

# REPORT OF THE AUDIT COMMITTEE

## INTRODUCTION

The audit committee report is set out hereunder in response to the auditor-general's report. Matters affecting the financial statements.

### 4.1.1 OUTSTANDING DEBT ON LAND SALES

The land sales were previously only kept on a manual register. These have now been brought onto the Venus Billing system. The bulk of the debt is old debt that accumulated on outstanding land sales. Meetings together with the Credit Control, Land Administration, Rates and Ms Kriel from Bax, have been held to ascertain whether these sales should be cancelled. The land sales currently in arrears have been handed over to attorneys for collection. The land sale agreements are being reworded to include an acceleration clause and to allow for costs on an attorney client basis should it be handed over. In future the land sales will be set up to allow for the correct aging. This would occur where a deposit and the balance in installments will be catered for.  
(Chief Financial Officer)

### 4.1.2 UNALLOCATED RECEIPTS

There has been no movement on this vote since March 2002. The amount that has been accumulated on this Vote is being investigated in order that it may be Gazetted and thereafter transferred to the Unappropriated Surpluses Vote.  
(Chief Financial Officer)

## 4.2 Matters not affecting the financial statements

### 4.2.1 Significant unaccounted for water losses

#### **Water Losses can be categorized as follows:**

##### **Network Losses:**

These losses, which consist of leaking joints and fittings, fire fighting, bursts and aging infrastructure can be considered to be approximately 25% of water produced / purchased. It must be noted that a measure of background losses are permanent and inherent in all systems, namely 20%.

##### **Losses beyond consumer connection:**

These losses can consist of under-billing (consumers charged on flat rates), inadequate metering, leaks, (toilet cisterns, taps, geysers, etc).

##### **Inaccurate meters:**

A meter auditing / replacement programme should be in place to ensure that all consumers are metered and that meters that become inaccurate through wear and tear are replaced.

##### **Action being implemented:**

A Water Loss Management Study and Business Plan was undertaken and prepared by Messrs Jeffares Green Parkman Consultants (Pty) Ltd in association with WRP (Pty) Ltd. The Business Plan was completed in April 2004. This document is being used to address prioritized areas in Buffalo City to reduce water losses. Initiatives such as metering, pressure reduction and sub-zoning are being considered. A strategic task team has been formulated through the Mayoral Committee to consider the most effective ways of implementing the new Water Demand Management Strategy.

In addition a contractor has been appointed to implement a Water Management Information System. This system will assist in managing the following important components:

Asset registration and management - Forecasting of probable asset replacement needs, based on statistical forecasting and economic criteria.

Forecasting and identification of probable system augmentation needs.

Forecasting of probable bulk raw water and treated water needs.

Optimization of existing supply and storage systems.

Water Loss Management reports and spatial location and mapping of the probable source of non-revenue water, leading to increased revenue and reduction in water losses.  
Recording of all customer transactions and work activities carried out in the course of providing the service.

Comprehensive water tariff modeling facility.

A comprehensive automated timekeeping system.

Comprehensive and user definable automated management reports with statistical and graphical representation results.

Fully automated Plan Book generation facility.

Cost optimization of pipelines.

Further to the implementation of the Water Management Information System the following measures are being undertaken:

SRK Consulting Engineers have been appointed to investigate water losses in Gompo and to document proposals for reducing them.

The establishment of two Water Loss Units (one is already in place) to address physical losses.

Replacement of midblock water mains and replacing ageing infrastructure.

Installing meters to unmetered consumers and replacing inaccurate meters.

Investigating usage of "leak-free" toilet cisterns especially in housing developments.

These are initiatives being undertaken by the Water Branch to address physical losses. Billing losses are being dealt with by the Revenue Management Department in the Directorate of Finance. (Director: Engineering Services

#### 4.2.2 Significant unaccounted for electricity losses

Considerable progress has been made in the electrification of low-income houses with the electrification of over 4000 units at a cost of about R24 million since the Auditor General conducted this investigation. External funding is readily available from the Integrated National Electrification Programme for electrification of new low-income houses, and the continuation of this will be dependant on the provision of counter funding by the Council and progress in relation to the construction of new houses by the Department of Housing.

A maintenance plan has been drawn up and a considerable portion of work is now passed out to private contractors, while operations staff focus more on implementing planned maintenance programmes and attend to network faults.

The Operational staff structure of BCM Electricity has been revised.

In order to improve the revenue stream for electricity, no new domestic consumers are provided with credit meters – only prepayment metering is provided unless sufficient reasons can be given to justify a credit meter. (e.g.: Medical reasons)

A Revenue Protection Section has been established within the Department to check up on the theft of electricity including bypassing of meters.

All commercial and industrial meters in the greater King William's Town area and Mdantsane have been checked and the conversion constants and tariff categories have also been verified.

An automatic meter reading system for about 900 large consumers is to be installed. This system will reduce the risk of human error in the reading of meters. It is envisaged that the cost for the implementation of this system will be borne by the consumers through the tariff. The system will also enable staff to detect unusual changes in a consumer's usage pattern. This system is also to be extended to include an additional 200 bulk supply points for the purpose of theft control.



(Director: Engineering Services)

#### 4.2.3 Internal control

##### a) Reconciliations

The Directorate of Finance requested that the Senior Accountant: Internal Control position be filled in January 2004. Adverts were only placed in May 2004 to date no suitable candidate has been recruited. The Directorate is currently in the process of recruiting a suitable candidate.

(Chief Financial Officer)

A data clean up process has been set up whereby the valuations will be balanced per area.

(Chief Financial Officer)

We have discussed this matter with the relevant officials of the Directorate of Finance and the following was agreed:

a) It would be virtually an impossible task to reconcile the debtors listing with the rental income vote for the past financial year as a debtors listing would require an up to date Rental Register which is non-existent and which has never been compiled for the Municipality.

b) It was agreed that officials from the Directorate of Finance will assist Land Administration to compile a Rental Register from the available information between the two Departments retrospectively as from July 2004.

(Director: Development Planning)

The reconciliation was done and the vote balanced. However a payment was journalized to this vote after the close of the financial year in error. (Chief Financial Officer)

According to officials from the Directorate of Finance an incorrect journal was made in the land sales votes and they have responded to this enquiry as per the attached memo from Acting Programme Manager: Valuations & Rates to the Programme Manager: Asset Risk & Financial Services dated 9 November 2004 which reads as follows:

“Journal DOFEXPJL Number 4921

It has come to our attention that the above-mentioned journal was passed in July 2004 that debited our “Land Sales Outstanding” vote (9892008020301) with an amount of R95 205.63. It is claimed that the payment of the same amount was receipted to the land sales vote and the reason for the journal was to correct this incorrect payment allocation and to transfer it to the correct account.

We will reverse the journal if no evidence of this payment is produced within the next two days.”

(Director: Development Planning)

Problems are still being experienced with reconciliation of the traffic income votes due to the fact that the Traffic and Licensing units at East London, King William’s Town and Gonubie are all using the same votes, making it very difficult to do a combined reconciliation.

The matter has been raised with the Directorate of Finance by officials from the Public Safety Department. However, further discussions need to take place with officials from the Asset and Risk, Budget and Treasury and Revenue Management Departments to come up with a solution to the problem. Traffic income is only one of few examples, i.e. Cemetery income is also affected.

(Director: Social Services)

##### b) Supervisory and monitoring controls

The sewerage charges that were not raised for the period have subsequently been raised. The sewerage accounts section will ensure that the information is received from the building control. If information is not received the building control section will be notified. Further controls are in place to check reports from the system for any properties with no sewerage charges. (This report has only been available since the installation of the new version of Venus).

(Chief Financial Officer)

All building applications are entered on the Building Control Database once the plan approval fees have been paid and proof of payment in the form of a receipt has been submitted to building control.

Once plans have been approved the database is updated with the date of approval. The same procedure applies to construction start and construction completion and sign off.

Once a month a list of building works completed is downloaded from the database by Building Control through a field request printout. This list is forwarded to the Valuations Department via the Records Department serving the Directorates of Development Planning and Engineering Services.

The dates for the period requested is automatically printed on the top of each page of the printout. Each page is numbered as being page "X" of "Y" pages of the printout. The printouts are filed sequentially in the Building Control section and by the Records Department who then send a copy to Valuations and Rates.

A receipt form system has been introduced to verify delivery of the data to the Valuation and Rates Department via the Records Department".

(Director: Development Planning)

c) Bank Reconciliation

The utilization of this account was clarified and resolved in the finalization process of the 2004 bank reconciliation and the account was then reconciled at the financial year-end.

Controls and procedures are now in place to ensure that only the actual under and over banking transactions from the cashiers is affected on this account. The relevant documents are forwarded to the cash receiving to correct the errors and to ensure that the relevant adjustments are done in time.

The reconciliation of the under and over account is done by the head of cash control on a monthly basis and is reviewed and signed by the Programme Manager of Consolidated Billing. A further review by the Programme Manager of Customer Care is now also in place. (Chief Financial Officer)

d) Personnel records

Due to the vast number of leave forms that are received each day, it has not been possible to file all of the leave forms in personal leave files. We have employed 3 temporary staff in order to assist with the filing of the backlog of leave forms but there is still a number of leave forms that have to be filed. There is already a control procedure in the form of the checking of leave taken that is recorded by each Department on the monthly exception report.

With the new ARMS system, we will be able to prepare a monthly report of all leave taken per cost centre and submit this to each Department in order for them to verify that all leave for their Department has been processed. Arrangements are also being made for an external audit of our leave records. (Director: Corporate Services)

4.2.5 Internal audit

Efforts have been made to attract suitable qualified staff during the course of the current financial year. Two new qualified staff commenced duty in January 2005.

These officials will be assigned to complete only that work set out in the interim Audit Plan as adopted and approved by the Audit Committee. No other management work will be allocated to these officials.

In addition, the process to hand over more of the controls performed by the Department will continue. It is not considered prudent to withdraw from tasks and leave a control vacuum.

(City Manager)

4.2.6 Audit committee

A new Audit Committee has been constituted and has met during the period to end December. The Committee has reviewed and revised both the Audit Committee Charter as well as the Internal Audit Charter.

(City Manager)



#### 4.2.7 Unauthorised expenditure

With regard to this matter a copy of the KWT Council resolution concerning the approval of this project was forwarded to the Auditors General's office during November 2004. The Auditor General's office responded by stating they were not satisfied with the response. The Housing Division is now submitting a further report to Council to ratify the former KWT Council resolution.

(Director: Development Planning)

#### 4.2.8 Computer environment and systems

##### a) Disaster recovery plan

As part of the IT Strategy report there is a proposal for a disaster recovery plan. With the gradual implementation of the strategy we are also implementing the disaster recovery plan. Currently we have a comprehensive disaster recovery strategy for the financial system, although we still lack in formalisation and documentation of the procedures.

The municipality has put out a tender for a storage area network solution this will allow us to phase in the strategy to the rest of the computer environment.

We have a planned project and commitment to carry out the formalisation and documentation of the procedures. This should be completed by end of April 2005. (Director: Corporate Services)

##### b) Security policy

A security policy has been approved by the council and with the policy is set of standards that address different areas of IT security concern. Most of the standards are implemented in our computer operations.

The municipality has a policy that informs all employees about the acceptable usage of the electronic data. This document is given to all new employees and broadcast on logging on municipal network.

(Director: Corporate Services)

##### c) Backups

We carry out daily backups of all municipality electronic data and the tapes are placed on remote locations overnight. We test the restore on the financial system sufficiently.

With new storage area network we will be able to test the restore of the rest of the electronic data.

(Director: Corporate Services)

##### d) Access of consultants to the production environment

The BCM does acknowledge the risk posed by the access of consultants to the production environment. To minimize and manage this risk it should be noted that BCM has in place the following controls:

The consultants can only access the system with the permission of BCM at specific times for specific purposes, i.e. they cannot access the system any time they choose.

Every time the consultants need to access the system they must first get a password form BCM IT Operators, i.e. they do not have a permanent password that they can use anytime.

The consultants that access the system do have specific user names, in conjunction with timestamp of the audit trails will be able to specifically pinpoint any changes made to the system to a specific user.

(Director: Corporate Services)

##### e) Segregation of duties

The only remaining issue with the delegation of authority is with regard to the operators. We have removed some of their user rights, however they still has some authority to allow them to assist system users. Some of the authority levels are not in line with their day-to-day work.

(Director: Corporate Services)