

City of Johannesburg Council 2006-03-20

COJ: MAYORAL COMMITTEE 2006-03-20

## **FINANCE**

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### **CORRECTIVE ACTION TAKEN OR TO BE TAKEN IN RESPONSE TO ISSUES RAISED IN THE REPORT**

#### 1 STRATEGIC THRUST

Good Governance.

#### 2 OBJECTIVE

The objective of the report is to seek approval of the committee on the action plans to address the audit findings covered in the audit general's report.

#### 3 SUMMARY

After the Audit of the 04/05 financial year was consolidated the Accounting General Issued Audit report for each of the Municipal owned Entities and consolidated Report.

Interims of Municipal Finance Management Act no 56 of 03 Section 121 (3) (g) An Annual report of Municipality must include any particulars of any corrective action taken or to be taken in response to issues raised in the audit report

This Report present the action plans of items that are included in the consolidated audit report

Attached in annexure (A) which covers action plans that relate to municipal owned entities. Annexure (B) covers action plans relating to the core administration.

#### 4 POLICY IMPLICATIONS

Some of the action plans requires policies to be proposed for approval by council. The implication of the policy will be covered in the relevant report

#### 5 LEGAL AND CONSTITUTIONAL IMPLICATIONS

This report is in compliance with Municipal Finance Management Act

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6 FINANCIAL IMPLICATIONS

The are financial implications in addressing some of the areas Raised in audit report and this will be quantified after investigations are concluded.

7 OTHER DEPARTMENTS AND BODIES CONSULTED

None

**IT IS RECOMMENDED**

That the action plan outlined the A and B

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**UAC's**

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<b>Unreconciled accounting records (Inventory) – Johannesburg Water</b>			
<b>Activity</b>	<b>Detail description of the activity</b>	<b>Timeframes</b>	<b>Responsible person</b>
<b>Unreconciled accounting records (Inventory)- Metro Bus</b>			
<b>Activity</b>	<b>Detail description of the activity</b>	<b>Timeframes</b>	<b>Responsible person</b>
<b>The Physical count of inventories at 30 June 2005 at Metropolitan Bus Services (Pty) Ltd was not attended by this Office, but roll back procedures performed by management during the audit, indicated that deficiencies occurred in the physical count. The completeness and existence of inventory amounting to R7.7 million at 30 June 2005 could therefore not be confirmed.</b>	Reconcile the physical to the theoretical stock	April 2006	CFO

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<b>Johannesburg Fresh Produce Market (Pty) Ltd</b>			
<b>Activity</b>	<b>Detail description of the activity</b>	<b>Timeframes</b>	<b>Responsible person</b>
<b>A breakdown of the system of internal and financial controls resulted in unreconciled differences in the deposit and business bank accounts, the guaranteed buyers subsidiary ledger and the debtors ledger led to incorrect disclosures in the financial statements. A forensic investigation and other interventions were instituted.</b>	All bank reconciliations are being automated using specialised software. Such reconciliations are now being done from July 2005	April 2006	Acting CFO

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<b>Johannesburg Fresh Produce Market (Pty) Ltd Continued</b>			
<b>Activity</b>	<b>Detail description of the activity</b>	<b>Timeframes</b>	<b>Responsible person</b>
<b>Review of Guarantees</b>	All debtor guarantees are being reviewed and updated. Credit facilities for debtors whose guarantees are not in order are being suspended. Cheques are only accepted from debtors whose guarantees are in place and who have no record of RD cheques	April 2006	Action CFO

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City Housing Company (Pty) Ltd			
Activity	Detail description of the activity	Timeframes	Responsible person
<p><b>A serious breakdown of the system of internal controls occurred and an improper accounting system was used. Consequently, I was unable to verify assertions in respect of property, plan and equipment, grant income and accruals for the year under review.</b></p>	<p>The City has resolved that CHC will be liquidated through voluntary members liquidation.</p>	<p>March 2006</p>	

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<b>City Housing Company (Pty) Ltd - Continued</b>			
<b>Activity</b>	<b>Detail description of the activity</b>	<b>Timeframes</b>	<b>Responsible person</b>
<b>The unsigned financial statements of this company were prepared on a going concern basis notwithstanding the municipality's shareholder unit decision on 15 November 2005 to liquidate the company. Consequently, the financial statements included in the group financial statements were prepared on the incorrect basis.</b>	<p>The City will formally pass a special resolution in terms of the companies Act to appoint the liquidator and to register the process with the office of Master of the High Court.</p> <p>The City is currently completing the financials and due diligence.</p> <p>The financial statement will be produced on a liquidation basis to be given to the Master of the High Court</p>	<p>May 2006</p> <p>April 2006</p>	

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<b>Johannesburg Social Housing Company (Pty) Ltd</b>			
<b>Activity</b>	<b>Detail description of the activity</b>	<b>Timeframes</b>	<b>Responsible person</b>
<p>Due to significant control weaknesses, and the lack of information, and appropriate explanations, the completeness, existence and valuation of property, plan and equipment could not be verified. In addition, the City of Johannesburg did not provide the appropriate guarantee for the inter-company debt and the recoverability of this debtor was therefore doubtful. The company's taxation appeared to be incorrectly calculated for the financial period. Various significant weaknesses existed in the control over accounts payable and general expenditure and as such could not be verified. Concern was raised as to the impact of the above errors on the solvency of the company.</p>	<p>Senior management has been appointed and areas of control weakness have been addressed.</p>	<p>Complete</p>	<p>CFO</p>

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<b>Impairment of assets (Utility companies), City Power, Johannesburg Water and Pikitup</b>			
<b>Activity</b>	<b>Detail description of the activity</b>	<b>Timeframes</b>	<b>Responsible person</b>
<b>The impairment exercise required in terms of International Accounting Standard 36 (IAS 36) was not undertaken for the three utility companies.</b>	<p><b>Johannesburg Water, City Power and Pikitup:</b></p> <p>This requirement would appear to be irrelevant under the circumstances, given the nature of the product and the absolute need for service delivery.</p> <p>A reconciliation will however, be prepared and an assessment of the carrying value made. The completion date is end February 2005.</p>	February 2006	Director: Finance
<b>Furthermore, a provision was not made for the rehabilitation costs of various closed landfill sites at Pikitup Johannesburg (Pty) Ltd</b>	<p><b>Pikitup:</b></p> <ol style="list-style-type: none"> <li>1. Write policy that will outline the process of the impairment aspect of assets.</li> <li>2. Obtain approval from the Board – normal process of approval to be followed.</li> <li>3. Engage expert to perform valuation of the sites.</li> <li>4. Perform calculation of the impairment and process transaction.</li> </ol>	<p>March 2006</p> <p>April 2006</p> <p>May 2006</p>	Director: Finance
<b>Completeness of Revenue – Water and sewerage income</b>			

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Activity	Detail description of the activity	Timeframes	Responsible person
(a) In the absence of a suitable reconciliation between the water consumption points and the billing system, I was unable to assess whether all properties within the boundaries of the municipality were included or validly excluded from the billing systems of Johannesburg Water (Pty) Ltd. The impact of this on the revenue base of the municipality could not be determined.	<p><b>Completeness of Revenue:</b></p> <p>Perform a reconciliation of the GIS with the billing system. Identify alternate controls that may achieve the same result. Draft reconciliation scheduled for completion by the end of April based on information to March 2008. Internal Audit to assist in the process.</p>	April 2005	Customer Service Division
(b) In the absence of detailed prior year accounting records for collections on behalf of Johannesburg Water (Pty) Ltd by the core municipality, it was not possible to express an opinion on the completeness and accuracy of collections by the core municipality totalling R58,0 million. These collections were recorded in the statement of changes in equity as a prior year adjustment.	<p><b>Statement of changes in equity:</b></p> <p>This item is a carry over of an issue identified in the June 2004 financial year and refers to the non-payment by the City for UAC usage of water. The matter has been resolved and no action is required.</p>	Complete	City of Johannesburg

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Consumer debtors and opening balances			
Activity	Detail description of the activity	Timeframes	Responsible person
<p>The audit opinion on electricity and water consumer revenue and consumer debtors was disclaimed in the preceding financial year due to significant weaknesses in respect of the completeness of the customer database. Neither of the two affected UAC's, nor the core municipality was able to provide detailed supporting schedules and other documentation to substantiate the opening balances. The financial effect on the current year financial statements could not be quantified.</p>	<p><b>Johannesburg Water &amp; City Power:</b></p> <p>A special project team has been set up by the COJ to migrate the debtors and the billing system to SAP ISU.</p>	<p>2006/7 fiscal year</p>	<p>CFO, Revenue</p>

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Provision for leave pay			
Activity	Detail description of the activity	Timeframes	Responsible person
<b>A breakdown of accounting controls over the recording of leave at Pikitup Johannesburg (Pty) Ltd occurred and I was unable to perform alternative procedures to confirm the completeness and validity of leave balances amounting to R28.2 million. This amount shall be impacted by the Bargaining Council agreement which provides for forfeiture of accumulated leave under certain conditions.</b>	a. Process all outstanding leave forms.	January 2006	Corporate Services Executive
	b. Obtain confirmation of the balance from staff member – sign off.	February 2006	
	c. Ensure that all forms are filed.	February 2006	
	d. Run January leave balance report to ensure that there is no excess leave to policy.	February 2006	
	e. Reconfigure the SAP system to ensure that there are exception reports etc to enable management of leave on a monthly basis.	March 2006	
	f. Reconciliation and confirmation of leave balances on a monthly basis.	Ongoing	Director: Finance
	g. Calculation of the new value of the leave provision in terms of the new implemented policy.	February 2006	

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Unaccounted for water			
Activity	Detail description of the activity	Timeframes	Responsible person
<p>The percentage of unaccounted for water was estimated at 33 percent (2004: 36 per cent). Calculated at the average cost of water purchased, the loss amounted to approximately R417,6 million (2004: R423,4 million).</p>	<p>Project Gcin'amanzi is expected to address the issue of a reduction in the level of unaccounted for water.</p>	<p>Ongoing</p>	<p>New services division</p>

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<b>Value added tax</b>			
<b>Activity</b>	<b>Detail description of the activity</b>	<b>Timeframes</b>	<b>Responsible person</b>
<b>City Power was registered on the payment basis in terms of section 15 of the Value Added Tax Act, 1991 (Act No. 89 of 1991). However, input Value Added Tax (VAT) was claimed on the invoice basis due to an incorrect configuration of the accounting application system.</b>	Amendment of accounting system.	April 2006	CFO
<b>At Pikitup Johannesburg (Pty) Ltd, amounts journalised from the unallocated deposit account were not flagged as customer receipts, and were not taken into account for output VAT purposes</b>	<ul style="list-style-type: none"> <li>a. Assess the reason for the discrepancy in VAT on the Venus system.</li> <li>b. Business Connexion to sort out system problem.</li> </ul>	December 2005 January 2006	Director : Finance

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<b>Registration of freehold land and buildings</b>			
<b>Activity</b>	<b>Detail description of the activity</b>	<b>Timeframes</b>	<b>Responsible person</b>
<p>Freehold land and buildings transferred to the UAC's in terms of the various sale of business agreements were still registered in the name of the municipality. Management of the municipality were reviewing the options of transferring the assets which were cost effective and pragmatic.</p> <p>City Power           R 3.2m            Jwater               R147.0m            Pikitup             R 24.8m            Metrobus           R 12.3m            JFPM                 R 77.6m            JRA                 R 3.3m</p>	<p><b>Registration of freehold land and buildings:</b></p> <p>Obtain in writing from the SHU the date of transfer.</p>	January 2006	Company Secretary
<p>The carrying values applicable to the City Housing Company (Pty) Ltd could not be determined due to a breakdown of accounting controls in that company.</p>			

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<b>Non-compliance with the Municipal Systems Act</b>			
<b>Activity</b>	<b>Detail description of the activity</b>	<b>Timeframes</b>	<b>Responsible person</b>
<p><b>Section 93K of the Municipal Systems Amendment Act, 2003 (Act No. 44 of 2003), prohibits a municipal entity from the establishment of an acquisition of interest incorporate bodies. Contrary to this, the Johannesburg Development Agency (Pty) Ltd (JDA), held interests in Greater Newtown Development Company (Pty) Ltd and Constitution Hill Development Company (Pty) Ltd</b></p>	<p>A resolution will be passed, by the JDA board, transferring the minority shareholding in the companies to the COJ.</p> <p><b>Stake:</b> Newtown 23% Constitution Hill 13.3%</p>	<p>April 2006</p>	<p>City manager</p>

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<b>Non-compliance with the Municipal Systems Act - Continued</b>			
<b>Activity</b>	<b>Detail description of the activity</b>	<b>Timeframes</b>	<b>Responsible person</b>
Instances of non-compliance with the requirements of the MFMA were noted and communicated to management. The key areas of non-compliance were the following:			
(a) Section 89(a) of the MFMA provides for the core municipality to determine the upper limits of the remuneration of the chief executive officers and senior management of the UAC;s. Such upper limits were not determined for the year under review.	<p><b>Pikitup:</b></p> <p>A report will be tabled before the relevant committees to determine of upper limits of the remuneration of the CEO and senior management</p>	April 2006	City Manager

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<b>Non-compliance with the Municipal Finance Management Act (MFMA) - Continued</b>			
<p>(d) The fixed asset register for moveable and immovable assets held by City Power Johannesburg (Pty) Ltd, Pikitup Johannesburg (Pty) Ltd, Johannesburg Social Housing company (Pty) Ltd and City Housing Company (Pty) Ltd were incomplete and assets were not adequately detailed to allow identification of the physical assets. This was contrary to section 96(1) of the MFMA.</p>	<p><b>City Power, Pikitup and JOSCO:</b></p> <p>Updating of fixed asset register</p>	<p>April 2006</p>	<p>CFO</p>
<p>(e) Contrary to section 125(2)(d) of the MFMA, fruitless and wasteful expenditure was not disclosed in the notes to the group annual financial statements. A system did not exist to identify, record and disclose all incidences of fruitless and wasteful expenditure at the core municipality and its UAC's. Such incidences were also identified through forensic investigations.</p>	<p><b>UAC's and Core:</b></p> <p>A system to identify records and disclose incidents wasteful and fruitless expenditure has been implemented</p>	<p>June 2006</p>	<p>CFO's</p>

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<b>Disaster recovery and business continuity planning</b>			
<b>Activity</b>	<b>Detail description of the activity</b>	<b>Timeframes</b>	<b>Responsible person</b>
<p><b>The Disaster Recovery Plan (DRP) in place at the core municipality did not include the processes that business needed to follow during a disaster.</b></p> <p><b>Contrary to best practices, City Power Johannesburg (Pty) Ltd, City Parks (Pty) Ltd, Johannesburg Zoo (Pty) Ltd, The Metropolitan Bus Services (Pty) Ltd and Pikitup Johannesburg (Pty) Ltd did not finalise their disaster recovery and business continuity plans to address business issues in the event of business interruption.</b></p>	<p><b>Metrobus:</b> Newly formed Risk Committee, to ensure the drafting and implementation of Enterprise-wide Disaster Recovery Plan</p> <p><b>Pikitup:</b> Establish Business Plan and Disaster Recovery Plan</p> <p><b>City Power:</b> Implementation of Disaster Recovery Plan</p> <p><b>Zoo:</b> A continuity plan is being designed.</p>	<p>June 2006</p>	<p>Head of Risk Committee and MD</p> <p>Director: Finance</p> <p>CFO</p> <p>CFO</p>

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<b>Weaknesses in the information technology (IT) environment</b>			
<b>Activity</b>	<b>Detail description of the activity</b>	<b>Timeframes</b>	<b>Responsible person</b>
<b>Weaknesses were identified in respect of the general computer controls and application controls that could compromise the overall integrity, reliability and availability of the operating and processing environment at Johannesburg Water (Pty) Ltd</b>	<p><b>Johannesburg Water:</b></p> <p>Weaknesses related to general controls were substantially resolved before June 2005. The required resource to correct the remaining issues raised has been identified. Completion of the corrective action is scheduled for end February 2006.</p>	February 2006	Customer Service
<b>Although some controls were in place at City Power Johannesburg (Pty) Ltd, the most significant control weakness identified was various changes to the SAP application system found on the transaction log files that were not supported by change request forms. It could therefore not be determined if all changes made were appropriately approved.</b>	<p><b>City Power:</b></p> <p>Completion of change request forms</p>	April 2006	CFO

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# CORE

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<b>Consumer debtors with credit balances</b>			
<b>Activity</b>	<b>Detail description of the activity</b>	<b>Timeframes</b>	<b>Responsible person</b>
Debtors whose accounts reflected credit balances amounting to R496.4 million (2004: R 464.5 million) were included in the debtors age listing at year end. An analysis of these accounts by management indicated that R162.7 million of the account balances were valid credit balances relating to the clearance certificate process. A plan to address the remaining R298.7 million was implemented subsequent to year-end.	<b>Implement preventative measure:</b>  Implement Pro active refunds unit to prevent unnecessary accumulation of credit balances in operations	<b>Feb 2006</b>	<b>COO</b>
	<b>Establish final phase clean – unit:</b>  Existing resolution team absorbed into operations as a preventative measure.  A new resolution team to be established.	<b>Feb 2006</b>	
	<b>Resolve remainder of credit balances:</b>  Refunds query team, pro active unit, special project team to address initiative collectively	<b>June 2006</b>	

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<b>Fixed Assets</b>			
<b>Activity</b>	<b>Detail description of the activity</b>	<b>Timeframes</b>	<b>Responsible person</b>
<b>Write-off of assets contained insufficient data and global amounts and their replacement with assets at fair value in terms of GAMAP 17 and the guideline issued by National Treasury as per MFMA Circular No. 18</b>	1. Finalise the classification of 2316 properties for GAMPA and user department.	April 2006	CFO
	1.1 Properties held under the township tile approximately 66000 to be converted into assets for uploading to Venus	June 2006	
	1.2 Take on further 107 properties entries discovered by Intersite after 20 June 2006	June 2006	
	2. Takeon 1238 improvements entries and scrap the old database for improvements	June 2006	
	3. Apply the desktop valuation on the 500 properties takeon at R1-00 value.	June 2006	
	4. UAC's to adjust Land currently recorded in their books of account. (NB: As they cannot provide supporting details for the amounts disclosed in their financial statements.	May 2006	
	5. Update the Venus asset register for land sales.	Ongoing	

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<b>Retirement benefits funding</b>			
<b>Activity</b>	<b>Detail description of the activity</b>	<b>Timeframes</b>	<b>Responsible person</b>
<p><b>It was not possible to obtain the actuarial valuations for the various open retirement funds to which some of the staff of the municipality and its utilities, agencies and corporations, contributed. The closed retirement fund information for funds covering the majority of employees were obtained and were accounted for in the group annual financial statements accordingly.</b></p> <p><b>Consequently, the extent of any deficit or surplus relating to these funds could not be ascertained.</b></p>	<p>Persue the funds through financial services board to secure actuarial valuations</p>	<p>April 2006</p>	

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<b>Assessment rates and taxes - Differences between the valuation roll and billing the system</b>			
<b>Activity</b>	<b>Detail description of the activity</b>	<b>Timeframes</b>	<b>Responsible person</b>
<p><b>A reconciliation of properties as per the valuation roll compared to the properties as per the debtors' billing system performed by the municipality indicated differences between the two systems. The estimated impact on assessment rates could therefore not be determined. Significant progress was however made with the reconciliation process since the previous year.</b></p>	<p><b>Duplicate stands:</b> Verify ownership of correct stand with Deeds data.</p>	June 2006	Director: Rates & Taxes
	<p><b>Inactive stands:</b> Correct information on Venus billing system</p> <p><b>Invalid stand numbers in valid townships:</b> Property Identifier with valid codes but invalid stand numbers</p> <p><b>Invalid townships to be excluded:</b> Identify invalid townships</p> <p><b>Billing pre-2001:</b> Part of legacy system does not match billing system</p> <p><b>Servitudes:</b> A separate Sub-Record to be created on the same property indicating servitude.</p>	December 2006	Rates & Taxes / GIS / Valuations  Director: Rates & Taxes
<b>Assessment rates and taxes - Differences between the valuation roll and billing the system - Continued</b>			

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Activity	Detail description of the activity	Timeframes	Responsible person
	<p><b>Valid townships to exclude:</b></p> <p>Billing system carries street numbers and not Surveyor General's stand numbers. Eg Alexander. A 'Walking Streets' project is required to fix this.</p> <p>GIS cannot be linked to the abovementioned problem.</p> <p>This mainly affects areas where the land value is less than R20 000.00</p> <p>Surveyor General, town planning, valuation, GIS and billing</p> <p><b>Certain properties not yet being billed for assessment rates:</b></p> <p>Land values to be added.</p>		<p>Director: Rates &amp; Taxes</p>

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<b>Emergency services</b>			
<b>Activity</b>	<b>Detail description of the activity</b>	<b>Timeframes</b>	<b>Responsible person</b>
<b>A new billing system was introduced for emergency services during the year and inadequate audit trails existed between the emergency services despatches and the billing system. Audit was therefore not able to test the completeness of the emergency services income. Consequently, no conclusion could be reached on the completeness of emergency services fees amounting to R7.7 million</b>	<p><b>These audit trails have been put into place.</b></p> <p>Ensure submission of all EMS calls transmitted through the Control centre</p> <p>Ensure that TPH 99 Forms and fire slips are correctly and completely filled in and submitted timeously to Finance</p> <p>Reconcile information received from Proton and Operations</p>	<p><b>April 2006</b></p> <p><b>Weekly</b></p>	

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<b>Limitation of scope on the amounts written off as part of the indigent debtor's policy</b>			
<b>Activity</b>	<b>Detail description of the activity</b>	<b>Timeframes</b>	<b>Responsible person</b>
<p>The municipality and its UACs implemented an indigent debtor's write-off project with effect from 4 May 2005, the details of which are fully explained in note 30 to the annual financial statements. At the time of the audit, the supporting documentation for these indigent debtor's write-offs were collected from the regions and the various core and people centres where the physical applications were processed and sent for micro filming. Other applications were with teams carrying out home visits and teams carrying out extended audit procedures on the applications.</p> <p>Consequently, I was unable to test the write-offs against the council approved policy. I am therefore unable to express an opinion on the indigent debtor's write-offs exclusive of Value Added Tax amounting to R636.0 million</p>	<p><b>Project End:</b> The write-off of indigent applicants will cease</p> <p><b>Filing Complete:</b> All application forms to the end of January will be collected, sorted and filed</p> <p><b>Application checking:</b> Each form is checked manually and the Venus system updated with any discrepancies or error.</p> <p><b>Reversals and litigation:</b> Information is gathered through several sources. Reversals are performed where relevant, accounts handed over for civil action, cut-offs affected and prosecution will commence.</p>	<p>January 2006</p> <p>February 2006</p> <p>To be determined</p> <p>Ongoing</p>	<p>Steering Committee</p> <p>Fraud team</p>

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<b>Operating lease commitments</b>			
<b>Activity</b>	<b>Detail description of the activity</b>	<b>Timeframes</b>	<b>Responsible person</b>
<b>Operating lease commitment amounts were not recognised on a straight line basis over the lease term as required by GAAP</b>	Operating lease commitments to be recognised in accordance with the requirements of the statement.	COJ to include detailed instructions in the year-end guidelines	<b>COJ</b>
<b>Furthermore the amounts disclosed under operating lease commitments (note 43) were not calculated in line with terms of the lease agreements, e.g. amounts payable in four years included leases that expire in 2005</b>			

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<b>Operating lease income</b>			
<b>Activity</b>	<b>Detail description of the activity</b>	<b>Timeframes</b>	<b>Responsible person</b>
<b>Lease rental income was not disclosed in annual financial statements as required by GAAP, statement IAS 17 (AC 105) – leases. Furthermore, operating lease income amounts were not recognised on a straight line basis over a lease term as required by the same statement.</b>	Disclose lease rental income as required by the relevant statement.	COJ to include detailed instructions in the year-end guidelines.	<b>COJ</b>

