



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

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Sir

### **DRAFT MANAGEMENT LETTER: AUDIT OF THE CACADU DISTRICT MUNICIPALITY FOR THE 2003-04 FINANCIAL YEAR**

#### **1. DETERMINATION OF RESPONSIBILITY**

- 1.1 An audit was carried out in terms of section 188 (1) of the Constitution of the Republic of South Africa 1996, (Act No. 108 of 1996), and the object of this draft management letter is to bring to your attention certain matters that were found during the audit
- 1.2 The audit was conducted in accordance with generally accepted government auditing standards which require that the audit be planned and performed to obtain reasonable assurance that, in all material respects fair presentation is achieved in the financial statements and that the relevant laws and regulations have been adhered to. The matters mentioned in this letter are therefore those that were discovered through tests considered necessary for the purpose of the audit and it is possible that there may be other matters and/or weaknesses that were not identified. However, the annual financial activities as well as the maintenance of effective control measures are the responsibility of the entity's management.
- 1.3 Unsatisfactory aspects that have been found are included in the following paragraphs together with recommendations regarding the steps that can be taken to rectify it.

#### **2. REPLY TO DRAFT MANAGEMENT LETTER**

The attached audit findings contained in this management letter are to be considered by management for factual accuracy. The subsequent formal responses by management will be incorporated in the final management letter. It would be appreciated if any additional comments could be submitted to this Office by 3 December 2004.

#### **3. APPRECIATION**

I would like to express my appreciation for the courtesy extended and assistance rendered by the staff of the Cacadu District Municipality 2004 during the audit.

For : Auditor-general

Enquiries: Christo Welch  
Reference: 05245REG03/04  
Date: 25 November 2004

**Cacadu District Municipality  
Draft management letter  
Financial year ended 30 June 2004**

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<sup>1</sup> Financial qualification in audit report

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## REVENUE

### 1. Inherent uncertainties with regard to levy income

**Audit Finding:**

Due to the inherent uncertainties that exist, such as the completeness of registered levy payers and the integrity of the financial information that have been submitted by the levy payers, on a self-assessment basis, we have been unable to obtain adequate and relevant audit evidence to support the completeness and accuracy of levy income as supplied by the Nelson Mandela Metropolitan Municipality (NMMM) as at 30 June 2004.

It is not possible to ensure that the levies actually received and recorded have been based on accurate information. This is due to the Cacadu District Municipality not having means at its disposal to verify the accuracy of the turnover and salary figures submitted by the levy payers.

Cognisance is taken of the fact that the administration and collection of levy income are the responsibility of NMMM and that levy inspectors have been employed in an attempt to maximise revenue and that the levy income have been increasing as follows:

30 June 2002	R14 167 363
30 June 2003	R20 044 607
30 June 2004	R26 023 739

This point has been previously reported.

**Root cause:**

Restrictions imposed by paragraph 13(1) of the Financial Regulations issued in terms of the Regional Services Council Act (Government Notice R1524 dated 28 June 1991 as amended).

**Risk:**

The municipality may not be recovering all the levy income that it is entitled to.

**Recommendation:**

Every effort possible must be made in order to ensure that all possible income is collected in respect of levies.

Cognisance is taken of the restrictions imposed by paragraph 13(1) of the Financial Regulations issued in terms of the Regional Services Council Act (Government Notice R1524 dated 28 June 1991 as amended).

**Management comments:**

## EXPENDITURE

### 1. VAT: No signatures as evidence of review of VAT 201 forms (ex 14)

**Audit Finding:**

Tests performed on the verification of the Value-Added-Tax (VAT) system description revealed that the financial manager does not sign the monthly VAT workings as evidence of his review.

**Root Cause:**

The above is as a result of no policies and procedures being in place over the signature of documentation as evidence of its review.

**Risk:**

Misstatements on the VAT201 may go unnoticed.

**Recommendation:**

The financial manager as evidence of his review and approval should sign the monthly value-added-tax calculations.

**Management comment:**

The Manager finance does review the VAT return before it is submitted. Any adjustments or corrections are processed before submission. The VAT return will be signed in future as evidence of the review. Evidence of the review and subsequent corrections are available for confirmation.

**2. VAT reconciliations not performed (ex 15)**

**Audit Finding:**

Test performed on the system description of the Value-Added-Tax activities revealed that the turnover declared per the VAT201 forms are not reconciled back to the turnover recorded in the records of the municipality.

Further tests on the Value-added-tax component revealed that VAT control account(s) per the general ledger are also not reconciled to the VAT owing/due to SARS per VAT 201. Per discussions with senior officials the reconciliations are not performed since the system automatically clears all the VAT balances. The months of October 2003, January 2004 and February 2004 were inspected and differences occurred between the balance per the general ledger account and the VAT 201 returns. Details include:

	OCTOBER	JANUARY	MARCH
Vat account balance (general ledger)	(132,564)	188,824	229,478
VAT per VAT 201	(98,793)	(188,802)	(777,338)
<b>Difference not reconciled</b>	<b>(231,357)</b>	<b>22</b>	<b>(547,860)</b>

**Root Cause:**

The above is as a result of the exercise being too time consuming and no policies and procedures are in place to perform the above mentioned VAT reconciliations.

**Risk:**

If the turnover declared per the VAT201 forms do not correspond to the turnover per the annual financial statements, it might trigger a VAT audit to be performed by the South African Revenue Services.

Even though the system automatically clears the VAT balances, without the VAT balances per the general ledger being reconciled to the VAT 201 form, no sufficient audit trail exists to support the validity of the VAT balance disclosed in the general ledger.

**Recommendation:**

Turnover declared per VAT201 forms should be reconciled to the turnover as disclosed in the accounting records. The balance reflected in the general ledger account should also be reconciled back to the VAT201 return.

**Management comment:**

The system automatically clears the VAT accounts. The only instances where differences occur is where transaction VAT months are changed to co-inside with a correction. This would result in a difference between the control account and the 201 form.

### 3. VAT: Non-compliance with section 20 (ex 20)

**Audit Finding:**

In terms of the Value-Added-Tax Act, certain detail needs to be disclosed on an invoice in order for it to be a valid tax invoice. The following minimum requirements were tested:

Section 20(4)(a) - The word "tax invoice" must appear thereon;

Section 20(4)(b) - The name, address and VAT registration number of the supplier must appear thereon;

Section 20(4)(d) - An invoice number and date of issue should appear thereon

Section 20(4)(e) & (f) - A description and the quantity of goods and services supplied

During the above tests, it was revealed that the invoices, on which the municipality had claimed VAT, do not always comply with the above-mentioned sections. Details include:

Month	Ref. Nr	Invoice nr.	Supplier	VAT	Non-compliance
06/2004	07474	42	Loyiso Civil Construction CC	69,469.78	No address
05/2004	07014	34	Loyiso Civil Construction CC	38,494.41	No address
02/2004	04770	64	Multi Pro Construction CC	4,410.00	No detail on services rendered
01/2004	04757	2/218	TWC Technology with confidence	5,508.62	No invoice number
12/2003	03876	C/EC0635/W/02/03	Empumalange Trust	27,801.10	No detail on services rendered
11/2003	03321	15	Neliswa Notshulwana	552.63	No VAT registration number
10/2003	02583	43	Multi Pro Construction CC	1,960.00	No detail on services rendered

The input VAT claimed on payment reference, 03321, invoice number 15 to Neliswa Notshulwana, in November 2003 was also claimed on the supply of entertainment (lunch at training course).

**Root Cause:**

The above is as a result of policies and procedures not being in place to ensure that supplier invoice's are compliant with section 20(4) of the Value-added-tax Act.

**Risk:**

The Receiver of Revenue might regard the above-mentioned invoices as not valid tax invoices and the input tax claimed might be denied resulting in penalties and interest being raised on the assessment.

**Recommendation:**

Suppliers which invoices are not compliant with section 20(4) of the Value-added-tax Act should be notified so that future invoices are in line with the requirements of section 20.

**Management comment:**

Finance staff will be trained to ensure that Council complies with section 20(4) of the VAT act. No VAT will in future be claimed on invoices that are not completely compliant.

#### 4. VAT: Approval of 70% apportionment (ex 21)

**Audit Finding:**

During the year under review, the municipality claimed certain input VAT proportionately at 70%. During the audit of the value-added-tax component, the municipality was requested to provide evidence that the necessary approval has been obtained from South African Revenue Services to claim certain input VAT proportionately. (Section 17 (1) VAT Act). As to date, no such evidence that approval was obtained from South African Revenue Services could be provided to this office.

**Root Cause:**

The above is as a result of no policies and procedures being in place to ensure that the municipality is complying with section 17(1) of the Value-added-tax Act.

**Risk:**

The municipality might not be complying with the Value-added-tax Act. In the event of SARS not being satisfied with the apportionment ratio, penalties and interest may be raised if the input tax claimed was overstated.

**Recommendation:**

Management should ensure that they comply in all aspects with the Value Added Tax Act and obtain approval from SARS for the apportionment ratio.

**Management comment:**

The calculation was submitted by PriceWaterhouseCoopers for review, however no written approval was received. In future, the written approval will be requested.

#### 5. VAT: Programmed computerised accounting systems (ex 22)

**Audit Finding:**

The audit procedures performed on the value-added-tax component revealed that reasonable assurance does not exist that the computerised accounting systems are correctly programmed to account for the different VAT classifications applicable to the transactions (i.e. vat-able items, non-vat-able and items proportionately claimable). This is mainly due to the fact that numerous journals were noted where VAT corrections needed to be made to correct incorrect programmed votes. Examples include:

Journal J060074	435,447.34
Journal J060067	51,012.54

Both these journals were posted to correct votes that were incorrectly programmed as Non-vat-able.

**Root Cause:**

The above is as a result of incorrect programming of votes

**Risk:**

Input and output VAT may be misstated.

**Recommendation:**

Care should be taken with the programming of computerised accounting systems. These systems should be tested once programmed to ensure that VAT is correctly treated.

**Management comment:**

Most corrections resulted from the restructure of the code structure. Care will however be taken in order to reduce the amount of VAT corrections.

**6. Procurement policy not adhered to (ex 19)**

**Audit Finding:**

Payment voucher 3711 dd 27/11/2003 for the amount of R13500 only has a goods received note and invoice attached as supporting documentation. Per the procurement policy for expenditure amounts ranging between R5 000 and R120 000 three written quotations should be obtained. No quotations were attached to the payment voucher as evidence that the required quotations were obtained.

**Root Cause:**

Lack of knowledge of the procurement policies.

**Risk:**

Procurement policies may not be adhered to.

**Recommendation:**

According to the Procurement Policy of the Cacadu District Municipality, all expenditure between R5000-R120000 should be done by submission of three written quotes, and attaching the quotes to the supporting documentation. It is recommended that the procurement policies be adhered to, and that the quotes be attached to the supporting documentation.

**Management comment:**

**7. Amount accrued for twice (ex 32)**

**Audit Finding:**

The audit of accruals revealed an amount of R15 000.00 (SC00082) paid to Hinet Internet. This cheque was never presented for payment as the supplier changed the name to Africorp International Properties. Included in the creditors listing is the R15 000.00 in both names.

**Root Cause:**

Due to the name being changed it might have been seen as two different creditors.

**Risk:**

Creditors and expenditure may be overstated by R15 000.

**Recommendation:**

A journal should be processed to reverse the accrual amounting to R15 000 raised for Hinet Internet.

**Management comment:**

The correcting entries will be passed in the new financial year.



## 8. Slow delivery of infra structure projects

### **Audit Finding:**

The planned and actual activities regarding infrastructure projects for the past three financial years are summarised as follows:

<b>Details</b>	<b>2001 – 02 (R'Million)</b>	<b>2002 - 03 (R'Million)</b>	<b>2003 - 04 (R'Million)</b>
Balance unspent at beginning of year (a)	R 108.80	R 47.74	R44.52
Amount budgeted for the year (b)	R 0.49	R 14.09	R 3.02
Accumulated budgeted funds (a+b)	R 109.29	R 61.83	R47.54
Less: Actual spent during the year	R 61.59	R 17.31	R20.66
Balance unspent at year-end	R 47.74	R 44.52	R26.88

The unspent amount as at 30 June 2004 is still significant and the services have still not been adequately delivered in the 2004 financial year.

The actual expenditure incurred subsequent to the balance sheet date is R3,5m. The unspent balance at 31 October 2004 amounted to R23.4m.

This aspect has already been raised in the previous audit reports.

### **Risk:**

The slow delivery of infra structure to the local municipalities might have a negative impact on the service delivery of those municipalities.

### **Recommendation:**

A concerted effort should be made to ensure that the infra structure projects are delivered in a timely manner to enhance the service delivery to the community.

### **Management Comments:**

## 9. Possible double payment

### **Audit finding:**

It appears that payment vouchers 4229 and 4305 refer to the same service delivered to the municipality with the result that the municipality paid twice for the same service. The amount involved is R433 931.88.

The municipality were invoiced by Wendy Construction (invoice nr 8 dated 12/12/03) and Noni Building Contractors (invoice nr 11 dated 15/12/2003). Their invoices make reference to the same invoice for the supply of materials from Safyaan's Tile and Sanitaryware to the amount of R380 642.40.

The same invoice from Safyaans was attached to both Wendy and Noni's invoices which the municipality paid. The original Safyaans invoice (invoice nr 19578) was made out to Noni. The invoice was then altered (invoice nr changed from 19578 to 19579) and the customer signature changed.

The following was found in respect of the payment certificates:

- The project total to date on the certificate dated 17 December 2003 = R2 803 071.43
- The project total to date on the certificate dated 5 January 2004 = R2 794 176.01. This is less than in December 03.

- It does not appear that both payments were included on the payments certificates.

**Root cause:**

Proper checks not being performed to ensure that an invoice had not been presented for payment at a previous occasion. It does not appear that due care was exercised when the payment certificate was prepared.

**Risks:**

Due care are not exercised when payment certificates are completed and may result in double payments (fruitless expenditure)

**Recommendation:**

The official completing and certifying the payment certificate should ensure that all costs are recorded on the certificate. Care should be taken to ensure that the same invoice is not presented more than once for payment. Checks to minimise the possibility of paying an invoice more than once should also be done by the finance department.

**Management comments:**

**FIXED ASSETS**

**1. Incomplete fixed asset register (ex 39)**

**Audit Finding:**

Audit tests revealed that the fixed asset register is not complete:

1. Land and buildings

- a) The following properties, registered in the name of Cacadu District Municipality per the title deeds could not be traced back to the fixed asset register or general ledger:

Description	Title deed
Erf 202, Riebeeck East	T107654/2003
Erf 469, Rietbron	T005893/2003
Erf 498, Rietbron	T005893/2003
Erf 428, Rietbron	T005894/2003

It should also be noted that Erf 202, Riebeeck East was purchased during the year under review. The cost was incorrectly allocated to Job costing (Infrastructure) - Contractors: Vote: 5 1012 1 4.

- b) A list provided by an official also revealed that the following properties are not recorded in the fixed asset register or the general ledger of the municipality. The inspection of the title deeds revealed that the property is registered in the name of Cacadu District Municipality.

Description	Title deed
Swanepoels Poort Outspan 53/5	T2573/1969
Swanepoels Poort Outspan 54/REM	G65/1947-T11352/1
Ptn 1 of Farm Teerputskuil	T35589/1969
Erf 290 Murraysburg	T4730/1957

Prt 176 of the farm Loerie River 435	T55082/1995
Kenkelbosch Outspan 301/1	T7820/1978-T60069/1
Vermaakskop 237/1	T16913/1977
Schoemansvlakte 498/2	T16621/1961

Included in the above properties are two possible properties recorded in the fixed asset register. Due to the lack of detail in the fixed asset register, the following properties recorded could not be traced to title deeds:

Description	Asset nr.
Fixed property - Land	6575
Fixed property (21, 5628ha)	6545

## 2. Computer equipment

Inspection of asset input forms revealed that an asset acquired before 30 June 2004, was not recorded in the fixed asset register or the general ledger:

A HP LaserJet 4200n printer (asset nr. 6953), acquired 09/06/2004 could not be trace to the fixed asset register.

### **Root Cause:**

The asset register may not have been properly maintained.

### **Risk:**

The fixed asset register and the fixed asset balance is understated

### **Recommendation:**

Policies and procedure should be implemented by management to ensure that all properties are updated to the fixed asset register and the general ledger.

### **Management comment:**

Erf 202 was purchased for infrastructure development and therefore should not be added to the Municipality's asset register.

The recommendations are accepted and all the properties not appearing on the asset register will be included during the 2004/05 financial year.

## 2. Individual categories do not tie up to general ledger votes (ex 40)

### **Audit Finding:**

A reconciliation between the fixed assets per category per the annual financial statements and the general ledger, revealed that the amounts per the general ledger for the individual categories do not correspond to the amounts per the general ledger. The following discrepancies were noted:

#### 1. Cost of fixed assets:

	Trial balance	FAR	Difference
Office Equipment	4,604,276	4,570,824	(33,452)
Plant and Equipment	129,500	1,217,750	1,088,250
Other Furniture and Fittings	939,982	1,030,733	90,751
Motor Vehicles	1,074,425	1,074,025	(400)
P.I.A - Public Works Interst	1,145,150	-	(1,145,150)
<b>TOTAL</b>	<b>7,904,153</b>	<b>7,904,153</b>	<b>(0)</b>

2. Accumulated depreciation of fixed assets:

Office Equipment	3,622,759	3,587,437	(35,322)
Plant and Equipment	266,880	1,212,558	945,678
P.I.A - Public Works Interst	1,163,050	-	(1,163,050)
P.I.A - Public Works Phase 2	5,000	-	(5,000)
Other Furniture and Fittings	866,597	980,137	113,540
Emergency Equipment	6,600	20,000	13,400
Motor Vehicles	663,529	794,282	130,753
<b>TOTAL</b>	<b>6,605,235</b>	<b>6,605,235</b>	<b>(0)</b>

3. Book value of fixed assets:

	<b>Trial balance</b>	<b>FAR</b>	<b>Difference</b>
Office Equipment	981,516	983,388	1,872
Plant and Equipment	(137,380)	5,192	142,572
P.I.A - Public Works Interst	(17,900)	-	17,900
P.I.A - Public Works Phase 2	(5,000)	-	5,000
Other Furniture and Fittings	73,385	50,596	(22,789)
Motor Vehicles	410,896	279,743	(131,153)
Emergency Equipment	13,400	-	(13,400)
<b>TOTAL</b>	<b>1,318,918</b>	<b>1,318,919</b>	<b>1</b>

**Root Cause:**

The above is as a result incorrect allocations being made when postings are done to the general ledger

**Risk:**

1. Cost of specific fixed assets categories might be overstated or understated in the general ledger
2. Accumulated depreciation of fixed asset categories might be overstated or understated
3. The book value of specific categories of fixed assets are overstated or understated.

**Recommendation:**

The general ledger should be reviewed to identify incorrect allocations. A journal should than be passed to ensure that the fixed assets per category agree to the fixed asset register.

**Management comment:**

A programming error resulted in the difference. This has subsequently been corrected and the ledger will be adjusted accordingly.

**3. Update of fixed asset register (ex 42)**

**Audit Finding:**

The following additions to fixed assets were incorrectly updated to the fixed asset register:

1. Incorrect date of acquisition recorded:

<b>Asset nr</b>	<b>Description</b>	<b>Payment nr</b>	<b>Invoice nr</b>	<b>Date per invoice</b>	<b>Date per FAR</b>
007001	Data projector LG JT 52	06507	27848	26/04/2004	20/04/2004
006959	Vehicles Nissan Double Cab 4X4 3TD - 2004 WHI	06199	99219	20/04/2004	05/04/2004

2. A HP 4200 printer (asset nr. 6926), purchased 19/01/2004 was incorrectly allocated to office machines instead of computer equipment.

It was also noted that the Asset Input Forms used to update additions to the fixed asset register are incomplete. For example, the following details were not recorded on the asset input form for a HP LaserJet 4200n printer (asset nr. 6953), acquired 09/06/2004:

- Location details
- Description (Make, model)
- Serial number

The form was also not reviewed by management.

**Root Cause:**

The above is as a result of policies and procedures regarding the addition of fixed assets to the fixed asset register not being in place.

**Risk:**

Depreciation charges might be incorrect and assets may not be located readily due to the lack of details on the asset-input form.

**Recommendation:**

Asset input forms should be completed in full and should also be reviewed by senior management. The compiler and the reviewer as evidence of the review should also sign the form. Care should be taken when entering the date of acquisition in the asset register as it may impact on the depreciation charge.

**Management comment:**

These are clerical errors and will be corrected during the 2004/05 financial year, The recommendation of the Auditor-General are accepted and will be implemented.

**4. Physical verification (ex 43)**

**Audit Finding:**

The physical verification of assets revealed that the bar-coding system in place is not adequate to keep control over the fixed assets. The following weaknesses were identified:

1. Certain assets are not marked with a barcode or the incorrect barcode is reflected on the assets. For example:

Description of asset	Purchased date	Barcode per FAR	Barcode per physical asset
Data projector LG JT 52	20/04/2004	7001	None
Network Server Dualxeon 28/08/2003	7003	6808	
Projector C95XGA	27/08/2003	6808	6806
HP NX 9000 PC	30/09/2003	7005	7001
COMPAQ PC	30/09/2003	7004	none***
HP NX9000 notebook	30/09/2003	6905	None
Nokia 5110 cellular phone		6337	None

\*\*\* - The computer was purchased as a spare computer. During the verification process the monitor was noted to be in the printing room of the information technology department (4th floor) and the central processing unit to be in the computer storeroom (1st floor).

2. The barcode of an Hier 165L fridget (asset nr. 3710) situated in the front kitchen (4th floor) was found to be unclear/unreadable.
3. Incorrect locations are being recorded in the fixed asset register, which make the physical verification of fixed assets almost impossible. The following assets could not be found in the location specified in the fixed asset register:

Asset nr	Description	Location per FAR	Physical Location
006853	HP 9000 notebook	417	134
001808	LAMINATOR Relex LP 30	102	416
006911	CHAIR CHERRY	102	Unknown
002219	HP Lazerjet 1200 printer	104	105
003031	HP Deskjet 890C	110	115
003141	Auwa Atlantis Computer	122	Unknown
003171	OKI Microline 319 Turbo	122	Unknown
006813	OKI ML 391	197	Unknown
006848	COMPUTER EVO BLACK	2nd Floor, Councillor Kate	2nd Floor, Councillor Wogane (old office)
003713	Conference Imbuia table	4th Floor, bathroom	4th Floor, Conference room
004534	Minolco CSPPro photocopier	6th floor, GIS	126
004509	Minolta camera (Zoom)	610	1st floor
006337	Nokia 5110 cellular phone	7th floor, T. Pillay 1st floor	

4. Per the fixed asset register, a LG Computer (asset nr. 6840), purchased 30 September 2003, is located in room 514. Verification procedures revealed only an old Version model computer (asset nr. 4047) to be in this location.
5. It was also noted that fixed assets do not have a unique municipal identification number.
6. An Olivetti OFX 1000 fax machines (asset nr. 3102) was found lying in a steel cabinet. The fax machine was replaced but the old unused asset was not locked away in a storeroom. Also a Speedguard Device Truvelo 4 (no longer in use) was found to be dumped on the 3rd floor (Algoa House) with old files.
7. The Baretta 9mm Parabellum Pistol (asset nr. 6591) is not kept in a SABS approved safe.
8. The Ford Courier LDV 1997 White (P265) (asset nr. 6204) was not available for physical verifications. Officials of the municipality informed this office that the vehicle is being used in the Rietbron area. Information could however not be supplied on whether the asset was given to Rietbron or whether it is still the property of the municipality.
9. The verification of Nokia cellular phone NHE 8 (asset nr. 6132) revealed that the phone was broken beyond repair. The phone is however still reflected in the fixed asset register.
10. Certain fixed assets were replaced but the movement in locations were not updated to the fixed asset register.

Asset nr	Description		Asset nr	Description
Per FAR	per FAR	Location	per location	of asset in location
002207	Mecer P4 Computer	103	4519	Mecer computer
006159	FRIDGE Indesit	6th floor	5383	Not in fixed asset register
006842	LG Computer	6th floor	6848	LG Computer

**Root Cause:**

The above is as a result of inadequate policies and procedures regarding control over assets being in place.

***Risk:***

Controls over fixed assets are insufficient.

The risk of misappropriation of fixed assets is increased.

Without a unique municipal identification number, fixed assets are not easily identifiable.

The existence of fixed assets might be in question, resulting in the overstatement of fixed assets in the annual financial statements.

***Recommendation:***

An asset management policy should be implemented. The policy should make provision for the bar-coding of fixed assets and the allocation of unique municipal identification numbers. An inventory list should be drawn up for each room which should be compared to the location as per the fixed asset register on a regular basis. If staff resign / move offices a list should be provided to the Asset Management Section of all assets that are being moved to a new location.

***Management comment:***

An asset management policy is in place. The Department will endeavor to comply with the requirements of the policy and the policy will be circulated to all Departments.

**5. No stocktake performed (ex 35)**

***Audit Finding:***

Paragraph 8.1 (c) of Cacadu District Municipality's Asset Control Policy and Procedures states that the Department: Finance and Administration - Asset Control Section shall ensure that a complete verification of all inventory and asset items is done during the relevant financial year. It further states that the results of this verification must be reported to Council not later than 30 June of the applicable financial year.

Discussions with Senior Management revealed that the municipality did not comply with this policy as no stocktake was performed for the year under review. The results of the verification could therefore also not be reported to Council.

***Root Cause:***

The above is as a result of policies and procedures in place not being adhered to. The asset management clerk was only appointed in August 2004.

***Risk:***

The municipality is not complying with the Asset control policy and procedures.

Discrepancies between physical assets and recorded assets are not identified, followed up and corrected.

Obsolete/Redundant assets are not identified.

Misappropriation of assets might occur without being detected.

***Recommendation:***

A stocktake on fixed assets should be done at least annually and the results of the verification should be reported to Council

***Management comment:***

A stock take was performed. We did not however have sufficient resources to do the necessary adjustments and corrections required. Evidence of the stock take is available on the Main Frame.

## LONGTERM DEBTORS

### 1. Non-current loans: Agreements (ex 26)

#### **Audit Finding:**

Cacadu District Municipality have two long term loans receivable from St. Francis Bay and Paradise Beach respectively. Audit tests performed on these loans revealed the following:

1. The loan agreement with Paradise Beach could not be submitted for audit purposes;
2. The loan agreement with St. Francis Bay is in the name of The Western Region District Council and The St. Francis Bay Transitional Local Council.
3. The Western Regional District Council was subsequently changed to Cacadu District Municipality and The St. Francis Bay Transitional Local Council and Paradise Beach fall under Kouga Municipality, however no new loan agreements were entered into.
4. The loan repayments made by Kouga Municipality were not in terms of the loan repayment schedules for both St. Francis Bay and Paradise Beach.

Loan	Repayment schedule	Date of repayment	Amount
Paradise Beach	30/06/2003	03/07/2003	148 363.30
St. Francis Bay	31/12/2002	03/07/2003	12 040.10
St. Francis Bay	30/06/2003	03/07/2003	12 040.10
St. Francis Bay	31/12/2003	26/03/2004	12 040.10
St. Francis Bay	Prior year short payment	26/03/2004	12 308.24

5. No interest was charged on the above late payments even though the contractual agreement states that the municipality is entitled to charge interest at 20% on late payments.

#### **Root Cause:**

The above is as a result of no policies and procedures being in place to ensure that contractual agreements are updated and adhered to.

#### **Risk:**

The absence of proper contractual agreements might result in the municipality not being able to enforce performance of the Kouga Municipality's obligations, should any discrepancies arise. By not charging interest on the late payments, the municipality is forfeiting interest income.

#### **Recommendation:**

The municipality's legal team should draw up a contractual agreement with regards to the above loans with Kouga Municipality. Interest should be charged on all late/default repayments.

#### **Management comment:**

New loan agreements will be drawn up and interest will be charged on late payment.

### 2. No credit control policy for long term debtors (ex 28)

#### **Audit Finding:**

The audit of non-current loans receivable revealed that no credit control policy exists with regards to these loans. There is thus no credit control policy and procedure in place with regards to overdue repayments. Per discussion with management, the credit control policy is in place to give guidelines on the handing over for legal action. The credit policy was reviewed and it was



noted that the policy only related to the collection of revenue debtors and it does not cater for non-current loans receivable.

**Root Cause:**

The above is as a result of no credit control policy and procedures being in place over non-current loans receivable.

**Risk:**

No guidelines exist as to the treatment of long outstanding repayments and the collection thereof.

**Recommendation:**

A policy with regards to non-current loans receivable should be implemented, detailing the hand over for legal action and the write-off as doubtful debts.

**Management comment:**

The credit control policy will be amended to accommodate non-current loans.

## INVESTMENTS

### 1. Management review of reconciliations not evident (ex 8)

**Audit Finding:**

Test on the system verification of investments revealed that certain reconciliations are not reviewed on a monthly basis. Only the year-end reconciliation as at 30 June 2004 was signed as evidence of a review. The following reconciliations were inspected for the months of August 2003, December 2003 and March 2004 and no signature as evidence of the review was noted:

- Reconciliations between the investment register/schedule and the investment general ledger account;
- Reconciliations between the investment interest received and the general ledger; and
- Reconciliations between the ABSA call account bank statement and the call account general ledger account

It was also noted that the manual investment register is not reviewed by senior management.

**Root Cause:**

The above is as a result of the lack of a proper framework for reviewing investment reconciliations.

**Risk:**

The control weakness could result in discrepancies not being timeously detected, followed up and corrected.

**Recommendation:**

An independent senior official should review the above-mentioned reconciliations on a regular basis.

**Management comment:**

The recommendation of the Auditor-General has been noted and will be implemented immediately.

## 2. Bank account not disclosed in books of CDM (ex 10)

### **Audit Finding:**

Per inspection of a bank confirmation received from ABSA Bank, an amount of R45 904.57 were confirmed for account number: 16-4016-4561, but the balance could not be found in the books of the municipality.

Further investigation revealed that the account was used for Provident Fund payments. Estate late payments would be deposited into the account by the different institutions and the municipality would then make the payment to the respective beneficiaries. However, payments to beneficiaries were not always on the same date as deposits received. This resulted in interest being earned on the account, but the interest was never accrued for.

The review of the bank statements of the account, revealed that for the year under review, the only transactions that took place, were interest earned and bank charges. Per discussion with the Senior Clerk, it was noted that the account is no longer used for the provident fund payments and must be closed.

### **Root Cause:**

Management was under the impression that the balance does not belong to Cacadu District Municipality and therefor the balance was not disclosed in the financial records.

### **Risk:**

1. Interest received and investment balances might be understated.
2. Beneficiaries might have been paid out less than what they were entitled to, which could result in liabilities being understated.
3. Bank charges are also paid to maintain an account that is no longer in use.

### **Recommendation:**

Reconciliations should be performed on all the provident fund receipts and payments to beneficiaries to ensure that all beneficiaries were paid what they were entitled to and to identify the source of the balance.

If the balance is found to be as a result of interest due, the interest should be recognised.

The account should be closed as soon as possible to prevent further bank charges being incurred.

Based on the above, the following journal entry should be raised:

DR Provident Fund Bank account	45 904.57	
CR Interest earned OR Creditors (Beneficiary)		45 904.57

### **Management comment:**

The account is still in use and is reconciled. The current balance is as a result of interest that has accumulated over a number of years. Although interest is calculated and paid to the beneficiaries, the timing difference between the time of issuing and banking many results in additional interest. As it will difficult to determine the Municipalities liability to each beneficiary the amount will be transferred to interest earned.

## **BUDGET**

### **1. Overspending of line items not approved timeously (ex 5)**

***Audit Finding:***

The report indicating the overspending of budget line items for the 2003/4 financial year which is to be submitted to Council for approval, is currently (21 September 2004) being compiled by the relevant officials. The report is compiled approximately 3 months after year-end.

***Root Cause:***

The "over-expenditure per line item" report is generated on an annual basis.

***Risk:***

Council is not informed in the timely manner of over-expenditure resulting in late approval of such over-expenditure.

***Recommendation:***

Comparative figures, i.e. actual vs budgeted figures, should be submitted to Council on a regular basis, at least quarterly. This will enable council to consider the over-expenditure in a timely manner and to make appropriate decisions in this regard.

***Management comment:***

Monthly comparative statements are submitted to the Mayoral committee. These are however in a summarized format. An additional report has been implemented during the 2004/2005 financial year to reflect higher than expected expenditure. Over-expenditure on individual votes would therefore be minimized. Any virements required as a result of over-expenditure have to be initiated by the various Departments and submitted to the Mayoral Committee/Council for approval.

As an additional control a letter has been drafted to inform Departments of the Auditor-Generals concerns.

### **2. Monthly monitoring of expenditure (ex 6)**

***Audit Finding:***

The memorandum indicating excessive level (%) of spending issued on a monthly basis to the Deputy Directors currently only indicate the actual spending level. It may happen that a memorandum are issued in respect of expenditure that appears to be excessive, but it has been budgeted for in such a manner, e.g. insurance.

***Root Cause:***

The memorandum only takes the actual expenditure level into account.

***Risk:***

Memorandums may be issued to departments in respect of items that would have excessive spending e.g. insurance.

***Recommendation:***

Management should consider including the budgeted expenditure level (%) to enable the recipient of the memorandum to make a more meaningful interpretation.

***Management comment:***

The recommendation of the Auditor-General is noted and will be implemented. As the report is automatically generated by the financial system it will be possible to include an additional variable.

## **FINANCIAL STATEMENTS**

### **1. No resolution for change in accounting policies (ex 34)**

***Audit Finding:***

Discussions with senior management revealed that there was no Council resolution to change the fixed assets accounting policies to conform to GAMAP 17. Discussions revealed that the new accounting policies would be approved concurrently with the approval of the annual financial statements.

***Root Cause:***

The draft accounting policies were not submitted to council for their approval.

***Risk:***

If the accounting policies are not approved by Council then council will in most probability not approve the annual financial statements.

***Recommendation:***

Council should approve all changes in accounting policies.

***Management comment:***

Recommendation accepted. Due to the time frame available, the accounting policies will be approved with the Financial Statements.

### **2. Performance bonuses not disclosed in the annual financial statements**

***Audit finding:***

The performance bonuses of the municipal manager and directors have not been disclosed in note 20 "Employee related costs" to the financial statements. This is in contradiction with the specimen municipal financial statements that required such disclosure to be made.

***Root cause:***

Management did not want the disclosure to be made.

***Risk:***

Non-compliance with National Treasury requirements.

***Recommendation:***

The performance bonuses should be disclosed as per the specimen municipal financial statements.

***Management comment:***