951	1-Jun-12	Small Town Unspent	Small Town Rec	1,001,954	GL account, supporting document, Schedule of expenses and Reconciliation was not attached
23.	0949	1-Jun-12	MIG Unspent	MIG Rec	1,068,553	GL account, supporting document, Schedule of expenses and Reconciliation was not attached



Journals						
No	Jnl ref	Month	Debit	Credit	Rand Value	Comment
24.	0300	1-Oct-11	Appropriation	Rates	1,107	Copy of incorrect journal and explanations not attached
25.	0301	1-Oct-11	Billing default	Billing default	19,538	Copy of incorrect journal and explanations not attached

Internal control deficiency

The accounting officer did not develop and implement standard operating procedures relating to the processing of journals.

Recommendation

Standard operating procedures for processing of journals must be prepared, authorised and implemented by management. Non-routine journals should be subjected to a higher level of review and scrutiny.

Management response

All journals have been signed and we have provided evidence to the auditor of the supporting documentation.

Name: Mr. E S Sithole
 Position: Municipal Manager
 Date: 29 October 2012

Auditor’s conclusion

Compliance with the recommendations will be followed up in the quarterly dashboard interactions to ensure that reconciliations are undertaken monthly. In addition, an action plan from management is required after the audit report is issued to address this finding. It should also be noted that weaknesses in journal reviews and authorisation can increase the risk of fraud, and poses to be a significant risk that must be specifically managed, immediately.



16. Monthly budget statements, mid-year budget and performance assessment report not placed on website

Audit Finding

Regulation 34(1) of the municipal budget and reporting regulations requires that: "Within 5 working days of 25 January each year the municipal manager must make the mid-year budget and performance assessment public by placing it on the municipal website."

Upon inspection of the municipality website and enquiry of the IT manager it was confirmed that the mid-year budget and performance assessment report were not placed thereon.

Internal control deficiency

The accounting officer does not exercise oversight responsibility regarding compliance with the MFMA.

Recommendation

The accounting officer should:

- a) immediately upload the required documents onto the municipal website; and
- b) to enhance compliance, use a checklist as an early warning method to enable the accounting officer to fulfill his duty.

Management response

Noted .

Name : Mr E S Sithole
Position : Municipal Manager
Date : 31 October 2012

Auditor's conclusion

This matter will be followed up during quarterly dashboard interactions to ensure that adherence is monitored.

17. Information on compliance with prescribed minimum competencies not reflected on the draft annual report

Audit Finding

Municipal regulations on minimum competency levels, regulation 14(2)(b) & (3) requires the annual report of the municipality to reflect the information on compliance with prescribed minimum competency as at the end of the financial year to which it relates.

Upon inspection of the draft annual report it was noted that it did not reflect the information on compliance with prescribed minimum competencies as at the end of the financial year under audit.

Internal control deficiency

The accounting officer does not exercise oversight responsibility regarding compliance with the MFMA, and its regulations.

Recommendation

The draft annual report should be updated to include the required information and a compliance checklist should be put in place to ensure that all legislated information is reported upon.

Management response

Noted. Information will be included in the final draft.

Name : Mr E S Sithole
Position : Municipal Manager
Date : 31 October 2012

Auditor's conclusion

The accounting officer must amend the draft annual report and include the required information thereon. In addition, the recommendation must be tracked through an action plan to prevent the matter from repeating itself.

18. Draft annual report does not include an assessment of any arrears on municipal taxes and service charges

Audit Finding

As per section 121(3)(e) of the MFMA, "The annual report must include an assessment by the accounting officer of any arrears on municipal taxes and service charges."

Upon inspection of the draft annual report, it was confirmed that the following had not been included:

- a) An assessment by the accounting officer of any arrears on municipal taxes and service charges; and
- b) An assessment of the performance against measurable performance objectives for revenue collection.

Internal control deficiency

The accounting officer does not exercise oversight responsibility regarding compliance with the MFMA.

Recommendation

The draft annual report should be updated to include the required information and a compliance checklist should be put in place to ensure that all legislated information is reported upon.

Management response

Noted. Information will be included in the final draft.

Name: Mr. E S Sithole
Position: Municipal Manager
Date: 31 October 2012

Auditor's conclusion

The accounting officer must amend the draft annual report and include the required information thereon. In addition, the recommendation must be tracked through an action plan to prevent the matter from repeating itself.

19. Monthly budget statements do not include an analysis of variances from the service delivery agreement and business plan

Audit Finding

As per requirements of section 71(1)(g) of the MFMA, "The monthly budget statement must reflect the following particulars for that month and for the financial year up to date:

- explanation of any material variances from the service delivery agreement and business plan; and
- explanation of any remedial or corrective steps taken or to be taken to ensure that projected revenue and expenditure remain within the entity's approved budget.

Upon inspection of the monthly budget statements it was noted that the above requirement is not met.

Internal control deficiency

The accounting officer does not exercise oversight responsibility regarding compliance with the MFMA.

Recommendation

The accounting officer should use a checklist as an early warning method to enable him to fulfil his duty.

Management response

Noted.

Name: Mr. E S Sithole
Position: Municipal Manager
Date: 31 October 2012

Auditor's conclusion

Compliance in this regard must be followed up by implementing an action plan, with monthly reporting to council on adherence. In addition, progress must be provided to the Auditor-General through monthly feedback/progress reports in this regard.

General IT controls

User access control

20. Approved process on user access management

Audit Finding

A formally documented and approved user account management process had not been established to manage the granting of access to users of the ABAKUS Financial system.

Consequently, the process was not adequately designed to mitigate the risks of unauthorised access and manipulation of financial data.

Internal control deficiency

The IT staff did not have the appropriate skills to develop user account management policies and procedures.

Recommendation

The accounting officer should ensure that appropriately skilled IT staff are employed and where necessary, appropriate training interventions take place to up skill existing staff with assistance from district municipalities.

Management response

The recommendation is noted.

Name : Mr E S Sithole
Position : Municipal Manager
Date : 12 October 2012

Auditor's conclusion

This matter will be followed up in the 2012-13 cycle as well as during the quarterly interventions. The accounting officer must develop an action plan to address the IT issues and table progress in council, monthly.

21. Formal request access documentation

Audit Finding

Formal access request documentation was not completed for registering users, changing access rights, effecting password resets and terminating access rights.

The lack of formal access documentation could result in the inability to monitor the authorisation of access granted to the system. Inappropriate access that could be used to perform unauthorised transactions would consequently not be timeously detected.

Internal control deficiency

Approved user access policies and procedures had not been established to ensure that sufficient IT internal controls were implemented.

Recommendation

The accounting officer should ensure that a user account management policy and related procedures are developed and implemented to ensure that:

- a single user access form is developed for all applications in use at the municipality;
- users who sign on to any application are required to have their own user identification allocated to them;
- the access allocation for new users, changes to existing users' access and procedures for dealing with resignations, terminations and retirements are clearly documented and managed; and
- time frames for notifying the staff of user movements are documented.

Management response

Noted.

Name : Mr E S Sithole
Position : Municipal Manager
Date : 12 October 2012

Auditor's conclusion

This matter will be followed up in the 2012-13 cycle as well as during the quarterly interventions. The accounting officer must develop an action plan to address the IT issues and table progress in council, monthly.

22. User access and privileges**Audit Finding**

Processes were not in place to ensure that reviews were periodically undertaken to determine whether employees' current access and privileges on the system were commensurate with their job responsibilities.

If the functions allocated to application users are not timely reviewed, it could result in users having functions that are not commensurate with their job descriptions.

Internal control deficiency

The accounting officer did not formalise policies and procedures to provide guidance on the processes to be followed, with regard to user access and privileges.

Recommendation

- Monthly exception report/Access logs should be reviewed by the IT manager and accounting officer to identify any instances of unauthorised access.
- Changes to access profiles should be logged and the access control staff should be unable to switch the log off or to alter its contents.
- Internal / systems audit staff should review access profiles paying particular attention to access rights of knowledgeable users and the users who have access to particularly sensitive programs / data.

Management response

Noted.

Name : Mr E S Sithole
Position : Municipal Manager
Date : 12 October 2012

Auditor's conclusion

This matter will be followed up in the 2012-13 cycle as well as during the quarterly interventions. The accounting officer must develop an action plan to address the IT issues and table progress in council, monthly.

23. Independent reviews on activities of personnel that grants user access

Audit Finding

No processes were in place to ensure that the activities of the systems administrator/IT manager who granted user access to the financial system system would be reviewed.

The lack of reviews of system controllers' activities could lead to unauthorised access being gained to the system as inappropriate access granted might not be detected.

Internal control deficiency

The accounting officer did not develop any formalised policies and procedures to provide guidance on the processes to be followed for system controllers.

Recommendation

The accounting officer should ensure that key processes are established to ensure that system controller activities are periodically reviewed.

Management response

Noted.

Name : Mr E S Sithole
Position : Municipal Manager
Date : 12 October 2012

Auditor's conclusion

This matter will be followed up in the 2012-13 cycle as well as during the quarterly interventions. The accounting officer must develop an action plan to address the IT issues and table progress in council, monthly.

Security management

24. No approved process in place to manage upgrades to the IT systems

Audit Finding

Formally documented and approved program change control policies and procedures were not in place to detail the process that should be followed when system updates were made to ABAKUS application system.

The lack of a standard policy/procedure for program change management could result in unauthorised system updates being made, consequently introducing updates that do not address user requirements.

Internal control deficiency

Policies and procedures on program change management were not developed and implemented in accordance with management requirements.

Recommendation

- a) Application change control standards and procedures should be developed and should include key elements such as ensuring that updates are approved and tested prior to implementation.
- b) The accounting officer should approve the change control standards and procedures document and compliance with the procedures and standards should be monitored regularly.

Management response

Noted.

Name : Mr E S Sithole
Position : Municipal Manager
Date : 12 October 2012

Auditor's conclusion

This matter will be followed up in the 2012-13 cycle as well as during the quarterly interventions. The accounting officer must develop an action plan to address the IT issues and table progress in council, monthly.

Change control

25. No formal request documentation for update/upgrade of system

Audit Finding

There are no formal change requests forms in place for performing system upgrades.

Internal control deficiency

The accounting officer did not develop and implement change management policies and procedures in accordance with best practices.

Recommendation

The accounting officer should ensure that :

- Change management policies and procedures are developed and work-shopped;
- Appropriately skilled individuals are employed; and
- When the services of contractors are used, it should be ensured that skills are transferred to the municipality's IT staff to prevent the contractors from operating in the live environment.

Management response

Noted.

Name : Mr E S Sithole
Position : Municipal Manager
Date : 12 October 2012

Auditor's conclusion

This matter will be followed up in the 2012-13 cycle as well as during the quarterly interventions. The accounting officer must develop an action plan to address the IT issues and table progress in council, monthly.

Security management

26. Vendors have unmonitored access to the production environment

Audit Finding

Vendors had unlimited and unmonitored access to the production environment. Vendors will thus inevitably gain inside knowledge of the municipality information, which could result in a breach of confidentiality.

Internal control deficiency

This is due to insufficient skills within the IT department to monitor the vendors, as well as the fact that management is not aware of risks associated with access to confidential information.

Recommendation

When the services of contractors are used, it should be ensured that skills are transferred to the municipality's IT staff to prevent the contractors from operating in the live environment or to enable the monitoring of their actions. Moreover, the importance of confidentiality should be enforced and communicated.

Management response

Noted.

Name : Mr E S Sithole
Position : Municipal Manager
Date : 12 October 2012

Auditor's conclusion

This matter will be followed up in the 2012-13 cycle as well as during the quarterly interventions. The accounting officer must develop an action plan to address the IT issues and table progress in council, monthly.

IT service continuity

27. Back up and retention strategy

Audit Finding

There is no approved back up and retention strategy. Furthermore, although back ups are performed there are no controls in place for effective monitoring thereof.

Internal control deficiency

The accounting officer did not establish backup and restoration policies to ensure business continuity in the event of interruptions/intrusions.

Recommendation

The accounting officer should ensure backups and restoration processes are established to ensure IT service continuity. In addition, the monitoring and testing of back-ups should be performed regularly ensure that they are working as planned.

Management response

Noted.

Name : Mr E S Sithole
Position : Municipal Manager
Date : 12 October 2012

Auditor's conclusion

This matter will be followed up in the 2012-13 cycle as well as during the quarterly interventions. The accounting officer must develop an action plan to address the IT issues and table progress in council, monthly.

28. Backups are not secured offsite

Audit Finding

Formal off-site backup arrangements for the ABAKUS financial system had not been documented and approved by management. Consequently, backups were not taken to the off-site backup location periodically.

This could have the effect that it would not be possible to recover all the data on the financial system and to resume processing in the event of a disaster.

Internal control deficiency

The accounting officer had not implemented adequate preventative controls to ensure that adequate off-site backup arrangements were established.

Recommendation

Off-site backup arrangements should be formally documented and regularly tested. Such arrangements should, at the very least, make provision for copies of the operating procedures, the disaster recovery plan (DRP), system and application software, networks, data files and system documentation to be retained at the off-site location.

Management response

Noted.

Name : Mr E S Sithole
Position : Municipal Manager
Date : 12 October 2012

Auditor's conclusion

This matter will be followed up in the 2012-13 cycle as well as during the quarterly interventions. The accounting officer must develop an action plan to address the IT issues and table progress in council, monthly.

Predetermined objectives**29. Annual budget does not include development priorities or objectives per IDP****Audit Finding**

As per regulation 6(a) of GNR. 796 of 24 August 2001: Local Government: Municipal Planning and Performance Management Regulations, 2001, "A municipality's integrated development plan must inform the municipalities annual budget that must be based on the development priorities and objectives referred to in section 26(c) of the Act and the performance targets set out by the municipality in terms of regulation 12;"

On inspection of the budget and adjusted budget for the 2011-2012 financial year it was not that it was not based on the development priorities or objectives of the municipality.

These results in non-compliance with regulation 6(a) of the Local Government: Municipal Planning and Performance Management Regulations, 2001.

Internal control deficiency

This is due to the accounting officer not ensuring compliance with requirements of the Local Government: Municipal Planning and Performance Management Regulations, 2001.

Recommendation

The accounting officer should

- a) ensure that in the coming financial years all development priorities and objectives are budgeted for.
- b) to enhance compliance, use a checklist as an early warning method to enable the accounting officer to fulfil his duty.

Management response

Noted

Name : Mr E S Sithole
Position : Municipal Manager
Date : 31 October 2012

Auditor's conclusion

This matter will be followed up in the 2012-13 cycle as well as during the quarterly interventions. The IDP and SDBIP for 2011-12 should be fully aligned to the budget for each development priority/objective.

Other

30. Risk management policy not approved

Audit Finding

As per section 62(1) of The MFMA, "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 system:

- of financial and risk management and internal control; and
- of internal audit operating in accordance with any prescribed norms and standards;"

Through enquiry of management it was confirmed that the risk management strategy is in draft phase and has not been approved and implemented.

Risks may not be identified and mitigated timely which could impact on business continuity and on service delivery.

Internal control deficiency

The accounting officer and council did not exercise oversight responsibility over the approval and implementation of policies and procedures, with regard to risk management.

Recommendation

The accounting officer should ensure

- a) the final risk management policy is prepared, reviewed and implemented to identify and mitigate risk that affect the municipality; and
- b) all policies and procedures required by legislation and regulations is approved and implemented timely.

Management response

- 1) A risk analysis is undertaken on an annual basis between the Internal Auditors and Management.
- 2) Measures to mitigate are put in place and monitored in the form of a risk register. The risk register is forwarded to the Audit committee and monitored by Internal Audit on a quarterly basis.
- 3) The policy is still being work-shopped before being approved.

Name : Mr E S Sithole
Position : Municipal Manager
Date : 12 October 2012

Auditor's conclusion

This matter will be followed up in the 2012-13 cycle and the expected date of approval should be provided to this office, please.