

MPUMALANGA PROVINCIAL GOVERNMENT

No. 7 Government Boulevard
Building No. 4
Riverside Park Extension 2
Nelspruit
1201



Private Bag X 11205
Nelspruit
1200
Tel: (013) 766 4116
Fax: (013) 766 9472
E-mail: cmakwela@mpg.gov.za

Department of Finance

Litiko LeteTimali

UmNyango weZeemali

Departement van Finansies

Kgoro ya Matlotlo

Enq: Herbert Silaule
Tel: (013) 766 4116

PROVINCIAL TREASURY CIRCULAR NO 16 OF 2011

THE ACCOUNTING OFFICER: VOTE 1: OFFICE OF THE PREMIER (MR JM RABODILA)
THE ACTING ACCOUNTING OFFICER: VOTE 2: PROVINCIAL LEGISLATURE (MR LB TSHABALALA)
THE ACTING ACCOUNTING OFFICER: VOTE 3: FINANCE (MR JB MBATHA)
THE ACCOUNTING OFFICER: VOTE 4: COOPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS (MR D MAHLOBO)
THE CONVENER: OPERATION CLEAN AUDIT PROVINCIAL COMMITTEE (MR B STRAUSS)
THE GM PROVINCIAL TREASURY: FINANCIAL GOVERNANCE (MS J BEZUIDENHOUT)
THE GM PROVINCIAL TREASURY: SUSTAINABLE RESOURCES (MS NZ NKAMBA)
THE ACTING GM PROVINCIAL TREASURY: ASSET AND LIABILITIES (MR R MASAMBO)

THE MUNICIPAL MANAGER: NKANGALA DISTRICT MUNICIPALITY (MR C MAKOLA)
THE MUNICIPAL MANAGER: STEVE TSHWETE LOCAL MUNICIPALITY (MR WD FOUCHE)
THE MUNICIPAL MANAGER: EMAKHAZENI LOCAL MUNICIPALITY (MR O NKOSI)
THE MUNICIPAL MANAGER: VICTOR KHANYE LOCAL MUNICIPALITY (MR S WEBER)
THE MUNICIPAL MANAGER: GERT SIBANDE DISTRICT MUNICIPALITY (MR MA NGCOBO)
THE MUNICIPAL MANAGER: MSUKALIGWA LOCAL MUNICIPALITY (MR TWB DLAMINI)
THE MUNICIPAL MANAGER: DIPALESENG LOCAL MUNICIPALITY (MR PB MALEBYE)
THE MUNICIPAL MANAGER: GOVAN MBEKI LOCAL MUNICIPALITY (DR LH MATHUNYANE)
THE MUNICIPAL MANAGER: EHLANZENI DISTRICT MUNICIPALITY (MR H MBATHA)
THE MUNICIPAL MANAGER: MBOMBELA LOCAL MUNICIPALITY (MS N MTHEMBU)
THE MUNICIPAL MANAGER: BUSHBUCKRIDGE LOCAL MUNICIPALITY (MR D MAPAILA)
THE MUNICIPAL MANAGER: UMJINDI LOCAL MUNICIPALITY (MS SF MNISI)
THE MUNICIPAL MANAGER: PIXLEY KA SEME LOCAL MUNICIPALITY (MR WJN MGOMEZULU)
THE MUNICIPAL MANAGER: THABA CHWEU LOCAL MUNICIPALITY (MR B RALEBIPI)
THE ACTING MUNICIPAL MANAGER: NKOMAZI LOCAL MUNICIPALITY (M R MKHATSHWA)
THE ACTING MUNICIPAL MANAGER: EMALAHLENI LOCAL MUNICIPALITY (MR R MUKONDELELI)
THE ACTING MUNICIPAL MANAGER: ALBERT LUTHULI LOCAL MUNICIPALITY (MR VN MPILA)
THE ACTING MUNICIPAL MANAGER: DR JS MOROKA LOCAL MUNICIPALITY (MR MM MATHEBELA)
THE ADMINISTRATOR: THEMBISILE HANI LOCAL MUNICIPALITY (MR V KHUBEKA)
THE ADMINISTRATOR: MKHONDO LOCAL MUNICIPALITY (MR K MPUNGOSE)
THE ADMINISTRATOR: LEKWA LOCAL MUNICIPALITY (MR J SINDANE)

2010/11 YEAR-END REPORTING REQUIREMENTS

The financial year-end is approaching. According to the Municipal Finance Management Act, No 56 of 2003 (MFMA) section 126(1)(a) the Accounting Officer for a municipality -

“(a) must prepare the annual financial statements of the municipality, and within two months after the end of the financial year to which those statements relate, submit the statements to the Auditor-General for auditing.”

The Provincial Treasury would thus like to advice municipalities to ensure that the following issues are attended to:

AUDIT PROCESS

Municipalities should ensure that Audit Steering Committees are established at the beginning of the audit process. The terms of reference and the constitution of the Audit Steering Committee are outlined in **Annexure A**

PREPARATION OF FINANCIAL STATEMENTS

- All suspense accounts should be cleared to zero by 30 June 2011 to enable the municipality to provide complete financial information on expenditure and revenue.
- Stock counts and reconciliation of assets, VAT, creditors, debtors and bank accounts must be performed.
- The expenditure management report should be scrutinised to ensure that all expenditure is properly allocated to the budget appropriated.
- All supporting documentation for all transactions, and other important records should be made available for audit purposes.

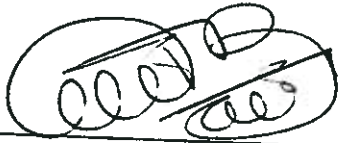
Attached is a checklist for other issues to be made available for audit purposes. **(Annexure B)**

SUBMISSION OF PERFORMANCE INFORMATION

The Auditor-General will be engaging in performance audit reviews for the financial year ended 30 June 2011. Municipalities are therefore required to make first submission of the Annual Report to the Office of the Auditor-General by 31 August 2011 to enable the auditors to perform the necessary audit procedures before 30 November 2011.

It is crucial that the above issues are taken in a very serious manner, to ensure adherence to legislation in this regards.

Regards

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke, enclosed within a hand-drawn oval border.

MR. JB MBATHA
ACTING HEAD OF DEPARTMENT
DATE: 8/6/2011

Guide on audit file

Annexure B

Municipality:	
Date:	
Year end:	2011/06/30
Purpose:	Guidance on documentation, working papers, etc to be included in audit file
Prepared by:	
Reviewed by:	
Reference:	Approach

Documents to be included in the audit file

In order to facilitate and manage an efficient and an organised audit process it would be necessary for a municipality to compile an audit file.

The audit file would consist of, amongst others, the following documentation, including schedules and working papers to support figures disclosed in the financial statements:

		Check	Reference
Regularity Audit:			
General financial information			
1	The financial statements for current and previous financial year compliant with the appropriate basis of accounting		
2	For municipalities with entities, the consolidated financial statements for current and previous financial year		
3	Accounting Policies		
4	Municipal manager's report		
5	The original and approved budget and original and approved mid-year budget adjustments		
6	Trial balance at 30 June that agrees to the financial statements submitted		
7	An electronic and hard copy of the prior year AFS, Prior Period Error recon, prior year Trial balance, General Ledger, Cash Book, Adjustment Journals as at 30 June. In addition, this would include any other information that would be required by the Auditor-General in the required formats.		
8	A separate list of any adjusting journals to trial balance after submission of financial statements		
General non-financial information			
1	Performance report		
2	IDP (Integrated Development Plan) and the SDBIP (Service Delivery Budget Implementation Plan)		
3	Organisational chart / organogram		
4	All written delegations of powers		
5	Service level agreements with third parties to whom functions have been outsourced (e.g. accounting and internal audit)		
6	Code of conduct / ethics		
7	Business continuity plan and backup policies		
8	Recruitment policy and other HR policies		
9	The Integrated Development Plan (IDP)		
10	An evaluation of the Integrated Development Plan for that year-end.		
11	Quarterly performance reports		
12	All approved policies and procedure manuals		
13	An evaluation of all approved policies and procedure manuals.		
14	Signed performance agreements for the period under review (especially for the Municipal Manager and the CFO)		
15	Risk management policy and risk assessment		
16	Fraud prevention plan		
17	Credit control policy		
18	Policy for calculating the provision for doubtful debt		
19	Preferential procurement policy		
20	Subsistence & Travel policy		

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21	Minutes of Council and EXCO meetings		
22	SCOPA resolutions		
23	Monthly budget and Treasury reports and monthly/quarterly reports that must be tabled to Council, e.g. implementation of SCM policy, monthly expenditure and salaries		
24	A list of the following numbers: PAYE, UIF, SDL, VAT		
25	A list of related parties		M.1
26	Declarations of conflict of interests register for both councillors and management, with system process documentation of how this feeds into the AFS.		
27	PROPAC resolutions		

Internal audit and the Audit Committee

1	Names and qualifications of internal audit staff		
2	Annual internal audit plan and 3 year rolling plan		
3	Internal audit reports completed during the year under review		
4	Quarterly reports to the Audit Committee		
5	List of audit committee members		
6	Audit approach, methodology and systems use		
7	Progress reports from the Audit Committee that was implemented by the accounting officer for the past years including measures taken by the municipality to address audit findings		
8	Internal audit charter		
9	Audit committee meetings minutes		

Revenue and Receivables

1	The council resolution where the budget for the financial year was approved to ensure that the tariff structure for the year under review was approved by council in terms of Section 75A of the Municipal Systems Act- (Refer to guidance tab)		
2	The newspaper advert containing the following in respect of the approval of tariff---		
3	(i) that a resolution as contemplated in subsection (2) has been passed by the council;		
4	(ii) that a copy of the resolution is available for public inspection during office hours at the main administrative office of the municipality and at the other places specified in the notice; and		
5	(iii) the date on which the determination will come into operation		
6	Letter to the MEC of DPLG that the above notice has been published		
7	The approved valuation roll		
8	The rates reconciliation between the valuation roll and the rates that were levied		
9	Certificate / documents confirming the qualification / accreditation of the valuer responsible for the valuation roll		
10	Contracts for rental income received and calculations of straight-lining of rental income		B.1
11	Register of deposits, rentals and all direct income received		B.1
12	Schedule of interest and dividends received		
13	Schedule of grants received		
14	Monthly calculations on distribution losses on electricity and water and any reticulation losses		
15	Calculations of discounting of accounts receivable in terms of accounting standard on Financial Instruments and Circular 9 issued by SAICA		
16	Register of manual receipt books issued		
17	Monthly NATIS reports that reflect the amount paid over to the Department of Transport and the amount retained by the municipality as admin fee / commission		
18	Register of traffic fine books issued		

Guide on audit file

Annexure B

Municipality:	
Date:	
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Purpose:	Guidance on documentation, working papers, etc to be included in audit file
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19	Calculation of the provision for doubtful debt		D.1
20	Council resolution approving bad debts written off		
21	Debtors age-analysis at year-end		
22	Reconciliation between the GL receivables control account and the age analysis		
23	Complete, detailed list of all consumer debtors and other debtors		
24	Documentation relating to any auctions held to dispose of assets		
25	List of indigent debtors		
Purchases and Payables			
1	The municipality's SCM policy		
2	The list of approved / accredited providers of goods and services		
3	Signed contracts / SLAs entered into with contactors		
4	Tender register with all tenders awarded during the year, a register of all formal written price quotations accepted and a register of all instances where municipality have deviated from the normal procurement procedures		
5	Period end reconciliation between accounts payable sub-ledger and the general ledger		
6	Creditors age-analysis at year-end		
7	List of accruals at year-end		
8	Summary of debtors payments received in advance and unallocated receipts		
9	Reconciliation between the VAT control account and the June VAT 201		
10	Reconciliation of the revenue reflected in the AFS to the VAT 201 forms		
11	Reconciliation between the VAT on the outstanding debtors at year-end minus: VAT on outstanding creditors		
12	Calculation of the basis of apportionment for the purposes of claiming VAT input on goods/services used in making of partially-taxable supplies (mixed supplies)		P.1
13	Calculations of discounting of accounts payable in terms of accounting standard on Financial Instruments and Circular 9 issued by SAICA		
Employee Cost			
1	Letter from the local bargaining forum that approves general salary increases		
2	Written Human Resource policies (incl. a policy on overtime)		
3	A list of all vacancies and the vacancy rate		
4	A list of all appointments and terminations during the year		
5	Leave register and calculation of the leave gratuity and leave accrual / provision		C.1
6	Fund rules of provision and pension funds		
7	Schedule of remuneration paid to key management		N.1
8	Support for MFMA disclosures, PAYE, UIF, etc.		
9	Support for performance bonuses paid - scorecards, minutes of performance committee, etc.		
10	Government Gazette for determination of Councillor's remuneration		
Inventory			
1	Schedule of stock count and instructions		F.1
2	List of additions and disposals of assets during the year		
3	Authorisation of additions and disposals		
4	Insurance contract/s entered into		
5	Council approval for adjustments in inventory		
6	Reconciliation between stock listing and the GL		F.1

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7	Calculation of water in pipes at year-end		F.1
8	Assumptions used to base the calculation of water-in-pipes on		
9	List of obsolete, damaged and slow moving stock		F.1
10	Schedule of inventory on hand at year-end (including fuel)		F.1
11	Proof that NRV of inventory was evaluated		F.1
12	Stock count documentation for all locations/venues		F.1
13	Stock in transit		F.1
Fixed assets			
1	GRAP compliant asset register which must reconcile to the financial statements. The asset register should clearly indicate the opening balances, assets written-off, date of purchase and disposal. The register is required to contain adequate detail to trace the asset from the register to the physical asset, its value and detailed description of the assets.		H.1
2	A separate asset register for: Intangible assets; Biological assets; Investment property, and inventory (i.e. don't mix up with fixed assets).		
3	Schedule of asset count and a reconciliation with asset register and GL		F.1
4	List of additions and disposals of assets during the year		
5	Authorisation of additions and disposals		
6	Calculation of depreciation and assessment of useful lives and residual values		H.1
7	Project register		
8	Insurance contract/s entered into		
9	List of land disposals during the year		
Financial			
1	A list of the bank and investment accounts in the name of the municipality, as well as contact details. Proof of bank account details being submitted to National Treasury.		
2	Year-end bank reconciliations on all bank accounts		G.1
3	Investment register that makes reference to the investments that were made, withdrawn, interest accrued and any other changes to the investments. The register must reflect the correct value of the investment, the date of acquisition, the date of maturity, the purpose for which the investment is to be utilised upon maturity and authorisation for any withdrawals from investments.		
4	Loan register for long-term debtors		
5	Supporting documentation or agreements for long term debtors. The historical data on short-term debtors		
6	Register of conditional grants; indicating the opening balance, the amount received, the amount transferred to revenue and the unspent closing balance that agrees to AFS and grant bank account. Reports submitted to Council and Treasury regarding allocations received by the municipality.		
7	Lease register (operating and finance leases), their supporting documentation and all calculations:		A.1 & B.1
	(i) Calculations of straight-lining of operating leases as lessee		A.1
	(ii) Calculations of straight-lining of operating leases as lessor		B.1
	(iii) Amortisation schedules for all finance lease agreements		A.1
	(iv) Documentation required of all leases that supports disclosure in financial statements.		A.1 & B.1
8	Loans register with reference to outstanding loans, any redemptions made during the year and the short-term portion per loan agreements. The loan register must contain the necessary authorised signatures, and the purpose for which the loan has been acquired.		
9	Schedule of provisions that were authorised during the year		
10	Details relating to any post balance sheet events that should be provided for		
11	Schedule of all landfill sites used by the municipality to dump refuse.		
12	Provincial environmental implementation plan		

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13	Council resolutions to confirm that contributions to funds/reserves and capital expenditure		
14	Cash management and investment policies		
15	Petty cash reconciliation at year-end		
16	All suspense accounts are required to be cleared as at 30 June with the necessary supporting documentation. In the event there are un-cleared items in the suspense accounts, the accounting officer is required to provide detailed motivation on why such items appear in the suspense accounts and also provide confirmation to the Auditor-General on corrective action to be taken.		
17	All control accounts are required to be correctly balanced and supported by necessary documentation		
18	Summary of all prior period errors and adjustments to comparative figures		
Disclosure and other matters			
1	Schedule of unauthorised, irregular and fruitless & wasteful expenditure		
2	Report submitted to the AO, Mayor, MEC of DPLG and the AG relating to unauthorised, irregular and fruitless & wasteful expenditure and SAPD if fraud		
3	A schedule with investigations, litigations and claims by the municipality or against the municipality		
4	A schedule with contingent liabilities		
5	A list of financial guarantees on behalf of employees		
6	Names and contact details of legal representatives in order to obtain legal confirmations		
7	A schedule of commitments at year-end		
8	Schedule detailing contributions to organised government during the year		
9	A contract register		
10	Documentation relating to in-kind donations and assistance		

The above serve as examples of the minimum requirements normally applicable to a municipality audit. The list is not necessarily complete and judgement should be used to determine whether other information should be placed in the audit file. In order to keep the audit file at manageable levels we encourage use of electronic medium with references made to supporting documentation that must be readily accessible. The quality of the information in the audit file and supporting documentation will greatly facilitate the successful completion of the audit and the related audit outcome. It is likely that a lower number of audit findings would be experienced where a neat, accessible and comprehensive audit file is kept.

ANNEXURE A

AUDIT STEERING COMMITTEE

TERMS OF REFERENCE

The aim of the Audit Steering Committee is to establish a formal communication channel between the Municipality and the Office of the Auditor-General, in this way to accomplish a sound co-operation between the parties. Matters that may be discussed during the meetings of the Audit Steering Committee are, *inter alia*;

- Audit planning for the year -in other words which activities will be subjected to an audit and the reasons.
- Estimated audit costs.
- The estimated costs of the auditing for the year must be furnished, as the Municipality must budget for the expenditure;
- Any deficiencies or irregularities revealed during audits.
- The Audit Steering Committee gives the parties the opportunity to discuss problems and in this way to prevent any unnecessary written communication, which can be time consuming and costly.
- Discussion of audit reports, Management letters and queries of a serious nature to obtain unanimity on the contents and to expedite the finalisation thereof.
- Problems emerging during audits, e.g. availability of records, etc.
- Create the opportunity for the Municipality to give inputs in good time.
- The identification of contact persons for enquiries and mutual communication.

CONSTITUTION

In order to ensure the efficient functioning of the Audit Steering Committee, the committee should consist of the following members:

- Municipal Manager
- Chief Financial Officer
- Departmental Managers
- Head of Internal Audit
- Representatives from the Office of the Auditor-General;
- Secretary - in order to ensure that proper minutes are taken of the meeting and are distributed to all members.