



AUDITOR - GENERAL
SOUTH AFRICA

The Municipal Manager
Tokologo Local Municipality
Private Bag X46
Boshof
8340

11 February 2010

Reference: **Communication No .C12 of 2010**

Dear Adv. Mofokeng

Communication of audit findings from the regularity audit of the Tokologo Local Municipality for the year ended 30 June 2010 (ex.9,10,11,12,17,47,88,89,92,111,115,123,133,134,135,151,154,158,159,160,161,168,177, 178,180 and 182)

1. In performing the audit, the matters detailed in the annexure came to our attention.

Required

2. You are requested to indicate your agreement with the facts stated in these findings. Should you disagree with the findings, provide documentary evidence to the contrary for each finding.
3. All comments/evidence should be provided to us within 5 working days of the date of this letter.

Yours sincerely

W.H. Strauss
Manager - Gobodo Incorporated

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Acknowledgement of receipt by management:

Received by

Date

DETAILED AUDIT FINDINGS

Employee costs

1. C12 Employee cost: No rental agreements for rental deductions from salaries (Ex.47)

Audit Finding

Section 62(1)(b) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003), states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

Contrary to above, through the inquiry from management it was confirmed that the municipality does not have lease contracts for the following municipal properties occupied by employees. Therefore, the accuracy of the following rentals paid for the financial year could not be verified against any agreements.

Name of employee	Employee number	ID number	Rent (R)
Tlhokwe C.	111	7310195433087	7,200.00
Human B.	113	5601255782088	2,064.00
Total			9,264.00

A similar matter was reported in the prior year's management report, Annexure B, paragraph 38, exception number 41.

Cause

Management of the municipality does not maintain proper records of the municipality's houses rented to employees.

Impact

Rent charge may not be in accordance with the rate as determined by council's/tariffs / losses for the municipality.

Non-existence of a valid agreement could result in disputes.

Internal control deficiency

Leadership

The accounting officer/authority does not evaluate whether management has implemented effective internal controls by gaining an understanding of how senior management has met its responsibilities.

Recommendation

Appropriate policies, procedures, techniques, and mechanisms should exist to ensure that valid rental agreements are entered into between the municipality and the lessees. The mentioned cases as well as possible other similar cases should be investigated and reported on.

Management response

Awaited.

2. C12 Employee Cost: Late submission of PAYE to SARS (Ex 92)

Audit Finding

In terms of schedule 4, paragraph 2(b), of the Income Tax Act, 1962, (Act no 58 of 1962), an employer has an obligation to withhold employees tax, and to submit the returns to the South African Revenue Services (SARS) within seven days of the end of the month for which the employee tax was withheld.

Contrary to the above regulation, the EMP201 return forms for the following months were not submitted within seven days of the end of the month to SARS:

Month	Due Date	Date Submitted	Amount
Sep-09	07/10/2009	08/10/2009	150,945.16
Dec-09	07/01/2010	13/01/2010	147,098.48

Cause

Lack of management controls over the submission of the Emp201 forms to SARS.

Impact

This may result in fruitless and wasteful expenditure in the form of penalties and interest levied by SARS for the late submission of employees' tax returns.

Internal control deficiency

Recommendation

Management should ensure that controls are implemented to ensure that PAYE payments are made within the specified time frame as determined by the Income Tax Act.

Management response

Awaited.

3. C12 Employee Costs: No authorisation by employees for deductions available (Ex 133).

Audit Finding

Section 34(1)(a) of the Basic Conditions of Employment Act, 1997 (Act No. 75 of 1997) states that an employer may not make any deduction from an employee's remuneration unless the employee in writing agrees to the deduction in respect of a debt specified in the agreement.

Contrary to the above mentioned requirement, through inspection of the employee files and pay slips, it was noted that no evidence could be provided regarding the employee authorization for deductions. The occurrence, accuracy and classification of these deductions as recorded in the salary system could not be ascertained.

A similar matter was reported in par 33 of the prior year management report , exception number 24.

NO	EMPLOYEE NO.	NAME	Level	CODE	DESCRIPTION	Annual Deduction
1	2	AC WESSELS	T12	2010	HOSMED Medicalfund	-12 994.40
2	6	MC JAPP	T7	2050	Stoporder Municipality	-2 800.00
3	12	YR VAN DER MERWE	T6	20	Keyhealth Medicalfund	-4 262.40
			T6	2050	Stoporder Municipality	-2 400.00
			T6	5030	KEYHEALTH EXCESS	-600.32
			T6	2010	HOSMED Medicalfund	-3 693.60
4	14	M MABOTE	T3	70	Sanlam	-265.73
			T3	80	CAP. ALLIANCE/LIB LIFE	-2 446.68
			T3	3030	METROPOLITAN BFN	-6 483.76
			T3	5010	THE BEST FUNERAL SCHEME	-441.6
			T3	8010	SANLAM SKY (AFR. LIFE)	-3 293.57
			T3	C080	NEW SOUTH AFRICAN ADMIN	-6 205.20
5	25	P LINKS	T3	2050	Stoporder Municipality	-1 200.00
			T3	5080	THE TOWN CLE	-360
			T3	A080	FNB MICRO FIN UNIT 1	-8 462.88
6	27	S MOCHWARO	T7	30	Medical Fund Bonitas	-10 914.40
			T7	80	CAP. ALLIANCE/LIB LIFE	-132
			T7	2040	Metropolitan Life	-474
			T7	2050	Stoporder Municipality	-480
			T7	6000	BONLIFE FUNERAL SCHEME	-331.56
			T7	7070	STANDARD BANK	-9 564.00
			T7	8000	LEGAL WISE	-840
			T7	A080	FNB MICRO FIN UNIT 1	-14 538.27
7	28	RW MOREMI	T7	30	Medical Fund Bonitas	-12 676.80
			T7	3030	METROPOLITAN BFN	-3 000.00
			T7	6000	BONLIFE FUNERAL SCHEME	-331.56
			T7	80	CAP. ALLIANCE/LIB LIFE	-540

8	31	PH BOQO	T3	70	Sanlam	-420
			T3	80	CAP. ALLIANCE/LIB LIFE	-975
			T3	2010	HOSMED MedicaFund	-4 220.80
			T3	2050	Stoporder Municipality	-670
			T3	6000	BONLIFE FUNERAL SCHEME	-331.56
			T3	A010	AVBOB	-3 207.15
			T3	A080	FNB MICRO FIN UNIT 1	-16 768.22
9	32	MA MLITI	T3	80	CAP. ALLIANCE/LIB LIFE	-564.8
			T3	2010	HOSMED MedicaFund	-3 234.80
			T3	2050	Stoporder Municipality	-760
			T3	4040	LETSATSI FINANCE AND LOAN	-324
			T3	6000	BONLIFE FUNERAL SCHEME	-221.04
			T3	A010	AVBOB	-1 547.00
			T3	A080	FNB MICRO FIN UNIT 1	-5 366.87
10	33	C SHOMOLEILE	T3	30	Medical Fund Bonitas	-4 374.40
			T3	70	Sanlam	-326.85
			T3	2050	Stoporder Municipality	-960
			T3	6000	BONLIFE FUNERAL SCHEME	-221.04
			T3	7020	DE VILLIERS & STENVERT	-2 800.00
			T3	8010	SANLAM SKY (AFR. LIFE)	-2 436.54
			T3	A010	AVBOB	-2 656.16
			T3	A080	FNB MICRO FIN UNIT 1	-5 433.52
			T3	H040	VAN HUYSSTEEN	-420

Cause

The management of the municipality does not maintain proper financial accounts and records of the municipality's operations.

Impact

- Incorrect deductions from employees' salaries may be made without an employees' authorisation leading to labour issues.
- Non-compliance to Section 34(1)(a) of the Basic Conditions of Employment Act.

Internal control deficiency

The accounting officer does not exercise oversight responsibility over employee cost and compliance with laws and regulations and internal control.

Recommendation

This matter should be investigated and reported on.

Management response

Awaited.

4. C12 Employee Costs: No supporting documentation could be obtained for allowances and subsidies.(Ex 134)

Audit Finding

According to section 62(1) of the MFMA states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—

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

On inspection of the personnel files of the following employees supporting documentation to substantiate the housing, travelling and telephone subsidies paid as indicated below could not be obtained. Therefore adequate audit assurance as to the occurrence and accuracy of the amounts paid according to the salary system and as disclosed in note 22 to the financial statements could not be obtained. The details of the loan amounts obtained from financial institutions could also not be provided for audit purposes to verify the accuracy of the subsidies on housing.

NO	EMP NO.	NAME	DESCR	2009/07	2009/08	2009/09	2009/10	2009/11	2009/12	2010/01	2010/02	2010/03	2010/04	2010/05	2010/06	Grand total
1	0002	AC WESSELS	Housing: Subsidy	583.00	789.00	789.00	533.30	533.30	533.30	533.30	533.30	533.30	494.00	494.00	494.00	6,842.80
			Travelling Allowance	7,522.50	8,049.50	8,049.50	8,049.50	8,049.50	8,049.50	8,049.50	8,049.50	8,049.50	8,049.50	8,049.50	8,049.50	96,067.00
			Telephone Allowance	300.00	300.00	300.00	300.00	300.00	300.00	300.00	300.00	300.00	300.00	300.00	300.00	3,600.00
			Allowance	4,180.03	4,180.03	4,180.03	4,180.03	4,180.03	4,180.03	4,180.03	4,180.03	4,180.03	4,180.03	4,180.03	4,180.03	50,160.36
2	0006	MC JAPP	Allowance	3,000.00	3,000.00	3,000.00	3,000.00	3,000.00	3,000.00	3,000.00	3,000.00	3,000.00	3,000.00	3,000.00	3,000.00	36,000.00
3	0025	P LINKS	Housing: Subsidy	399.00	399.00	399.00	310.10	310.10	310.10	310.10	310.10	310.10	287.25	287.25	287.25	3,919.35
			Allowance Uniform	49.53	49.53	49.53	49.53	49.53	49.53	49.53	49.53	49.53	49.53	49.53	49.53	594.36

197,183.87

Cause

Management does not maintain documents to ensure accurate financial information are kept throughout the year

Impact

- a) Employees may receive a subsidy for which they are not entitled to.
- b) Limitation on the scope of the audit, therefore adequate audit assurance as to the occurrence and accuracy of the amounts paid according to the salary system and as disclosed in note 22 to the financial statements can not be obtained.

Internal control deficiency

The accounting officer does not exercise oversight responsibility over employee cost and compliance with laws and regulations and internal control.

Recommendation

Supporting documentation for the mentioned cases should be submitted for audit purposes. Management should also ensure that controls are implemented to ensure that documentation is available and filed to support the accuracy of all type of allowances and subsidies.

Management response

Awaited.

Heading 1

5. C12 Procurement and contract management: Appointment of Head of Supply Chain Management.(Ex.88)

Audit Finding

Section 119 (1) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA), states that the accounting officer and all other officials of a municipality or municipal entity involved in the implementation of the supply chain management policy of the municipality or municipal entity must meet the prescribed competency levels.

Municipal regulations on minimum competency levels (reg 11) states that for a Municipality with budget below R 500 million/ municipal entities of the municipality the head of Supply Chain Management must have the following work experience:

- minimum 4 years work related experience, of which 1 year is at middle management level and 3 years at any level in a role related to the position of the official; or 6 years at any level in a role related to the position of the official.

Contrary to the above it was noted that the Head of Supply Chain Management does not have sufficient work experience. She was appointed as an intern on 1 April 2007 for a period of two years; thereafter she assisted the supply chain management officer and was appointed as Head of Supply Chain Management during February 2010.

Cause

The matter occurred due to failure by management to ensure that new appointments comply with the minimum competency levels as required.

Impact

Non-compliance with requirements of the MFMA.

Internal control deficiency

Leadership:

The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

The matter should be reported on.

Management response

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

6. C12 Financial Statements: Commitments not disclosed in line with specimen financial statements. (Ex.124)

Audit Finding

The specimen financial statement for municipalities requires that details of commitments should be disclosed as follows:

CAPITAL COMMITMENTS		
	2009/2010	2008/2009
	R'000	R'000
Commitments in respect of capital expenditure		
Approved and contracted for	-	-
Infrastructure		
Community		
Heritage		
Other		
Approved but not yet contracted for	-	-
Infrastructure		
Community		
Heritage		
Other		
Total	-	-
This expenditure will be financed from:		
- External Loans		
- Government Grants		
- Own resources		
- District Council Grants		
	-	-

Contrary to the above mentioned requirement, commitments as disclosed in note 32 to the financial statements were not disclosed in line with the specimen financial statements.

Cause

The matter occurred due to the financial statements not being adequately reviewed before submitted.

Impact

The impact on the municipality and the financial statements is that without the necessary general information, users of the financial statements may not be aware of specific circumstances or situations in which the municipality is placed.

Internal control deficiency

Financial and performance management:

The financial statements and other information to be included in the annual report are not reviewed for completeness and accuracy prior to submission for audit.

Recommendation

Management should ensure that the financial statements submitted are in line with the specimen financial statements for municipalities.

Management response

The note was prepared in so far as information was available. The information regarding, whether it is contracted for or not, was not readily available. In future this information will be sought from the relevant department in more detail. The other details were specified; except that where it has PPE it will be changed to Infrastructure Assets.

Heading 4

7. C12 Municipal Infrastructure Grant: Projects not included in IDP (Ex.115)

Audit Finding

The Division of Revenue Act, 2009 (Act No 12 of 2009) states that municipalities should satisfy the below mentioned conditions to ensure that MIG infrastructure projects are properly planned prior to approval and construction thereof:

- Prioritisation of infrastructure projects on the basis of local and provincial priorities;
- The timing and completion dates of the MIG projects;
- Project specification and feasibility studies of MIG projects;

In contradiction to the above, the municipality's IDP does not include the required information. This constitute none compliance to the aforementioned DORA requirements.

Cause

The matter occurred due to the MIG projects not being properly planned prior to the approval and construction thereof.

Impact

Non-compliance with laws and regulations may result in ineffective internal and external communication and reporting channels

Internal control deficiency

Financial and performance management

Pertinent information is not identified and captured in a form and time frame to support financial and performance reporting.

Recommendation

Management should ensure that projects are properly planned prior to the approval and construction of projects.

Management response

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

8. C12 Municipal Infrastructure Grant: Reason for under spending on project not available (Ex.168)

Audit Finding

Section 62(1)(b) of the MFMA requires that the accounting officer of a municipality is responsible for the managing of 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.

Contrary to the above the reasons for the following under spending that occurred on the Upgrading of the water network in Hertzogville (Phase 2), could not be provided:

MIG Ref	Project	Budgeted expenditure for project	Actual expenditure for project	Difference	% Difference
MIG/FS0648/W/09/10	Upgrading of waternetwork - Hertzogville (Phase 2)	6,823,140.00	5,261,015.12	1,562,124.88	22.89%

Cause

The matter occurred due to the fact that management did not implement measures to ensure that project values are accurate before registered and budgeted.

Impact

Approved and funded MIG projects were not executed according to the approved plans.

Internal control deficiency

Leadership

The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Reasons for the under spending on this project should be obtained and submitted for audit purposes. The utilization of the funds should also be indicated in the response.

Management response

The project is not yet completed, thus there is current no under expenditure. The income and expenditure for all the projects were submitted for audit. Some of the findings were raised using the information submitted including the abovementioned project.

Management therefore does not agree with the finding and request for submission of information, as it was previously submitted for audit.

Leases

9. C12 Long term liabilities - Leases: Incorrect restated balance disclosed for finance leases for 2009 (Ex.111)

Audit Finding

Section 62(1)(c)(i) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

1. In accordance with section 122(3) of the Municipal Finance Management Act (Act No. 56 of 2003), the municipality has adopted the standards of GRAP issued by the Accounting Standards Board for the year under review. Comparative amounts have accordingly be restated retrospectively to the extent possible. The following differences relating to the restatement of finance leases on 30 June 2009 were identified:

Calculation by auditors

	30-Jun-09
Gestetner finance lease	193,919.20
Sharp finance lease	341,109.07
Minolta finance lease	146,440.06
Calculated amount on 30 June	681,468.32
Restated amount in the AFS	675,266
Difference	6,202.32

The effect of above mentioned, is the possible understatement of finance lease liabilities and the overstatement of property, plant and equipment by an amount of R 6 202.32 for the year ended 30 June 2009.

2. The register of long-term liabilities was maintained in an electronic format and as a result no proof could have been obtained that this register was updated and internally reviewed on a timely basis.

Cause

The financial statements were not adequately reviewed before being submitted.

Impact

Understatement of finance lease liabilities and the overstatement of property, plant and equipment by an amount of R 6 202.32.

Internal control deficiency

Financial and performance management (Quality, reliable monthly financial statements and management information).

The financial statements and other information to be included in the annual report are not reviewed for completeness and accuracy prior to submission for audit purposes.

Recommendation

The difference should be investigated and reported on.

Management response

Management would appreciate that the auditors submit their calculation to be compared to the one submitted for audit.

Furthermore management points out that the difference is immaterial and probably relates to the timing of installments. The understanding with the audit team was that this will be ignored as it was not material.

Operating expenditure

10. C12 Expenditure: Deviations from Supply Chain management Policy (Ex.9).

Audit Finding

Requirement 1

In accordance with section 3.4.2 of the Supply Chain Management Policy of the municipality the CFO shall after he has registered a prospective service provider in the register, supply that service provider with a reference number

In accordance with section 3.4.3 of the Supply Chain Management Policy of the municipality the register shall be compiled per type of service, including consultants

Requirement 2

In accordance with section 3.6.1 of the Supply Chain Management Policy of the municipality, invitations to submit quotations for the goods, work or services concerned are limited to their service provider whose names are included in the relevant lists in the register, unless otherwise directed by the municipal manager.

Requirement 3

The requirements of section 6.6.3 of the supply chain management policy of Tokologo local municipality stipulate that the quotations shall be accepted by means of a letter of acceptance or the issue of an official order.

Requirement 4

In accordance with section 8.2.1 of the Supply Chain Management Policy of the municipality, the date, time and venue for meetings of each bid committee shall be included in a programme schedule for the year concerned, to be compiled by the Committee Services and submitted to the Bid Adjudication Committee for approval.

Requirement 5

In accordance with section 3.2.2 of the Supply Chain Management Policy of the municipality, The CFO shall make appropriate arrangements to ensure as far as is reasonably possible that: 3.2.2.1 the Register is updated at least quarterly.

1. Contrary to requirement 1 above the following shortcomings were noted on the service provider register:

- no reference numbers were allocated to the service providers
- the supplier/service provider register is not categorised between commodity and type of service ; the register provided displays only the name of suppliers/service providers.

A similar matter was reported in the prior year management report, paragraph 66, Annexure B, exception number 32.

2. Contrary to requirement 2 above, the following suppliers, not on the service provider register supplied by the supply chain officer, were awarded business:

Doc No.	Supplier	Description	Invoice Amount (R)	Payment date
11020224	Classic Blinds	Blinds	17 520.00	14/12/2009
11020394	MNA Consulting	Drafting and preparation of financial statements: 30/06/2009	101 944.50	No cheque
11020736	Basadi Direlanang	Catering	9 840.00	24/03/2010

	Multi-purpose			
11019730	Kurare John	Catering	10 000.00	16/09/2009
11019771	MNA Consulting	Drafting of the financial manual	150 650.00	29/09/2009
11019356	Re - Adira Services	Compilation and development: Draft of SDBIP	155 880.00	13/07/2009
11019354	Shadow Moon Trading	Review and Development of Budget and Accounting Policies	167 600.00	07/07/2009
11020226	KTP Management Consultancy	Compilation: Internal Control Procedure Manual	170 000.00	14/12/2009
11019422	Mamello Trading 774	Binding of IDP documents	171 020.35	31/07/2009
11019520	M.G.Trading	Catering: Mandela Day Lunch	10 000.00	03/08/2009
11020271	Shivaco	Wall calendars	35 000.00	28/12/2009
11020839	Tutubuloha Trading	Research and formulation: Tokologo Induction Booklet	64 923.00	01/04/2010
11019439	Matsapa Trading 506	Rendering of Conflict Management Skills Development	57 000.00	30/07/2009

R1 121 377.85

A similar matter was reported in the prior year management report, paragraph 69, Annexure B, exception number 9.

3. Contrary to requirement 3 above, for the following expenses paid during the financial year, the order forms were not attached to the expenditure vouchers and could not be submitted for review when requested:

Doc No	Supplier	Description	Invoice Amount (R)	Invoice date	Payment date
11020251	Intercom and Alarm Installation	Installation of alarms	79 231.85	No date	15/12/2009
11019902	Vermeleuns Build It	Building Material	Unknown amt	Multiple	14/10/2009
11019759	Intercom and Alarm Installation	Installation of alarms	93 343.59	12/09/2009	23/09/2009
11019420	Vermeleuns Build It	Building Material	Unknown amt	28/07/2009	27/07/2009
11019717	Gestetner	Photocopy machines and printers	46 997.73	02/09/2009	14/09/2009
11020275	J.Botha Electric Bk.	Repairs: Water and Electricity	35 948.21	02/10/2009	23/12/2009
11019790	J.Botha Electric Bk.	Repairs: Water and Electricity	32 254.35	02/10/2009	02/10/2009
11019790	J.Botha Electric Bk.	Repairs: Water and Electricity	23 829.19	02/10/2009	02/10/2009
11019413	Modisanyane Property Consultants	Valuation roll: Object process and completion	228 000.00	01/07/2009	22/07/2009
11020394	MNA Consulting	Drafting and preparation of financial statements: 30/06/2009	101 944.50	27/01/2010	No cheque
11019762	Follow the star trading	Catering	4 550.00	14/06/2009	23/09/2009
11019871	Follow the star trading	Catering	5 600.00	24&25/09/2009	07/10/2009
11020895	Gestetner	Photocopiers: Rentals	7 142.81	31/03/2010	No cheque
11020386	Gestetner	Repairs and Maintenance: Printing	7 734.72	Multiple	26/01/2010
11020736	Basadi Direlanang	Catering	9 840.00	19/03/2010	24/03/2010

	Multi-purpose				
11019730	Kurare John	Catering	10 000.00	No date	16/09/2009
11019520	M.G.Trading	Catering: Mandela Day Lunch	10 000.00	20/07/2009	03/08/2009
11020839	Tutubuloha Trading	Research and formulation: Tokologo Induction Booklet	64 923.00	26/02/2010	01/04/2010
11019439	Matsapa Trading 506	Rendering of Conflict Management Skills Development	57 000.00	02/07/2009	30/07/2009
11019771	MNA Consulting	Drafting of the financial manual	150 650.00	28/09/2009	29/09/2009
11019356	Re - Adira Services	Compilation and development: Draft of SDBIP	155 880.00	07/07/2009	13/07/2009
11019354	Shadow Moon Trading	Review and Development of Budget and Accounting Policies	167 600.00	No date	07/07/2009
11020226	KTP Management Consultancy	Compilation: Internal Control Procedure Manual	170 000.00	08/12/2009	14/12/2009
11019422	Mamello Trading 774	Binding of IDP documents	171 020.35	No date	31/07/2009
11021335	Nalana Incorporated	Capacity building(Financial Management)	461 678.20	26/03/2010	30/06/2010

2 095 168.50

4. Contrary to the requirement 4 above, no programme schedule could be submitted as a proof that the date, time and venue for each bid committee meeting was included in a programme schedule for the 2009/10 financial year.
5. Contrary to requirement 5 above, proof that the list of prospective providers were updated at least quarterly could not be obtained.

Cause

Lack of management controls to ensure adherence to requirements of supply chain management policy when procuring goods and services.

Impact

The following risks were identified

- Fraudulent purchases could be made as a result of order forms not being used.
- No reference numbers assigned to assure that a bidder is really a registered service provider.
- Non compliance with the supply chain management policy of the municipality might result in irregular expenditure being incurred.

Internal control deficiency

Leadership

The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

1. The register should be updated and be compiled per commodity and type of service and reference numbers should be supplied to all service providers.

2. The supply chain unit should ensure that quotations are requested from the suppliers/service providers whose names appear in the database.
3. Acceptance letter/ orders should be issued for all goods and services procured by the municipality.
4. The date, time and venue for meetings of each bid committee should be included in a programme schedule for the year concerned. This schedule should be compiled by Committee Services and submitted to the Bid Adjudication Committee for approval.
5. The list of prospective providers should be updated quarterly.

Management response

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

11. C12 Expenditure: Discrepancies identified regarding expenditure (EX.10)

Audit Finding

Section 65 (2) of the MFMA, 2003 (Act No. 56 of 2003) states that the accounting officer of a municipality is responsible for the management of the expenditure of the municipality and must take all reasonable steps to ensure—

- (a) that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds;
- (b) that the municipality has and maintains a management, accounting and information system which—
 - (i) recognises expenditure when it is incurred;
 - (ii) accounts for creditors of the municipality; and
 - (iii) accounts for payments made by the municipality;
- (c) that the municipality has and maintains a system of internal control in respect of creditors and payments;"

The following discrepancies were identified relating to expenditure due to lack of internal controls:

1. Amount per quotation differs with the amount as per invoice and cheque.

Doc No.	Supplier	Description	VAT No.	Payment date	GL Amount (R)	Invoice amount (R)	Quotation amount (R)	Diff (R)
11019356	Re - Adira Services	Compilation and development: Draft of SDBIP	None	14/07/2009	155 880.00	155 880.00	154 880.00	1 000.00
					155 880.00	155 880.00	154 880.00	1 000.00

2. Amount paid as per cheque could not be traced to the invoice/s as a reconciliation of which invoices are paid together was not attached to the payment.

Doc No.	Supplier	Description	VAT No	GL Amount (R)	Invoice Amount	Invoice date	Payment date
11019902	Vermuelens Build It	Building Material	4780121457	33 011.80	Unknown	Multiple	22/10/2009
11019420	Vermeulens Build It	Building Material	4780121457	42 146.91	Unknown	28/07/2009	29/07/2009
11020341	Auditor-General	Audit Fees	4820113563	64 563.87	Unknown	Multiple	14/01/2010
11021336	Eskom Holding Limited	Bulk electricity and water electricity	4740101508	660 405.12	Unknown	Multiple	17/07/2010
11019719	Eskom Holding Limited	Bulk electricity and water electricity	4740101508	643 983.20	Unknown	Multiple	16/09/2009
				1 444 110.90			

3. The amount as per the cheque that was issued and the travel claim differ from the amount recorded on the General ledger.

Doc No	Supplier	Description	Vat No	Invoice date	Payment date	GL Amount (R)	Claim and Paid Amount (R)	Difference (R)
11020379	Nkwadipo MJ	Travelling expenses	None	No date	25/01/2010	6 640.00	4 114.61	2 525.39
						6 640.00	4 114.61	2 525.39

4. Castings on the invoice relating to Vat were found to be incorrect thus overstating input VAT.

Doc No.	Supplier	Descr.	VAT No.	GL Amount (R)	Amount on invoice (excl. vat) (R)	Vat on invoice (R)	Recalc vat (R)	Vat Diff (R)	Payment date
11019759	Intercom and Alarm Installation	Installation of Alarms	4150181990	80275.4	80 275.49	13 068.10	11 238.57	-1 829.53	23/9/2009
						13 068.10	11 238.57	-1 829.53	

5. Differences noted between amongst recorded in the GL and the invoices.

Doc No.	Supplier	Description	VAT No.	GL Amount (R)	Amount on invoice (excl. vat) (R)	Expense Diff (R)	Invoice Amount (R)	Vat recorded on GL (R)	Vat that should be recorded (R)	Vat Diff (R)	Payment date
11020328	Boshof Winskoop Winkel	Office expenses	4640177376	10 858.20	9 524.74	-1 333.46	10 858.20	0.00	1 333.46	1 333.46	11/01/2010
19000480	Sebata Municipal Solution	Investigation of duplicate payments	4260149234	27 877.19	34 780.00	6 902.81	39 649.29	8 772.01	4 869.20	-3 902.81	25/11/2009
				38 735.39	44 304.74	5 569.35		8 772.01	6 202.66	-2 569.35	

Cause

Actions are not taken to address risks relating to the achievement of complete and accurate financial and performance reporting.

Impact

1. Possible irregular expenditure due to the fact that the SCM processes were not complied with.
2. Limitation of scope as the amount paid could not be traced to the invoices.
3. The general ledger account relating to subsistence and travel is overstated by R2 525.39.
4. Input VAT is overstated by R1 829.53.
5. Expenditure is understated by R5 569.35 and vat input overstated by R 2 569.35.

Internal control deficiency**Leadership**

The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

- Officials must ensure that all supporting documentation agrees to the invoice before payments are made.
- Management must take reasonable care in the identification of invoices being paid.
- Officials must also ensure the accuracy of invoices and transactions recorded in the general ledger.

Management response

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

12. C12 Expenditure: RE-ISSUED Invoices not certified for receipting of goods and services.(EX.11)

Audit Finding

Section 65 (2) of the MFMA, 2003 (Act No. 56 of 2003) states that the accounting officer of a municipality is responsible for the management of the expenditure of the municipality and must take all reasonable steps to ensure—

- (a) that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds;
- (b) that the municipality has and maintains a management, accounting and information system which—
 - (i) recognises expenditure when it is incurred;
 - (ii) accounts for creditors of the municipality; and
 - (iii) accounts for payments made by the municipality;
- (c) that the municipality has and maintains a system of internal control in respect of creditors and payments;"

Contrary to the stipulations of the aforementioned requirement, the municipality did not prepare goods received notes as acknowledgement that correct quantities of goods and services have been received in a satisfactory condition. By enquiry from management, it was revealed that a supplier invoice is signed as alternative method to acknowledge receipt of goods or the delivering of services. It was however noted that this control measure was not functioning as the following supplier invoices were not signed to confirm receipt of goods in a good order / services were satisfactorily delivered;

Doc No.	Supplier	Description	Invoice Amount (R)	Invoice date (R)	Payment date (R)
11020251	Intercom and Alarm Installation	Installation of alarms	79 231.85	No date	15/12/2009
11020224	Classic Blinds	Blinds	17 520.00	14/12/2009	14/12/2009
11019917	Suidwes	Fuel repair on water network and material	5 921.91	Multiple	20/10/2009
11019902	Vermeleuns Build It	Building Material	Unknown amount	Multiple	14/10/2009
11019759	Intercom and Alarm Installation	Installation of alarms	93 343.59	12/09/2009	23/09/2009
11019712	Vermeleuns Build It	Building Material	13 149.40	18/09/2009	14/09/2009
11019420	Vermeleuns Build It	Building Material	Unknown amount	28/07/2009	27/07/2009
11019717	Gestetner	Photocopy machines and printers	46 997.73	02/09/2009	14/09/2009
11020361	Dr Lawnmower Trust	Brush Cutter	15 597.01	15/01/2010	15/01/2010
11020390	J.Botha Electric Bk.	Repairs: Water and Electricity	98 328.11	Multiple	27/01/2010
11020200	Inclendon	Cascade Full Clamp	16 776.35	03/12/2009	11/12/2009
11020726	J.Botha Electric Bk.	Repairs: Water and Electricity	45 006.58	08/03/2010	19/03/2010
11019579	Tihatlogang Construction	Electricity material	289 113.12	20/08/2009	25/08/2009
11019790	J.Botha Electric Bk.	Repairs: Water and Electricity	23 829.19	02/10/2009	02/10/2009
11019612	A.Nieuwenhuizen	Repairs and Maintenance: Municipal Vehicles	7 294.91	Multiple	01/09/2009
11020023	A.Nieuwenhuizen	Repairs and Maintenance: Municipal Vehicles	51 962.21	Multiple	12/11/2009
11020161	Alitiaan Motors	Repairs and Maintenance: Municipal Vehicle	49 876.85	02/12/2009	02/12/2009
11019517	Lethargic Investments	Tyres for municipal vehicles	13 440.33	03/08/2009	03/08/2009

11020888	C & F Pumps Services	Repair mincer sewer pump station	38 932.37	16/03/2010	20/04/2010
11019517	Lethargic Investments	Tyres for municipal vehicles	102 329.17	03/08/2009	03/08/2009
11019374	Alexander Forbes Risk	Renewal of short term insurance for period 01/07/2009 - 30/06/2010	292 271.00	02&07/07/2009	14/07/2009
11020823	Selelane DPP	Legal fees	12 150.00	No date	31/03/2010
11019408	Podbielski Mhlambi Inc.	Legal fees	152 725.72	11/01/2006	22/07/2009
11019611	Bendel Drukkery	Printing	8 084.03	Multiple	01/09/2009
11019521	Re - Adira Services	Compilation & Development: Performance Management System	178 411.00	30/07/2009	03/08/2009
11019783	FSPG: Dept.Premier	Inspection of valuation roll and lodging of objections	6 901.84	No date	01/10/2009
11020341	Auditor-General	Audit Fees	Unknown amount	Multiple	13/01/2010
11021337	Sebata Municipal Solution	Backup of all data on FMS Server and re-installing the operating system	179 292.87	Multiple	No cheque
11020919	Sebata Municipal Solution	Financial year-end assistance:Ledger 2009/2010	23 146.56	23/04/2010	03/05/2010
11020890	Sebata Municipal Solution	Investigating possible duplicated transactions not merged	2 999.99	13/11/2009	20/04/2010
11019564	Sebata Municipal Solution	Financial year-end assistance:Ledger 2009/2010	16 460.46	31/07/2009	18/08/2009
11020357	Suidwes	Fuel repair on water network and material	4 841.72	Multiple	15/01/2010
11021322	Auto Sentrum	Fuel	4 352.36	Multiple	30/06/2010
11019762	Follow the star trading	Catering	4 550.00	14/06/2009	23/09/2009
11020806	Die Groentemandjie	Entertainment office expenses and admin costs	4 582.60	Multiple	31/03/2010
11019935	Mphosi Pheello	ID photos	4 880.00	04/09/2009	27/10/2009
11019568	South African Post Office	Postage	5 027.00	26/08/2009	18/08/2009
11019871	Follow the star trading	Catering	5 600.00	24&25/09/2009	07/10/2009
11021177	South African Post Office	Telephone	5 722.38	16/05/2010	09/06/2010
11020155	P & A Motors	Diesel	6 249.17	Multiple	01/12/2009
11020895	Gestetner	Photocopiers: Rentals	7 142.81	31/03/2010	No cheque
11020340	Auto Sentrum	Fuel	6 569.99	Multiple	12/01/2010
11020806	Die Groentemandjie	Entertainment office expenses and admin costs	6 651.30	Multiple	31/03/2010
11021311	Bendel Dukkery	Printing	7 729.20	26/05/2010	30/06/2010
11020386	Gestetner	Repairs and Maintenance: Printing	7 734.72	Multiple	26/01/2010
11020889	Freepak	Refuse bags	8 174.51	26/01/2010	No cheque
11020866	Aqua Agri Solution	HTH Chips 25kg	8 244.94	08/02/2010	12/04/2010
11020500	FS Prov Government	Renewal of vehicle licences	7 530.00	12/02/2010	02/02/2010
11020806	Die Groentemandjie	Entertainment office expenses and admin costs	7 965.00	Multiple	31/03/2010
11019723	Sebata Municipal Solution	Training: Debtors Advance	9 405.00	08/09/2009	16/09/2009
11020033	Sowetan	Adverts	9 667.20	31/10/2009	12/11/2009
11020175	Sowetan	Adverts	9 667.20	02/11/2009	03/12/2009
11020035	Media 24	Adverts	10 314.15	27/10/2009	12/11/2009
11019794	Tact Business Dev and Management	300 Africa City Mayors Conference	11 056.86	25/09/2009	05/10/2009
11019731	De La Casa Trading 519	Catering	10 000.00	18/07/2009	No cheque
11019730	Kurare John	Catering	10 000.00	No date	16/09/2009

11019520	M.G.Trading	Catering: Mandela Day Lunch	10 000.00	20/07/2009	03/08/2009
11020328	Boshof Winkoop	Office expenses	11 644.20	Multiple	11/01/2010
11020195	Media 24	Adverts	15 138.29	Multiple	10/12/2009
11019921	Media 24	Adverts	15 399.44	26/06/2009	20/10/2009
11020337	CUT FS	Bursary	14 410.00	No date	12/01/2010
11021036	J.Bassi Helicopters	Aerial game counts	17 556.00	16/05/2010	20/05/2010
11020551	Media 24	Adverts	17 999.10	29/01/2010	17/02/2010
11020704	DMI Logistix	Supply and delivery of stationery	29 486.39	15/03/2010	16/03/2010
11020540	Sebata Municipal Solution	Financial year-end assistance:Financial Statements 2009/2010	31 213.20	23/12/2009	12/02/2010
11020213	Seretse Funerals	Funeral Service	31 715.01	11/12/2009	14/12/2009
11020271	Shivaco	Wall calendars	35 000.00	No date	28/12/2009
11019439	Matsapa Trading 506	Rendering of Conflict Management Skills Development	57 000.00	02/07/2009	30/07/2009
11019687	Re - Adira Services	Compilation and development: 100 day Mayoral Programme	88 971.00	31/08/2009	03/09/2009
11021338	Development Bank of Sourhern Africa	MFMP presented by DBSA in collaboration with National Treasury	123 120.00	21/05/2010	30/06/2010
11019356	Re - Adira Services	Compilation and development: Draft of SDBIP	155 880.00	07/07/2009	13/07/2009
11019354	Shadow Moon Trading	Review and Development of Budget and Accounting Policies	167 600.00	No date	07/07/2009
11020226	KTP Management Consultancy	Compilation: Internal Control Procedure Manaual	170 000.00	08/12/2009	14/12/2009
11019422	Mamello Trading 774	Binding of IDP documents	171 020.35	No date	31/07/2009
11020057	Die Groentemandjie	Entertainment office expenses and admin costs	3 390.00	Multiple	18/11/2009
11019675	Die Groentemandjie	Entertainment office expenses and admin costs	2 670.40	Multiple	02/09/2009
11021336	Eskom Holding Limited	Bulk electricity and water electricity	e9	Multiple	30/06/2010
11021210	Eskom Holding Limited	Bulk electricity and water electricity	562 633.55	Multiple	15/06/2010
11020978	Eskom Holding Limited	Bulk electricity and water electricity	535 745.28	Multiple	05/05/2010
11020878	Actaris	Electricity cards	17 100.00	12/04/2010	15/04/2010
11020845	Eskom Holding Limited	Bulk electricity and water electricity	456 818.52	Multiple	08/04/2010
11020845	Eskom Holding Limited	Bulk electricity and water electricity	90 860.34	Multiple	08/04/2010
11020845	Eskom Holding Limited	Bulk electricity and water electricity	100 594.66	Multiple	08/04/2010
11020605	Eskom Holding Limited	Bulk electricity and water electricity	475 937.35	Multiple	03/03/2010
11020369	Eskom Holding Limited	Bulk electricity and water electricity	1 108 132.55	Multiple	20/01/2010
11020201	Eskom Holding Limited	Bulk electricity and water electricity	190 270.26	Multiple	10/12/2009
11020072	Eskom Holding Limited	Bulk electricity and water electricity	190 270.26	Multiple	25/11/2009
11019877	Eskom Holding Limited	Bulk electricity and water electricity	653 925.06	Multiple	07/10/2009
11019719	Eskom Holding Limited	Bulk electricity and water electricity	e9	Multiple	09/09/2009
11020979	N.G.Collett	Water and electricity charges	25 492.68	30/04/2010	05/05/2010
11020879	N.G.Collett	Water and electricity charges	16 208.50	31/03/2010	15/04/2010
11020618	N.G.Collett	Water and electricity charges	18 116.82	01/03/2010	03/03/2010

11020369	Eskom Holding Limited	Bulk electricity and water electricity	56 758.56	Multiple	20/01/2010
11020280	N.G.Collett	Water and electricity charges	14 609.86	03/01/2010	05/01/2010
11020173	N.G.Collett	Water and electricity charges	15 406.02	30/11/2009	03/12/2009
11019873	N.G.Collett	Water and electricity charges	14 593.87	31/09/2009	07/10/2009
11019685	N.G.Collett	Water and electricity charges	24 040.74	31/08/2009	03/09/2009
11019584	Dept of Land Affairs	Registrar of deeds	441.17	31/07/2009	25/08/2009
11019513	N.G.Collett	Water and electricity charges	15 094.46	31/07/2009	03/08/2009
11019431	Dept of Water Affairs and Forestry	Water levy	74.98	05/06/2009	29/07/2009
11020078	SALGA	Annual membership levy	100 000.00	01/04/2009	25/11/2009
11019709	Precision Hydraulics	Repairs on CAT	108 237.30	31/08/2009	09/09/2009
11020153	MNA Consulting	Financial administration	98 610.00	25/11/2009	01/12/2009
11020625	KTP Management Consultancy	Compilation: Mid-year budget and performance assessment report	79 999.00	27/01/2010	03/03/2010
11020818	South African Post Office	Postage	483.13	15/03/2010	31/03/2010
11020875	A.Nieuwenhuizen	Repairs and Maintenance: Municipal Vehicles	27 471.43	Multiple	15/04/2010
11020329	Shivaco Construction	Wall calendars	25 000.00	No date	No cheque
11019425	A.Nieuwenhuizen	Repairs and Maintenance: Municipal Vehicles	20 535.71	Multiple	29/07/2009
11020730	Auditor General	Audit fees	20 520.00	30/09/2009	24/03/2010
11019711	CTM	Building material	22 467.80	18/09/2009	14/09/2009
11021321	Tshwaraganang Funeral Services	Funeral services	18 650.00	24/05/2010	05/07/2010
11020400	Selelane DPP	Legal fees	15 120.00	No date	No cheque
11020534	Ipolokeng Funeral Parlour	Funeral Costs	13 750.00	Multiple	12/02/2010
11021021	Media 24	Adverts	14 665.87	29/01/2010	13/05/2010
11020011	J.Modukanene	Design and developing of name tags	9 483.00	No date	No cheque
11019741	Suidwes	Fuel repair on water network and material	10 806.65	Multiple	21/09/2009
11020609	A.Nieuwenhuizen	Repairs and Maintenance: Municipal Vehicles	9 452.11	Multiple	03/03/2010
11019426	Free State Prov Government	Renewal of motor vehicle licence	7 800.00	No date	29/07/2009
11019562	Media 24	Adverts	8 835.00	17/07/2009	18/08/2009
11020874	Media 24	Adverts	8 524.69	31/03/2010	15/04/2010

8 437 502.82

A similar matter was reported in the prior year management report, paragraph 69, Annexure B, exception number 9.

Cause

Management did not develop and implement sufficient internal control measures to ensure that correct quantities of goods and services have been received in a satisfactory condition.

Impact

The goods that have been received might be incorrect in terms of quality and quantity. Fruitless and wasteful expenditure may be incurred where the municipality pay suppliers for goods and services that was not actually received or rendered.

Internal control deficiency

Decisive action to: mitigate emerging risks, implement timely corrective measures and address non performance:

- Control weaknesses are not analysed and appropriate follow-up actions are not taken that address root causes.

Recommendation

Management should implement control measures to ensure that all goods and services that were invoiced were in fact received / services were rendered satisfactorily.

A standardised goods received note must be developed. All goods received must be recorded on the official goods received note. A detailed prescript that regulates goods received notes and procedures surrounding the note must be incorporated into the approved policies and procedures of the municipality.

Management response

Management will investigate the matter and ensure that it is corrected.

13. C12 Expenditure: Irregular expenses - goods/services above R30 000 not according to supply chain management policy. (EX.12)

Audit Finding

The requirements of paragraph 14.1.1.1 of the supply chain management policy stipulates that

contracts for the supply of goods and the execution of work with a rand value between R 30, 000 up to R 500, 000 shall be adjudicated on an 80/20 basis, as follows:

(a) Points awarded for price and functionality

$$Ps=80[1-(Pt-Pmin /Pmin)]$$

Ps = Points scored for price of tender under consideration

Pt = Rand value of offer tender consideration

Pmin = Rand value of lowest acceptable tender

(b) Points awarded for HDI equity ownership and management , subcontracting with an HDI and achieving specified goals: HDI ownership 100% of equity 12.

Located in the Free State 100% Local such as Tokologo Local Municipality residents 50% of equity 8.

Contrary to the above requirement, it was noted that for the following supply of goods and services, with a rand value equal to, or above R30 000 and up to a Rand value of R200 000, was not awarded by applying the 80/20 preference point system as required, however, the lowest supplier or service providers were awarded business in most instances.

Doc No.	Supplier	Description	Date Paid	Amount(R)	Quotations received	Quoted Amts (R)
20394	MNA Consulting	Drafting and preparation of financial statements: 30/06/2009	26/01/2010	101 944.50	MNA Consulting	99 575.00
					Sakane Project Managers	206 340.00
					Tabure Trading & Enterprise	210 410.00
19771	MNA Consulting	Drafting of the financial manual	23/09/2009	150 650.00	M&S Business Solution	199 542.00
					Sakane Project Managers	198 562.50
					MNA Consulting	168 990.00
19356	Re - Adira Services	Compilation and development: Draft of SDBIP	01/07/2009	155 880.00	Re-Adira Services	154 880
					Lerothodi la Tshepo Business	168 800.00
					Freemans Trading	162 000.00
19354	Shadow Moon Trading	Review and Development of Budget and Accounting Policies	01/07/2009	167 600.00	Shadow Moon Trading	167 600.00
					Mamello Trading	186 700.00
					Snow Line Trading 541	193 200.00
20226	KTP Management Consultancy	Compilation: Internal Control Procedure Manaual	11/12/2009	170 000.00	Tshehang Trading	196 600.00
					Lerothodi la Tshepo Business	198 433.00
					KTP Management Consultancy	170 000.00
19422	Mamello Trading 774	Binding of IDP documents	09/07/2009	171 020.35	Mamello Trading	171 020.35
					Bajadi Stationers	185 000.00
					Mpaki Investment	175 899.95
917 094.85						

Cause

The management did not use the 80/20 preference point systems required for expenses with a rand value equal to, or above R30 000.

Impact

Irregular expenditure due to expenditure incurred that is not in accordance with a requirement of the supply chain management policy.

Internal control deficiency**Leadership**

The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

The SCM unit should ensure that procurement of goods and services above R30 000 up to R200 000 is in line with the Preferential procurement policy framework act and supply chain management policy at all times. Records used in the selection of suppliers must be kept, with a comparative schedule done and filed on the awarding of points to the different suppliers.

The matter should be investigated and reported on.

Management response

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

14. C12 Expenditure: Tender document not submitted.(EX.17)

Audit Finding

Requirement 1

In accordance with section 62 (b) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003), the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purposes 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.

Requirement 2

In accordance with section 7.2.13.4 of the supply chain management policy of the municipality, As soon as a bid has been opened, the bid document shall be stamped with the official stamps, and where necessary, endorsed with the opening official's signatures. The name of the bidder shall be recorded in a bid opening record kept for that purpose.

1. Contrary to requirement 1; for the contract amounting to R1 250 000.00 that was awarded to Nalana Incorporated for conversion of Accounting framework from IMFO to GRAP/GAMAP as stated in the appointment letter dated 27 August 2009, only 11 of the 12 company's tender documents, received as per tender register, could be submitted for audit purposes. The tender documents for MIIB Business Technologies could not be obtained.
2. Contrary to requirement 2, the following tender documents received for conversion of Accounting framework from IMFO to GRAP/GAMAP were stamped on 1 July 2009 which is before the closing date of 3 July 2009 at 12h00 as stated on the advertisement.
 - a. Zinco Management Consulting. (Stamped 1 July 2009)
 - b. Sebata Municipal Solution. (Stamped 1 July 2009)
 - c. EOH Consulting. (Stamped 1 July 2009)

Cause

Management does not have proper control over financial reporting activities, such as the maintenance and safekeeping of supporting documentation.

Impact

Non compliance with the requirements of the MFMA and the Supply Chain Management Policy of the Municipality and the tender opening process.

Limitation on the scope of the audit.

Internal control deficiency

Financial and performance management

Requested information was not available and supplied without any significant delay.

Recommendation

The matter should be investigated and reported on. Management should ensure that full and proper records of the financial affairs of the municipality are kept in accordance with prescribed norms and standards and that these documents are readily available for audit purposes. Sufficient control measures should also implemented to ensure that the opening of tender is in compliance with policies and procedures.

Management response

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

15. C12 Expenditure - Contract for water supply not submitted for audit purposes. (Ex.151).**Audit Finding**

Section 62 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) on general financial management functions states:

- (1) The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—
 - (a) That the resources of the municipality are used effectively, efficiently and economically;
 - (b) That full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards;
 - (c) That the municipality has and maintains effective, efficient and transparent systems—
 - (i) of financial and risk management and internal control; and
 - (ii) of internal audit operating in accordance with any prescribed norms and standards; and
 - (d) that unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented.

A contract could not be submitted for water services supplied by Mr. N.G. Collett to Tokologo Local Municipality. This leaves the possibility for irregular expenditure as compliance with regards to the Preferential Procurement policy framework Act and the supply chain policy could not be ascertained. The rates charged per kiloliter and escalations could not be verified. The total payments (including journals) made to the supplier for the financial year amount to R 202 905.37, vat exclusive.

Payment vouchers

Doc No.	Supplier	Description	VAT No.	Amount (excl. vat) (R)	Invoice date	Payment date
11020979	N.G.Collett	Water and electricity charges	4350121168	22 362.00	30/04/2010	05/05/2010
11020879	N.G.Collett	Water and electricity charges	4350121168	14 217.98	31/03/2010	15/04/2010
11020618	N.G.Collett	Water and electricity charges	4350121168	15 891.95	01/03/2010	03/03/2010
11020280	N.G.Collett	Water and electricity charges	4350121168	12 815.67	03/01/2010	05/01/2010
11020173	N.G.Collett	Water and electricity charges	4350121168	13 514.05	30/11/2009	03/12/2009
11019873	N.G.Collett	Water and electricity charges	4350121168	12 801.64	31/09/2009	07/10/2009
11019685	N.G.Collett	Water and electricity charges	4350121168	21 088.37	31/08/2009	03/09/2009
11019513	N.G.Collett	Water and electricity charges	4350121168	13 240.75	31/07/2009	03/08/2009

125

932.41

The following payments were allocated by means of journals

Vote No.	Descr	Doc	Date	Trans Des	Contra Acc	DT (R)	CT (R)	Amount (R)
0550/4103/0000	Water	Yr All	30/06/2010	Incorrect all	0550/4433/0000	12 897.26	0.00	12 897.26
0550/4103/0000	Water	Yr All	30/06/2010	Incorrect all	0550/4433/0000	14 241.17	0.00	14 241.17
0550/4103/0000	Water	YrE0001	30/06/2010	Sundry Cred	9501/9631/9631	23 168.20	0.00	23 168.20
0550/4103/0000	Water	YrE0001	30/06/2010	Sundry Cred	9501/9631/9631	26 666.33	0.00	26 666.33
						76 972.96	0.00	76 972.96

Cause

Lack of internal controls to ensure that the procurement process is correctly followed and that documentation is properly filed.

Impact

Due to the fact that the support can not be submitted, the compliance to the SCM could not be confirmed which constitute irregular expenditure in terms of definition 1 of the MFMA.

Internal control deficiency

Financial and performance management

Requested information was not available and supplied without any significant delay.

Recommendation

The matter should be investigated and reported on. Management must ensure that service level agreements are entered into and be available for internal and external purposes.

Management response

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

16. C12 Expenditure: Cancelled payment included in the general ledger as paid (Ex.154).

Audit Finding

Section 62(1)(c)(i) of the MFMA states that, the accounting officer of a municipality is responsible for managing the financial administration of municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial risk management and internal control.

The following cheque amounting to R72 580.00 was cancelled and replaced by cheque number 11020571. The cancellation of cheque number 11020569 was however not recorded in the general ledger as at year-end thus overstating expenditure. The VAT on these payments was also not calculated correctly. The expense should have been R63 666.67 and the Input VAT should have been R8 913.33.

Doc No.	Supplier	Description	VAT No.	GL date	GL Amount for expense (R)	GL Amount for Input VAT (R)	Cancelled Cheque Amount (R)
11020569	MNA Consulting	Completeness of filing 2010 and correctness of the allocations 2009/2010	4610235279	23/02/2010	65 720.00	6 860	72 580.00
							R72 580.00

Cause

Management does not understand the importance of reconciliations between accounting records and sub ledgers, no steps are taken by management to correct errors in the accounting system as they become aware of it.

Impact

Expenditure as included in the statement of financial performance is overstated by R67 773.33 (R65 720 x 2 - R63 666.67) and Input VAT is overstated by R4 806.67 (R6 860 x 2 - R8 913.33).

Internal control deficiency

Leadership

The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal controls.

Recommendation

Management must follow up on this matter and report accordingly.

Management response

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

17. C12 Expenditure: VAT Input not processed on financial recording system. (Ex.158).

Audit Finding

Section 16(2) of VAT Act, No 89 of 1991, states that:

No deduction of input tax in respect of a supply or the importation of any goods into the Republic, or any other deduction, shall be made in terms of this Act, unless-

- a) a tax invoice or debit note or credit note in relation to that supply has been provided in accordance with section 20 or 21 and is held by the vendor making that deduction at the time that any return in respect of that supply is furnished;
- b) a tax invoice is in terms of section 20(6) or (7) not required to be issued, or a debit note or credit note is in terms of section 21 not required to be issued VAT Act

Section 20 Tax Invoice:

Subsection 4 – Except as the commissioner may otherwise allow, and subject to this section, a tax invoice (full tax invoice) shall be in the currency of the republic and shall contain the following particulars:

- (a) the words “tax invoice” in a prominent place;
- (b) name, address and VAT registration number of the supplier
- (c) name, address where the recipient is a registered Vendor, the VAT registration number of the recipient;
- (d) an individual serialised number and date upon which the tax invoice is issued
- (e) full and proper description of goods or services supplied;
- (f) the quantity or volume of the goods/ services supplied;
- (g) either the value of the supply, the amount of tax charged and the consideration for the supply.

Contrary to this, the following input VAT was not processed on the municipality's financial recording system during the year under review, resulting in expenses being overstated.

Doc No.	Supplier	VAT No.	Description	Payment date	GL Amount (R)	Invoice Amount (R)	Amount on invoice (excl. vat) (R)	Vat not claimed (R)
11021005	Podbielski Mhlambi Inc.	4460156096	Legal fees	13/05/2010	170 288.96	170 289.00	149 376.28	20 912.68
11019408	Podbielski Mhlambi Inc.	4460156096	Legal fees	22/07/2009	152 725.51	152 725.72	133 969.93	18 755.79
11019413	Modisenyane Property Consultants	4060204544	Valuation roll: Object process and completion	22/07/2009	228 000.00	228 000.00	200 000.00	28 000.00
11019568	South African Post Office	4650101142	Postage	18/08/2009	5 027.00	5 027.00	4 409.65	617.35
11021177	South African Post Office	4680101146	Telephone	09/06/2010	5 722.38	5 722.38	5 019.63	702.75
11019439	Matsapa Trading 506 Nalana	4300238971	Rendering of Conflict Management Skills Development	30/07/2009	57 000.00	57 000.00	50 000.00	7 000.00
11021335	Incorporated	4660245699	Capacity building(Finan	30/06/2010	461 678.18	461 678.20	412 516.20	57 752.27

			cial Management)					
11019431	Dept of Water Affairs and Forestry	4040112361	Water levy	29/07/2009	74.98	74.98	65.77	9.21
11020730	Auditor General	4820113563	Audit fees	24/03/2010	20 520.00	20 520.00	18 000.00	2 520.00
11020534	Ipolokeng Funeral Parlour	4800227904	Funeral Costs	12/02/2010	13 750.00	13 750.00	12 061.40	1 688.60
11019418	TDB and C Agency	4040224315	Rapid reactor	27/07/2009	1 500 000.00	1 500 000.00	1 315 789.47	184 210.53
					2 614 787.01	2 614 787.28	2 301 208.33	322 169.17

A similar matter was reported in the prior year management report, paragraph 97, Annexure A, exception 36.

Cause

Management does not understand the importance of reconciliations between accounting records and sub ledger; no steps are taken by management to correct errors in the accounting system as they become aware of it.

Impact

Risk of material misstatement of the financial statements, expenditure overstated and the VAT debtor may be understated by R322 169.17. The extrapolated error on the total population is calculated as follows:

Extrapolation	
Total error	322,169.17
Total sample	14,827,671.00
Error %	2.17%
Total population as per general ledger.	17,246,766.78
Total possible error	374,730.23

Internal control deficiency

Leadership

The accounting officer does not exercise oversight responsibility over the accounting of vat and compliance with laws and regulations and internal controls.

Recommendation

All payments must, if appropriate VAT invoices are attached, be processed at an amount that excludes VAT and the Input VAT part processed to the relevant VAT account. Management should investigate the above transactions as well as all other transactions in the population and do corrections where applicable.

Management response

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

18. C12 Expenditure: Vat incorrectly claimed by the municipality thus understating expenditure (Ex.159).

Audit Finding

Section 20 (Tax Invoice) of VAT Act, No 89 of 1991, states that :

Subsection 4 – Except as the commissioner may otherwise allow, and subject to this section, a tax invoice (full tax invoice) shall be in the currency of the republic and shall contain the following particulars:

- (a) the words “tax invoice” in a prominent place;
- (b) name, address and VAT registration number of the supplier
- (c) name, address where the recipient is a registered Vendor, the VAT registration number of the recipient;
- (d) an individual serialised number and date upon which the tax invoice is issued
- (e) full and proper description of goods or services supplied;
- (f) the quantity or volume of the goods/ services supplied;
- (g) either the value of the supply, the amount of tax charged and the consideration for the supply.

Contrary to the above mentioned, in the following cases, input tax was claimed on invoices that does not contain VAT registration numbers of the suppliers.

Doc No.	Supplier	Description	VAT number on invoice	Payment date	Amount as per GL (R)	Amount on invoice (excl. vat) (R)	Invoice Amount (R)	Vat incorrectly claimed (R)
11019579	Tlhatlogang Construction	Electricity material	None	25/08/2009	253 608.00	253 608.00	289 113.12	35 505.12
11020704	DMI Logistix	Supply and delivery of stationery	None	16/03/2010	25 865.25	25 865.25	29 486.39	3 621.14
11020833	SA Tender Training Institute	Tender Training Workshop	None	31/03/2010	25 950.00	25 950.00	29 583.00	3 633.00
11020213	Seretse Funerals	Funeral Service	None	14/12/2009	27 820.18	27 820.18	31 715.01	3 894.83
11020839	Tutubuloha Trading	Research and formulation: Tokologo Induction Booklet	None	01/04/2010	56 950.00	56 950.00	64 923.00	7 973.00
11020271	Shivaco	Wall calendars	None	28/12/2009	30 701.75	0.00	35 000.00	4 298.25
					420 895.18	390 193.43	479 820.52	58 925.33

Cause

Officials making the payments does not perform a search on the SARS website to confirm that all the suppliers VAT numbers are valid or that a VAT number appears on the invoice prior to paying VAT charged on the invoices.

Impact

The VAT debtor is understated by R58 925.33.

Internal control deficiency

1. Leadership
2. The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Management should investigate the matter and claim the VAT paid in error back from the supplier. During the process of signing cheques, the validity of the supplier's VAT numbers should also be checked. Furthermore, controls should be implemented to ensure that the validity of VAT numbers is internally reviewed on a regular basis.

Management response

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

19. C12 Expenditure: Invalid vat number of suppliers (Ex.160).

Audit Finding

Section 65 (2) of the MFMA, 2003 (Act No. 56 of 2003) states that the accounting officer of a municipality is responsible for the management of the expenditure of the municipality and must take all reasonable steps to ensure—

- (a) that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds;
- (b) that the municipality has and maintains a management, accounting and information system which—
 - (i) recognises expenditure when it is incurred;
 - (ii) accounts for creditors of the municipality; and
 - (iii) accounts for payments made by the municipality;
- (c) that the municipality has and maintains a system of internal control in respect of creditors and payments;"

A search on the SARS website was done to confirm that the suppliers/services providers are registered as VAT vendors. It was however established that the following suppliers/services providers provided invalid VAT numbers:

Doc No.	Supplier	Description	VAT number on invoice	Invoice date	Payment date	GL Amount (R)	Invoice Amount (R)	Vat (R)	Vendor search results on SARS
11019698	Lekulo Investment Holdings	Reconnaissance Study Dealesville Salt Lake	4700236112	03/09/2009	03/09/2009	65 554.00	74 731.56	9 177.56	No records found
11019794	Tact Business Dev and Management	300 Africa City Mayors Conference	4830230532	25/09/2009	05/10/2009	9 699.00	11 056.86	1 357.86	Invalid vat number
11019734	Jore Construction	Fencing of Cemetry - Hertzogville	42002548781	09/09/2009	17/09/2009	307 116.00	350 112.24	42 996.24	Invalid vat number
11020446	Jore Construction	Fencing of Cemetry - Hertzogville	42002548781	19/01/2010	01/02/2010	54 017.00	61 579.38	7 562.38	Invalid vat number
						436 386.00	497 480.04	61 094.04	

A similar matter was reported in the prior year management report, paragraph 63, Annexure B, exception number 148.

Cause

Procedures as stipulated in the policies of the municipality are not properly applied to ensure that requirements of these policies are met, as invalid VAT numbers are included on invoices and payments are made to invalid VAT vendors.

Impact

VAT claimed not appropriate and expense should have included amount inclusive of VAT. VAT is therefore overstated by R61 094 and expenditure understated by R61 094.

Internal control deficiency

1. Leadership
2. The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Management must ensure that the suppliers/services providers are valid registered Vat vendors. An official should perform a search on the SARS website to confirm that all the suppliers VAT numbers are valid. The mentioned cases should be investigated and reported on.

Management response

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

20. C12 Expenditure: Inadequate supporting documentation for payments (Ex.161).

Audit Finding

Section 65 (2) of the MFMA, 2003 (Act No. 56 of 2003) states that the accounting officer of a municipality is responsible for the management of the expenditure of the municipality and must take all reasonable steps to ensure—

- (a) that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds;
- (b) that the municipality has and maintains a management, accounting and information system which—
 - (i) recognises expenditure when it is incurred;
 - (ii) accounts for creditors of the municipality; and
 - (iii) accounts for payments made by the municipality;
- (c) that the municipality has and maintains a system of internal control in respect of creditors and payments;"

It was noted that for the following payments made, insufficient supporting documentation were attached:

1. For the following payments made, only an invoice was attached. Orders, quotations or contracts where applicable was not attached to the payments and could not be submitted to audit.

Compliance with regards to the Preferential Procurement policy framework act and the supply chain policy could therefore not be ascertained.

Doc No.	Supplier	Description	Invoice Amount (R)	Invoice date	Payment date
11019946	L.Mogorosi	Municipal building	16 000.00	27/10/2009	28/10/2009
11019712	Vermeleuns Build It	Building Material	13 149.40	18/09/2009	14/09/2009
11019751	L.Mogorosi	Municipal building	92 000.00	21/09/2009	No cheque
11019518	Elektrofreeze CC	Seretse New Sewerage Works	134 677.32	03/06/2009	03/08/2009
11019521	Re - Adira Services	Compilation & Development: Performance Management System	178 411.00	30/07/2009	03/08/2009
11019935	Mphosi Pheello	ID photos	4 880.00	04/09/2009	27/10/2009
11019731	De La Casa Trading 519	Catering	10 000.00	18/07/2009	No cheque
11021036	J.Bassi Helicopters	Aerial game counts	17 556.00	16/05/2010	20/05/2010
11020833	SA Tender Training Institute	Tender Training Workshop	29 583.00	30/03/2010	31/03/2010
11020271	Shivaco	Wall calendars	35 000.00	No date	28/12/2009
11019698	Lekulo Investment Holdings	Reconnaissance Study Dealesville Salt Lake	74 731.56	03/09/2009	03/09/2009
11020571	MNA Consulting	Completeness of filing 2010 and correctness of the allocations 2009/2010	72 580.00	23/02/2010	24/02/2010
11019687	Re - Adira Services	Compilation and development: 100 day Mayoral Programme	88 971.00	31/08/2009	03/09/2009
11019782	Re - Adira Services	Compilation and development: Skills Development Plan & EE Plan	179 567.00	28/09/2009	01/10/2009
11019398	L.Mogorosi	Municipal building	92 000.00	15/07/2009	No cheque
11019586	L.Mogorosi	Municipal building	92 000.00	24/08/2009	25/08/2009
11020153	MNA Consulting	Financial administration	98 610.00	25/11/2009	01/12/2009
11020625	KTP Management Consultancy	Compilation: Mid-year budget and performance assessment report	79 999.00	27/01/2010	03/03/2010
11020329	Shivaco Construction	Wall calendars	25 000.00	No date	No cheque
11020026	Merahe Construction and	Car stickers	21 000.00	No date	12/11/2009

	Trading				
11019711	CTM	Building material	22 467.80	18/09/2009	14/09/2009
11021321	Tshwaraganang Funeral Services	Funeral services	18 650.00	24/05/2010	05/07/2010
11020534	Ipolokeng Parlour Funeral	Funeral Costs	13 750.00	Multiple	12/02/2010

1 410 583.08

2. The following payment was made based on a quotation. No invoice and order were attached to the payment voucher.

Doc No.	Supplier	Description	GL date	Payment date	GL Amount
11020225	Siemens Enterprise	Telephone installation	11/12/2009	No date	16 739.20

Cause

Lack of internal controls to ensure that the procurement process is correctly followed.

Impact

Due to the fact that the support cannot be submitted, the compliance to the SCM process cannot be confirmed which constitute irregular expenditure in terms of definition 1 of the MFMA.

Internal control deficiency

Leadership

The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Management should implement sufficient control measures and filing systems to ensure that documents are readily available at all times. The mentioned cases should be investigated and reported on.

Management response

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

21. C12 Expenditure: Incorrectly classified as operating instead of capital (Ex.177).

Audit Finding

Section 65 (2) of the MFMA, 2003 (Act No. 56 of 2003) states that the accounting officer of a municipality is responsible for the management of the expenditure of the municipality and must take all reasonable steps to ensure—

- (a) that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds;
- (b) that the municipality has and maintains a management, accounting and information system which—
 - (i) recognises expenditure when it is incurred;
 - (ii) accounts for creditors of the municipality; and
 - (iii) accounts for payments made by the municipality;
- (c) that the municipality has and maintains a system of internal control in respect of creditors and payments;"

Contrary to the above, it was noted that the following expenses that should have been capitalised, were incorrectly recorded as operating expenses.

Vote No.	Description	Doc No.	GL amt (R)	Supplier	Description	Payment date	Correct classification
0421/3803/0000	Buildings	11020251	69 501.62	Intercom and Alarm Installation	Installation of alarms	15/12/2009	Capital expenditure
0421/3803/0000	Buildings	11019946	16 000.00	L.Mogorosi	Municipal building	28/10/2009	Capital expenditure
0421/3803/0000	Buildings	11019902	33 011.80	Vermeleuns Build It	Building Material	14/10/2009	Capital expenditure
0421/3803/0000	Buildings	11019759	80 275.40	Intercom and Alarm Installation	Installation of alarms	23/09/2009	Capital expenditure
0421/3803/0000	Buildings	11019712	11 534.56	Vermeleuns Build It	Building Material	14/09/2009	Capital expenditure
0421/3803/0000	Buildings	11019420	42 146.91	Vermeleuns Build It	Building Material	27/07/2009	Capital expenditure
0441/3809/0000	Equipment	11020361	13 681.59	Dr Lawnmower Trust	Brush Cutter	15/01/2010	Capital expenditure
0421/3807/0000	Equipment: general	11019751	92 000.00	L.Mogorosi	Municipal building	No cheque	Capital expenditure
0550/3813/0000	General maintenance	11020200	14 716.03	Incedon	Cascade Full Clamp	11/12/2009	Capital expenditure
0540/3819/0000	Network: electricity	11019579	253 608.00	Tihatlogang Construction	Electricity material	25/08/2009	Capital expenditure
0540/3819/0000	Network: electricity	11019518	118 138.00	Elektrofreeze CC	Seretse New Sewerage Works	03/08/2009	Capital expenditure

744 613.91

A similar matter was reported in the prior year management report, Paragraph 41, Annexure A, Exception number 220.

Cause

Management does not have controls in place to ensure that expenditure are classified correctly and are posted to the correct account.

Impact

Expenditure as included in the statement of financial performance is overstated by R744 613.91 and Property, plant and equipment as disclosed in the statement of financial position is understated by R744 613.91.

Internal control deficiency**Leadership**

The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal controls.

Recommendation

Management must implement controls to ensure that transactions are allocated to the correct general ledger account. During the process of signing cheques, the allocation of the expenses should also be checked. Furthermore, controls should be implemented to ensure that the allocations of expenses are internally reviewed on a regular basis for possible incorrect classifications.

Management response

Management will have to investigate the above transactions and if the assertion is correct then, and adjustment will be processed.

Management is of the opinion that these are either repairs and maintenance or have been correctly capitalized, but they will however still be investigated.

:

22. C12 Expenditure: Payment incorrectly classified.(Ex.178).

Audit Finding

Section 65 of the MFMA

- (1) The accounting officer of a municipality is responsible for the management of the expenditure of the municipality.
- (2) The accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure –
 - (a) That the municipality has and maintains an effective system of expenditure control, including procedures for approval, authorisation, withdrawal and payment of funds.
 - (b) That the municipality has and maintains a management, accounting and information system which-
 - (i) Recognise expenditure when incurred
 - (ii) Accounts for creditors of the municipality; and
 - (iii) accounts for payments made by the municipality;
 - (c) That the municipality has and maintains a system of internal control in respect of creditors and payments;
 - (d) That payments by the municipality are made-
 - (i) Directly to the person to whom it is due unless agreed otherwise for reason as may be prescribed; and
 - (ii) Either electronically or by way of non-transferable cheques, provided that cash payments and payments by way of cash cheques may be made for exceptional reason only, and only up to a prescribed limit.

Contrary to the above requirements, it was noted that the following payments were incorrectly classified and allocated to the incorrect votes, resulting in the understating and overstating of the below mentioned expenditure votes (accounts).

GL Vote No.	Descr	Doc No.	GL Amt (R)	Supplier	Description on invoice	Invoice amt (R)	Payment date	Correct Vote (account)
0530/3831 /0000	Streets	11019612	7 294.91	A.Nieuwenhuizen	Repairs and Maintenance: Municipal Vehicles	7 294.91	01/09/2009	Vehicles
0301/4205 /0000	Legal fees	11019611	7 091.25	Bendel Drukkery	Printing	8 084.03	01/09/2009	Printing and stationery
0301/4403 /0000	Advertisement costs	11020806	6 651.30	Die Groentemandjie	Entertainment office expenses and admin costs	6 651.30	31/03/2010	Entertainment

22 030.24

Cause

Supervisory controls are ineffective to prevent incorrect classification of payments.

Impact

Over/ understatement of the relevant expense votes. The extrapolated error on the total population is calculated as follows:

Extrapolation	
Total error	22 030.24
Total sample	14,827,671.00
Error %	0.15%
Total population as per general ledger.	17,246,766.78
Total possible error	25 624.42

Internal control deficiency

Leadership

The accounting officer authority does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal controls.

Recommendation

Management should consider the identified instances of classification errors on an individual basis and should provide written representations regarding the reasons for the incorrect allocation of the transactions. If any adjusting journals were processed to correct incorrect allocations that we were not able to identify then the related journal entry and all supporting evidence should be provided to the auditors for consideration.

Management should also note that it would not be appropriate to process an adjusting journal based purely on the identified issues as an investigation of the entire population of expenditure related to goods and services would be necessary to identify the extent of similar issues.

Management response

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

23. C12 Expenditure: Payments not recorded in correct financial period (Ex.180).

Audit Finding

Section 65 (2) of the MFMA, 2003 (Act No. 56 of 2003) states that the accounting officer of a municipality is responsible for the management of the expenditure of the municipality and must take all reasonable steps to ensure—

- (a) that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds;
- (b) that the municipality has and maintains a management, accounting and information system which—
 - (i) recognises expenditure when it is incurred;
 - (ii) accounts for creditors of the municipality; and
 - (iii) accounts for payments made by the municipality;
- (c) that the municipality has and maintains a system of internal control in respect of creditors and payments;"

Contrary to the above, it was noted that the following payments relating to the 2008/09 financial year were incorrectly recorded in the 2009/10 financial year.

No	Vote No	Doc No	Supplier	Description	GL Amt (R)	Invoice date	Payment date
1	0540/3819/0000	11019518	Elektrofreeze CC	Seretse New Sewerage Works	118 138.00	03/06/2009	03/08/2009
2	0201/4205/0000	11019408	Podbielski Mhlambi Inc.	Legal fees	152 725.51	11/01/2006	22/07/2009
3	0101/4493/0000	11019762	Follow the star trading	Catering	4 550.00	14/06/2009	23/09/2009
4	0201/4403/0000	11019921	Media 24	Adverts	13 508.28	26/06/2009	20/10/2009
5	0550/4103/0000	11019431	Dept of Water Affairs and Forestry	Water levy	74.98	05/06/2009	29/07/2009
6	0101/4467/0000	11020078	SALGA	Annual membership levy	100 000.00	01/04/2009	25/11/2009

388 996.77

Cause

Supervisory controls are ineffective to prevent incorrect recording of payments and accruals raised.

Impact

Expenditure as disclosed in the statement of financial performance in the current financial year is overstated by R388 996.77. Due to the fact that these payments did not form part of the provision for trade payables during the prior financial year accumulated surplus is overstated by R388 996.77.

Internal control deficiency

Leadership

The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal controls.

Recommendation

Management must ensure that all payments made are recorded in the correct financial period. All invoices not paid at year end must be raised as accruals.

Management response

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

24. C12 Expenditure: Required number of quotations not obtained resulted in irregular expenditure. (Ex.182).

Audit Finding

In accordance with section 6.1.1 of the Supply Chain Management Policy of the municipality, for the procurement of goods and services above R500.00 to a maximum of R30 000 (vat included), written quotations must be obtained by the municipality concerned from at least three different service providers whose name appear on the suppliers data base.

Contrary to the requirement above, three quotations were not obtained for the following expenditure incurred, and no reason could be obtained why three quotations were not obtained:

Doc No	Supplier	Description	Invoice Amount (R)	Payment date	No of quotes
11019946	L.Mogorosi	Municipal building	16 000.00	28/10/2009	0
11019712	Vermeleuns Build It	Building Material	13 149.40	14/09/2009	0
11020361	Dr Lawnmower Trust	Brush Cutter	15 597.01	15/01/2010	0
11019751	L.Mogorosi	Municipal building	92 000.00	No date	0
11020200	Inclodon	Cascade Full Clamp	16 776.35	11/12/2009	0
11019579	Tlhatlogang Construction	Electricity material	289 113.12	23/09/2009	0
11019518	Elektrofreeze CC	Seretse New Sewerage Works	134 677.32	03/08/2009	0
11019517	Lethargic Investments	Tyres for municipal vehicles	13 440.33	03/08/2009	0
11020888	C & F Pumps Services	Repair mincer sewer pump station	38 932.37	20/04/2010	0
11020448	C.Van Vuuren	Repairs on starter alternator hydraulics leak repairs and service	17 339.23	01/02/2009	0
11019517	Lethargic Investments	Tyres for municipal vehicles	102 329.17	03/08/2009	0
11019611	Bendel Drukkery	Printing	8 084.03	01/09/2009	0
11019521	Re - Adira Services	Compilation & Development: Performance Management System	178 411.00	03/08/2009	0
11020806	Die Groentemandjie	Entertainment office expenses and admin costs	4 582.60	31/03/2010	0
11020806	Die Groentemandjie	Entertainment office expenses and admin costs	6 651.30	31/03/2010	0
11021311	Bendel Drukkery	Printing	7 729.20	30/06/2010	0
11020889	Freepak	Refuse bags	8 174.51	No date	0
11020866	Aqua Agri Solution	HTH Chips 25kg	8 244.94	12/04/2010	0
11019929	Aqua Agri Solution	Chemicals: HTH Granular 50kg	8 244.94	12/04/2010	0
11020806	Die Groentemandjie	Entertainment office expenses and admin costs	7 965.00	31/03/2010	0
11020033	Sowetan	Adverts	9 667.20	12/11/2009	0
11020175	Sowetan	Adverts	9 667.20	03/12/2009	0
11020035	Media 24	Adverts	10 314.15	12/11/2009	0
11019520	M.G.Trading	Catering: Mandela Day Lunch	10 000.00	03/08/2009	1
11020328	Boshof Winkoop Winkel	Office expenses	11 644.20	11/01/2010	0
11020195	Media 24	Adverts	15 138.29	10/12/2009	0
11019921	Media 24	Adverts	15 399.44	20/10/2009	0
11021036	J.Bassi Helicopters	Aerial game counts	17 556.00	20/05/2010	0

11020551	Media 24	Adverts	17 999.10	17/02/2010	0
11020833	SA Tender Training Institute	Tender Training Workshop	29 583.00	31/03/2010	0
11020271	Shivaco	Wall calendars	35 000.00	28/12/2009	1
11020839	Tutubuloha Trading	Research and formulation: Tokologo Induction Booklet	64 923.00	01/04/2010	2
11019439	Matsapa Trading 506	Rendering of Conflict Management Skills Development	57 000.00	30/07/2009	2
11019698	Lekulo Investment Holdings	Reconnaissance Study Dealesville Salt Lake	74 731.56	03/09/2009	0
11020571	MNA Consulting	Completeness of filing and correctness of the allocations 2009/2010	72 580.00	24/02/2010	0
11019687	Re - Adira Services	Compilation and development: 100 day Mayoral Programme	88 971.00	03/09/2009	0
11019782	Re - Adira Services	Compilation and development: Skills Development Plan & EE Plan	179 567.00	01/10/2009	0
11020057	Die Groentemandjie	Entertainment office expenses and admin costs	3 390.00	18/11/2009	0
11019675	Die Groentemandjie	Entertainment office expenses and admin costs	2 670.40	02/09/2009	0
11019709	Precision Hydraulics	Repairs on CAT	108 237.30	09/09/2009	0
11019398	L.Mogorosi	Municipal building	92 000.00	No date	0
11019586	L.Mogorosi	Municipal building	92 000.00	25/08/2009	0
11020153	MNA Consulting	Financial administration	98 610.00	01/12/2009	0
11020625	KTP Management Consultancy	Compilation: Mid-year budget and performance assessment report	79 999.00	03/03/2010	0
11020329	Shivaco Construction	Wall calendars	25 000.00	No date	1
11020026	Merahe Construction and Trading	Car stickers	21 000.00	12/11/2009	0
11019711	CTM	Building material	22 467.80	14/09/2009	0
11021321	Tshwaraganang Funeral Services	Funeral services	18 650.00	05/07/2010	0
11020021	OD Panelbeaters	Repairs and Maintenance: Municipal Vehicles	15 960.00	12/11/2009	0
11020534	Ipolokeng Funeral Parlour	Funeral Costs	13 750.00	12/02/2010	0
11021021	Media 24	Adverts	14 665.87	13/05/2010	0
11020011	J.Modukanene	Design and developing of name tags	9 483.00	No date	0
11019562	Media 24	Adverts	8 835.00	18/08/2009	0
11020874	Media 24	Adverts	8 524.69	15/04/2010	0
11020338	Freepak	Refuse bags	8 174.48	12/01/2010	0
19383	Long Island Trading 42 cc	Training for youth capacity building	199 840		1

2 350 600.50

A similar matter was reported in the prior year management report, Paragraph 37, Annexure A, Exception number 147.

Cause

Lack of management controls to ensure adherence to requirements of supply chain management policy when procuring goods and services.

Impact

Irregular expenditure to the amount of R2 350 600 due to expenditure incurred that is not in accordance with a requirement of the supply chain management policy.

Internal control deficiency**Leadership**

The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

Management must ensure that three quotations are obtained from at least three service providers whose name appear in the database for the procurement of goods and services above R500.00 to a maximum of R30 000 (vat included). If not possible, reasons to this effect should be noted on the documentation and must be approved/ reviewed by Management.

Management response

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

Payables

25. C12 Payables: Invoices not paid with 30 days.(Ex.89).

Audit Finding

Sec 65(2)(e) of the Municipal Finance Management Act No. 56 of 2003 states that the accounting officer must for the purpose of subsection (1) take all responsible steps to ensure that all the money owing by the entity is paid within 30 days of receiving the relevant invoice or statement unless prescribed otherwise for certain categories of expenditure.

Contrary to the above, the following invoices were not paid within 30 days: Note

Doc No	Supplier	Description	Invoice Amount (R)	Invoice date	Payment date	Period from invoice to payment date (days)
11020275	J.Botha Electric Bk.	Repairs: Water and Electricity	35 948.21	02/10/2009	23/12/2009	82
11019518	Elektrofreeze CC	Seretse New Sewerage Works	134 677.32	03/06/2009	03/08/2009	61
11020890	Sebata Municipal Solution	Investigating possible duplicated transactions not merged	2 999.99	13/11/2009	20/04/2010	158
11019762	Follow the star trading	Catering	4 550.00	14/06/2009	23/09/2009	101
11019935	Mphosi Pheello	ID photos	4 880.00	04/09/2009	27/10/2009	53
11020866	Aqua Agri Solution	HTH Chips 25kg	8 244.94	08/02/2010	12/04/2010	63
11019921	Media 24	Adverts	15 399.44	26/06/2009	20/10/2009	116
11020540	Sebata Municipal Solution	Financial year-end assistance:Financial Statements 2009/2010	31 213.20	23/12/2009	12/02/2010	51
11021338	Development Bank of Sourhern Africa	MFMP presented by DBSA in collaboration with National Treasury	123 120.00	21/05/2010	30/06/2010	40
11021335	Nalana Incorporated	Capacity building(Financial Management)	461 678.20	26/03/2010	30/06/2010	96
11019890	Actaris	Electricity cards	25 650.00	11/09/2009	13/10/2009	32
11019431	Dept of Water Affairs and Forestry	Water levy	74.98	05/06/2009	29/07/2009	54
11020078	SALGA	Annual membership levy	100 000.00	01/04/2009	25/11/2009	238
11020625	KTP Management Consultancy	Compilation: Mid-year budget and performance assessment report	79 999.00	27/01/2010	03/03/2010	35
11020730	Auditor General	Audit fees	20 520.00	30/09/2009	24/03/2010	175
11019408	Podbielski Mhlambi Inc.	Legal fees	152 725.72	11/01/2006	22/07/2009	1288
11021321	Tshwaraganang Funeral Services	Funeral services	18 650.00	24/05/2010	05/07/2010	42
11021021	Media 24	Adverts	14 665.87	29/01/2010	13/05/2010	104
11019562	Media 24	Adverts	8 835.00	17/07/2009	18/08/2009	32
21350	ADW Van Berg Attorneys	Legal fees	28 088.66	2010/05/27	2010/07/12	46
21376	Sharp Electronics	Printing	960.82	2010/05/10	2010/07/17	68
21692	Irrigation Equipment Suppliers	Rehabilitation of reservoirs and water lines	445 727.83	2010/03/25	2010/08/05	133
21699	Engineering Solution	Rehabilitation of reservoirs and water lines	34 460.97	2010/03/30	2010/08/05	128

21703	Afribatho Designs	Installation of water meters	244 859.39	2010/05/03	2010/08/06	95
21849	T.B.Sebotsa	Transport	928.00	2010/06/03	2010/09/03	92
21904	Sebata Municipal Solution	Assistance:Ledger 2009/2010	23 146.56	2010/06/09	2010/09/17	100
21906	Aqua Agri Solution	HTH Chips	8 268.42	2010/06/07	2010/09/17	102

2 030 272.52

A similar matter was reported in the prior year management report, Paragraph 51 Annexure A, exception 158.

Cause

Lack of internal control to ensure that payment of expenses/creditors is made within 30 days of receipt of invoice.

Impact

- Non compliance of Section 65(2)(e) of the Municipal Finance Management Act No. 56 of 2003
- Interest and penalties might be incurred which might result in fruitless and wasteful expenditure

Internal control deficiency

1. Leadership
2. The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

- Invoices should be paid within 30 days of invoice date as prescribed by Section 65(2)(e) of the MFMA.
- It is recommended that the invoices be stamped to indicate the dates on which they were received.

Management response

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

Receivables

26. C12 Receivables: Application forms for indigents could not be obtained.(Ex 135)

Audit Finding

Part 2 (page 2) of the Indigent Policy of Tokologo Local Municipality states the following: Who qualifies for indigent support?

To register as an indigent, the relevant property owner or accountholder must personally complete and sign the registration form provided by the municipality for the purpose, and furnish such further documentation as the municipality specifies. The municipal manager will provide assistance to persons who cannot read or write, at such times and places as are specified in the notices published to indicate that the registration program is to take place. Registration will take place on dates and times and places determined by the council from time to time.

Contrary to the above mentioned requirement, application forms for the following indigents could not be submitted for audit purposes. A similar matter was also reported in par 71 of the prior year management report (annexure A) - exception 162.

No.	Name	Account no.
1	LL Kgadise	100899
2	LM Bali	101490
3	TD Mosholodi	101889
4	JF Reyneke	102449
5	LL Sekgoro	102595
6	DE van Rooyen	103021
7	PC Meintjies	204196
8	DR Coetzee	100341
9	TE Nel	3DA368
10	M Boshof	3DA014
11	MJ Williams	206226
12	BJ Coodi	206401
13	Vis	103710
14	CE Chabage	100301
15	D Dira	100475
16	LM Futhela	100597
17	CE Greyling	T00189
18	H Janse	T00204
19	MS Saliwe	205650
20	BE Lefu	206400

Cause

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

Municipality allowed subsidies to customer that did not complete application forms.

Impact

This could result in indigents being granted to unqualified debtors as per the indigent policy resulting in financial loss for the municipality.

Internal control deficiency

The accounting officer does not exercise oversight responsibility over receivables and compliance with laws and regulations and internal control.

Recommendation

Management should ensure that the application forms be properly filed for internal and external purposes. Management should also ensure that before debtors are registered as indigents all the requirements are met and that the evaluation and detail of the steps taken are properly documented.

Management response

Prior year management response.

Management agrees with the finding. Corrective measures will be put in place to ensure that this matter is resolved in the next financial year.

Current year management response.

Awaited.

Revenue

27. C12 : Revenue: Updating of debtor system - transfer of properties RE-ISSUE (Ex.123)

Audit Finding

Section 64 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003), states that the accounting officer of a municipality is responsible for managing the revenue of the municipality (2) The accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure—

(a) that the municipality has effective revenue collection systems consistent with section 95 of the Municipal

Contrary to the stipulation of the aforementioned section, the following properties were transferred to the new owners, however no evidence could be submitted as a proof that their information were updated in the system. Debtors accounts were requested but could not be submitted for review.

Occurrence, Accuracy and completeness of the rates charged could not be ascertained.

No.	Property	Debtor who sold property	Debtor buying property	Registration Date	Account number
1	Erf 283 Malebogo	Tokologo Local Municipality	Sefatsa TJ	28/07/2009	250940/T02777
2	Erf 163 Malebogo	Tokologo Local Municipality	Madibo RJ	28/07/2009	250817/205131
3	Erf 502 EXT 5 Malebogo	Tokologo Local Municipality	Mlindini TS/ ME	28/07/2009	251143/205457
4	Erf 544 EXT 5 Malebogo	Tokologo Local Municipality	Mokgaje MM	28/06/2009	251184/205497
5	Erf 683 Malebogo	Tokologo Local Municipality	Pitso KA	29/07/2009	251320/251320
6	Erf 673 Malebogo	Tokologo Local Municipality	Gaebeng DM	29/07/2009	251310/T02778
7	Erf 1270 Malebogo EXT 2	Tokologo Local Municipality	Yabo Mack	29/07/2009	251886/206200
8	Erf 1291 Malebogo EXT 2	Tokologo Local Municipality	Oliphant LK	29/07/2009	251906/206220
9	Erf 1824 Malebogo EXT 2	Tokologo Local Municipality	Boikanyo SJ	29/07/2009	253416/T02779
10	Erf 1013 Malebogo EXT 1	Tokologo Local Municipality	Modise J	30/07/2009	251637/T02782
11	Erf 901 Malebogo EXT 1	Tokologo Local Municipality	Mohlakoana	30/07/2009	251525/205839
12	Erf 1585 Seretse	Tokologo Local Municipality	Wolf TR/ BP	30/11/2009	1S1585/T02872
13	Erf 2076 Seretse	Tokologo Local Municipality	Boysen PE/ MD	30/11/2009	1S2076/T02873
14	Erf 1861 Seretse	Tokologo Local Municipality	Grond NM	30/11/2009	1S2076/T00211
15	Erf 1874 Seretse	Tokologo Local Municipality	Moreng B H	30/11/2009	1S1874/T02875
16	Erf 2071 Seretse EXT 4	Tokologo Local Municipality	Moreng TS	30/11/2009	1S2071/T02876

Cause

Lack of review of the deeds registration file against the information captured into the system.

Impact

Possibility of charging incorrect rates that will lead to the financial losses to the municipality.

Internal control deficiency

Leadership

The accounting officer / accounting authority does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

Recommendation

All the transfers made according to the deeds file should be reviewed and recaptured into the system. The mentioned cases as well as all other similar cases should be investigated, rectify and reported on.

The transfers on the deeds file should be captured on the system every month, the senior official should review the deeds certificates against the system.

Management response

Awaited.