

Reference: RCS/C.5

TREASURY CIRCULAR MUN NO 23/2015

THE MAYOR, CITY OF CAPE TOWN: MS P DE LILLE
THE MAYOR, WEST COAST DISTRICT MUNICIPALITY: MR JH CLEOPHAS
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THE MAYOR, CEDERBERG MUNICIPALITY: MS L SCHEEPERS
THE MAYOR, BERGRIVIER MUNICIPALITY: MR EB MANUEL
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THE MAYOR, KNYSNA MUNICIPALITY: MS J WOLMARANS
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THE MAYOR, PRINCE ALBERT MUNICIPALITY: MR G LOTTERING
THE MAYOR, BEAUFORT WEST MUNICIPALITY: MR HT PRINCE

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THE CHIEF FINANCIAL OFFICER, BEAUFORT WEST MUNICIPALITY: MR F SABBAT

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THE DEPUTY DIRECTOR GENERAL: BRANCH GOVERNANCE AND ASSET MANAGEMENT (MR A HARDIEN)
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THE DIRECTOR: LOCAL GOVERNMENT BUDGET OFFICE (MR ML BOOYSEN)
THE DIRECTOR: LOCAL GOVERNMENT REVENUE AND EXPENDITURE (GROUP ONE) (MS L MCCARTNEY)
THE DIRECTOR: LOCAL GOVERNMENT REVENUE AND EXPENDITURE (GROUP TWO) (MR M SIGABI)
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THE DIRECTOR: STRATEGIC AND OPERATIONAL MANAGEMENT SUPPORT (MS A SMIT)
THE DIRECTOR: SUPPORTING AND INTERLINKED FINANCIAL SYSTEMS (MR A BASTIAANSE)

THE PROVINCIAL AUDITOR

MASTER RECORDS OFFICIAL: BUSINESS INFORMATION AND DATA MANAGEMENT

THE HEAD OF DEPARTMENT: LOCAL GOVERNMENT

THE CHIEF DIRECTOR: LOCAL GOVERNMENT BUDGET ANALYSIS – NATIONAL TREASURY (MR J HATTINGH)

THE CHIEF DIRECTOR: MFMA IMPLEMENTATION – NATIONAL TREASURY (MR TV PILLAY)

MUNICIPAL AUDIT FILE GUIDELINE FOR 2014/15 FINANCIAL YEAR

1. PURPOSE

- 1.1 The purpose of this circular is to provide municipalities with a guideline for Audit File when preparing the annual financial statements (AFS) for 2014/15 financial year.

2. BACKGROUND

- 2.1 Provincial Treasury as required in the Municipal Finance Management Act, 2003 (Act No. 56 of 2003), must monitor, assist and support municipalities in complying with the MFMA prescripts and related regulations towards securing sound and sustainable management of the fiscal and financial affairs of municipalities and municipal entities.
- 2.2 Further to the above, Management is responsible for the preparation and fair presentation of the financial statements in accordance with the requirements of the MFMA, and to ensure that the financial statements transaction information is supported and backed up by credible documentation.
- 2.3 As part of the processes to ensure that the amounts disclosed in the financial statement are credible, Provincial Treasury has initiated the process of providing high level guidelines for the preparation of Audit File. These guidelines provide the minimum information that needs to be included in the Audit File.

3. PREPARATION AND COORDINATION OF AUDIT FILE

- 3.1 The Chief Financial Officer (CFO) should ensure that the list of critical information to be included in the audit file is prepared and signed-off before a request is sent to departmental heads to provide the necessary information.
- 3.2 An Audit File Champion (AFC) should be appointed by the CFO; the AFC should serve as a link between the heads of departments, CFO and the Auditor-General with regard to request for information.
- 3.3 Communication set by the CFO to all heads of departments detailing all the required information from their respective functional lines for audit purposes. The AFC needs to follow up with all heads of department to ensure timelines are met.

- 3.4 AFC ensure that the file is compiled, whether be electronic, manual or both; this needs to be agreed with the auditors upfront as to their preference.
- 3.5 The draft audit file is then submitted to the CFO for verification and sign-off before being submitted to the Auditor-General for audit.
- 3.6 It is recommended that the audit file be provided to the internal audit as an additional layer for quality control.
- 3.7 The Audit Committee also has a responsibility to review the financial statements before submission to the Auditor-General; the CFO should provide an assurance to the audit committee that the audit file supports the transactions as disclosed in the unaudited AFS.

4. REQUEST

- 4.1 The municipality is encouraged to complete the attached Annexure A and send it to PT: Local Government Accounting (PT: LGA) by no later than 10 August 2015. This will provide PT: LGA with an indication as to the municipal progress in compiling the audit file and also identify the possible gaps.

5. CONCLUSION

- 5.1 The Audit File Champion should be the central coordination point between the auditors and the municipal officials in order to ensure that information requests is coordinated in an organised manner.
- 5.2 All heads of departments should be available at all times during the audit in order to respond to queries as collated by the AFC from the auditors to ensure that the audit process runs smoothly without any delays.
- 5.3 Important to note that the audit file should be presented to the auditors during the audit engagement meeting to ensure that auditors knows how to navigate the file.
- 5.4 The detailed Audit File Guideline is attached as **Annexure A**.

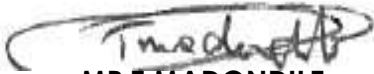
6. CONTACT

6.1 Kindly address all communication in terms of the above requests to:

Mr T Madondile

Tel No: 021 483 6420

Email: Thobelani.Madondile@Westerncape.gov.za



MR T MADONDILE

ACTING DIRECTOR: LOCAL GOVERNMENT ACCOUNTING

DATE: 7 JULY 2015



Name of Municipality: _____

Municipal Manager: _____

Chief Financial Officer: _____

AUDIT FILE GUIDELINE	YES/NO	Comment
STATEMENT OF FINANCIAL POSITION		
Accumulated Surplus:		
a) Journals and supporting documentation regarding prior period error corrections.		
b) Summary of prior period errors, including narration of each event occurred.		
c) Journals and supporting documentation regarding changes in accounting policies from prior period.		
d) Summary of changes in accounting policy, including narration of each event occurred.		
e) Copy of Budget (SA 3) and council resolution to verify contributions to funds/reserves are approved by council and in line with amounts budgeted.		
Funds and Reserves:		
a) Summary of all funds and reserves		
b) Journals and supporting documents regarding movements in reserves		
c) Journals and supporting documents regarding movements in Housing Development Fund		
d) Council Resolution for all write-offs to Housing Development Fund		
e) Reconciliation of Funds and Reserves and available cash		
f) Funding and Reserves Policy and Council Resolution		

AUDIT FILE GUIDELINE	YES/NO	Comment
Long-term Liabilities:		
a) Loan register		
b) Confirmation from 3 rd parties		
c) Calculation of amortised discount on loans		
d) Redemption tables for finance leases		
e) Council resolution and advertisement of all new loans/ finance leases		
f) Signed new loan agreements		
g) Calculation of short-term portion of long-term liabilities		
h) Calculation of any amounts recognised as creditor on year-end		
i) Calculation of any amounts recognised as creditor on year-end		
j) A detail list, indicating the carrying values of assets held as security for external loans		
Non-current Provisions:		
a) Detail report from engineer showing all calculations, assumptions used and estimate cost on year-end and closure date of landfill-sites.		
b) Qualifications of consultant performing the valuation.		
c) Calculation of short-term portion of non-current provision		
d) Reconciliation of each provision, showing: <ul style="list-style-type: none"> - Balance beginning of the year - Contribution - Expenditure incurred - Balance end of year 		
Employee Benefits (Current and Non-current):		
a) Data reports and questionnaires submitted to actuaries for post-retirement benefit valuations.		
b) Reconciliation between general ledger and data reports submitted to actuaries for post-retirement benefit valuations.		

AUDIT FILE GUIDELINE	YES/NO	Comment
c) Detail report from actuaries showing the following for each provision: <ul style="list-style-type: none"> - Balance beginning on the year - Current-service cost - Interest cost - Actuarial gain/(loss) - Payments made - -Balance end of year 		
d) Detail report from actuaries showing all calculations, assumptions used and estimate cost on year-end and for following 2 years.		
e) Summary of retirement funds contributions by employer, showing each individual retirement fund and total contribution made to each fund by employer.		
f) Reconciliation between general ledger and summary of retirement funds contributions.		
g) Calculation of short-term portion of non-current employee benefits.		
h) Calculation of staff leave and bonuses with supporting documentation.		
i) Supporting documentation for shortfall in Cape Joint Retirement Fund showing liability on year-end and interest occurred during the year.		
j) Reconciliation of staff leave and bonuses separately, showing: <ul style="list-style-type: none"> - Balance beginning of the year - Contribution - Expenditure incurred - Balance end of year 		
Consumer Deposits:		
a) Consumer deposit register		
b) Monthly reconciliations between consumer deposit register and deposit control account		
c) A list of all new connections during the year		
d) A list of all disconnections during the year		
e) Detail of guarantees held in lieu of deposits		

AUDIT FILE GUIDELINE	YES/NO	Comment
Provisions:		
a) Calculation of each provision		
b) Reconciliation of each provision, showing: <ul style="list-style-type: none"> - Balance beginning of the year - Contribution - Expenditure incurred - Balance end of year 		
c) Supporting documentation for each provision		
Trade and Other Payables:		
a) Monthly list of trade and sundry creditors		
b) Monthly creditors age analysis		
c) Monthly creditor reconciliations (between ledger and sub-ledger)		
d) Monthly supplier statements		
e) Deposit Registers (Building deposit, community halls, etc.)		
f) Monthly reconciliation between external register and general ledger.		
g) Retaining Fee Register with supporting documentation for all entries.		
h) Monthly reconciliation between retaining fee register and general ledger.		
i) Unidentified Deposit Register		
j) Monthly reconciliation between unidentified deposit register and general ledger.		
k) Salary suspense account reconciliation.		
l) Monthly suspense account reconciliations.		
m) Calculation of water and electricity consumption between meter reading date and year-end.		
n) Calculation of unused pre-paid electricity on year-end.		
o) List of debtors with credit balances		

AUDIT FILE GUIDELINE	YES/NO	Comment
Unspent Conditional Grants:		
a) Grant register, showing: <ul style="list-style-type: none"> - Balance beginning of year - Amounts received - Interest received - Operating expenditure - Capital expenditure - Balance end of year 		
b) Link each grant per grant register to relevant accounts in GL		
c) Copies of DoRA for all grants received		
d) Link each grant received to cash book (indicate date and amount received)		
e) Reconciliation between grant expenditure per Appendix F and grants recognised in the Statement of Financial Performance		
f) Reconciliation between capital grant expenditure and Fixed Asset Register		
g) Monthly reconciliation between grant register and bank accounts		
Taxes:		
a) Summary of VAT 201's with supporting documentation		
b) Reconciliation of all VAT general ledger accounts with supporting documentation		
c) VAT/Sales reconciliation (remember exemptions)		
d) VAT apportionment calculations.		
e) Summary of EMP 201's with supporting documentation		
f) Reconciliation between suspense accounts (PAYE, SDL & UIF) and EMP 201's, indicating: <ul style="list-style-type: none"> - Balance beginning of year - Deductions made - Payments - Balance end of year 		
g) Copy of tax reconciliation submitted to SARS (EMP 501 & EMP 601)		

AUDIT FILE GUIDELINE	YES/NO	Comment
Operating leases:		
a) Operating lease registers (Buildings, commonage, community halls, holiday resorts, etc.)		
b) Calculations for straight-lining of operating leases		
c) Reconciliation for operating lease liability/asset, showing <ul style="list-style-type: none"> - Balance beginning of year - Movement for year - Balance end of year 		
d) Reconciliation between operating lease register and general ledger.		
e) Summary of operating leases payable/receivable, showing <ul style="list-style-type: none"> - Up to 1 year - 2 - 5 years - More than 5 years 		
f) Signed operating lease contracts		
Property, Plant and Equipment:		
a) Title deeds search results		
b) List of infrastructure projects submitted to consulting engineers for unbundling.		
c) Bill of quantities and as-build plans, with GPS coordinates, for all infrastructure projects started/completed during the year.		
d) Reconciliation between capital projects and unbundled infrastructure for the year under review.		
e) Updated GIS Maps that includes all infrastructure projects.		
f) Methodology for Deemed Cost used.		
g) For all revaluations performed, valuation report from valuer, methodology used by valuer and separate values for each component (e.g. separate value for land and separate value for buildings)		
h) Reconciliation between revalued items of PPE and Reconciliation Surplus		

AUDIT FILE GUIDELINE	YES/NO	Comment
i) Reconciliation between depreciation per asset register and general ledger		
j) Insurance contract		
k) List of third party payments received for losses incurred.		
l) Lease asset register		
m) Monthly reconciliations between asset register and general ledger		
n) Schedule of fully depreciated assets that are still in use, showing cost and accumulated depreciation of each asset separately.		
o) Schedule of assets retired from active use and held for disposal, showing cost and accumulated depreciation of each asset separately.		
p) Schedule of temporarily idle assets, showing cost and accumulated depreciation of each asset separately.		
q) Schedule of assets impaired, showing cost, accumulated depreciation and recalculation of recoverable amount of each assets.		
r) Schedule showing cumulative impairment charges for each asset in asset register.		
s) Schedule showing the effect of changes in accounting estimates for each asset.		
t) List of assets with carrying value that are secured		
u) Auctioneer lists of assets sold		
v) Asset Management Policy		
Non-current Assets Held for Sale:		
a) Advertisement of auction		
b) List of assets classified as held for sale, showing cost and accumulated depreciation of each asset.		

AUDIT FILE GUIDELINE	YES/NO	Comment
Investment Property:		
a) Investment Property Register		
b) Valuation report for each property		
c) Journals and supporting documentation for all movements during the year		
d) Monthly reconciliations between Investment Property register and general ledger		
e) Rent received for each Investment Property		
f) Operating expenditure incurred on properties generating revenue		
g) Operating expenditure incurred on properties not generating revenue		
Intangible Assets:		
a) Intangible Asset Register		
b) Schedule of additions		
c) Schedule of disposals/write-offs		
d) Monthly reconciliations between Intangible Asset Register and general ledger		
Investments:		
a) Investment Register		
b) Confirmation from 3rd parties showing balance on year-end and interest/dividends received during the year		
c) Fair value calculation with supporting documentation for listed/unlisted investments (e.g. Sanlam shares)		
d) List of investments ring-fenced for specific purposes.		
e) List of investments ceded as security for external borrowings/ overdraft		
Long-term Receivables:		
a) Long-term Receivable register		
b) Monthly reconciliations between register and general ledger		
c) Calculation of short-term portion of long-term receivables		
d) Redemption tables for all long-term loans		

AUDIT FILE GUIDELINE	YES/NO	Comment
e) List of long-term receivables written-off, including council resolution.		
f) Signed loan agreements		
Inventory:		
a) Procedures followed during stock counts.		
b) Monthly stock count working papers for fuel		
c) Monthly reconciliation between fuel register and general ledger		
d) Monthly stock count working papers for water inventory		
e) Monthly reconciliation between water inventory and general ledger		
f) Monthly stock count working papers for consumables/capital inventory.		
g) Monthly reconciliation between consumables/capital inventory and general ledger		
h) Schedule of obsolete and damaged stock		
i) Schedule of slow-moving stock		
j) Council approval for write-offs		
k) Journals and supporting documentation for all adjustments made throughout the year		
l) List of all spare parts held as inventory		
m) Face value document register		
Trade Receivables:		
a) Monthly debtors age analysis		
b) Monthly reconciliations between age analysis and control accounts		
c) Monthly reconciliations between control account and sub-ledger		
d) Monthly debtors reconciliations, showing: <ul style="list-style-type: none"> - Balance beginning of month - Levies - Payments - Adjustments - Balance end of month 		

AUDIT FILE GUIDELINE	YES/NO	Comment
e) Calculation of provision for impairment of trade receivables (bad debt provision) and write-offs during the year		
f) Council resolution for all write-offs.		
g) List of other debtors with supporting documentation		
h) Property Transfer Register		
i) Calculation of estimate consumer consumption.		
j) Calculation of estimate fines		
k) Schedule of debtors per customer classification		
l) Reconciliation of provision for impairment, showing: <ul style="list-style-type: none"> - Balance beginning of the year - Contribution - Bad Debts written-off - Balance end of year 		
m) List of debtors with loan agreements		
n) Monthly reconciliations between loan register and general ledger		
o) Calculations of current and non-current portion of outstanding loan agreements		
p) Monthly list of indigent debtors		
Cash and Cash Equivalents:		
a) Monthly bank reconciliations		
b) Confirmation from 3rd parties for all bank accounts and interest received		
c) Bank statements		
d) Council resolution for overdraft facilities		
e) Unidentified deposit register		
f) Schedule of petty cash count		
g) Monthly petty cash sheets		
h) Monthly petty cash reconciliations		
i) List of cash advances		
j) Cash Management and Investment Policy		

AUDIT FILE GUIDELINE	YES/NO	Comment
STATEMENT OF FINANCIAL PERFORMANCE		
Property Taxes:		
a) Valuation roll and system printout. (also in electronic format)		
b) Monthly rate Payable valuation reconciliation		
c) Monthly property tax reconciliation		
d) List of tax clearance certificates issued by municipality		
e) Summary of property values per category		
f) Register for all rezoning/consolidations/subdivides		
g) Application forms for rezoning/consolidations/subdivides		
h) Monthly reconciliation between general ledger and register for rezoning/consolidations/subdivides		
i) List of signed changes to tariff parameters		
j) Billing runs printouts, all in-year changes print-outs. (Also in electronic format)		
Service Charges:		
a) List of approved tariffs and approval by council and any other legislative body		
b) Signed application forms for connections during the year		
c) Signed contracts with pre-paid electricity vendors		
d) Calculations of commission paid to pre-paid electricity vendors		
e) Calculation of consumption between meter-reading date and year-end (if applicable)		
f) Monthly electricity and water distribution losses		
g) Quantification of monthly electricity and water distribution losses		
h) Monthly exception reports for all service charges		
i) Signed copy of changes to tariff parameters.		

AUDIT FILE GUIDELINE	YES/NO	Comment
Fines:		
a) Monthly reconciliation between fines issued and money received		
b) Calculation, with supporting documentation for fines issued before year-end and which have not been paid		
c) Collate all the necessary data from traffic fine administration companies and the province i.e TNT, TCS,CINTEL etc		
Income for Agency Services:		
a) Monthly NATIS Reports		
b) Monthly reconciliations between NATIS Reports and general ledger		
c) Calculation of commission received for motor vehicle registration with supporting documentation		
d) Monthly reconciliations between prepaid electricity reports and general ledger		
e) Calculation of commission received for prepaid electricity supporting documentation		
f) Agency functions agreements		
Rental of facilities and equipment:		
a) Rent register		
b) Monthly reconciliations between rent register and general ledger		
c) Rent deposit register		
d) Monthly reconciliations between holiday resorts register and general ledger		
Other Income:		
a) Land sales register		
b) Monthly reconciliations between land sales register and general ledger		
c) List of all other income		

AUDIT FILE GUIDELINE	YES/NO	Comment
Employee related cost:		
a) Summary of monthly salary reports		
b) Monthly reconciliations between salary register and general ledger		
c) Detail summary of all salaries and benefits paid to MM, CFO and other Senior Managers reporting to the MM		
d) Monthly salary reports		
e) Supporting documentation for general salary increase		
f) Reconciliation of PAYE, SDL, UIF, Medical and Pension deductions, showing: <ul style="list-style-type: none"> a. Balance beginning of year b. Deductions c. Payments d. Balance end of year 		
g) Overtime worksheets for the year under review		
h) List of all new appointments during the year		
i) List of all vacant posts in the municipality		
j) List of all promotions during the year		
k) Detail of all severance packages paid during the year		
l) List of terminations during the year		
m) List of deceased persons during the year		
n) Leave register		
o) Leave application forms		
p) List of leave payouts during the year		
Remuneration of councilors:		
a) Detail list of salaries and benefits paid to Councilors		
b) List of all councilors with outstanding municipal accounts for a period of more than 90 days during the year as well as the amounts owed on year-end		

AUDIT FILE GUIDELINE	YES/NO	Comment
Other expenditure:		
a) Summary of bulk purchases during the year		
b) List of grants and subsidies paid during the year		
c) Summary of general expenses		
d) Payment files with supporting documentation for each payment		
e) Reconciliation of contributions paid to organised local government		
f) Reconciliation of audit fees paid		
OTHER DISCLOSURES		
Notes to AFS - Supply Chain:		
a) List of all deviations from SCM procedures, showing different types of deviations and monetary value.		
b) List of all contracts awarded to persons in the service of the state, or in service of the state during the previous 12 months		
c) List of all contracts awarded above R2 000 to spouses, children or parents of anybody in the service of the state or in service of the state during the previous 12 months, including names, positions and amounts		
d) Summary of related party transactions, showing relationship, type of services and total value of services during the year.		
Notes to AFS - Corporate Division:		
a) List of contingent liabilities or assets, showing description of event and estimate monetary value.		
b) Supporting documentation for contingent liabilities or assets.		
c) Summary of in-kind donations and assistance received during the year.		

AUDIT FILE GUIDELINE	YES/NO	Comment
Notes to AFS – Technical:		
a) List of capital commitments and funding sources		
b) Supporting documentation for capital commitments on year-end		
c) Capital projects register		
d) Summary of material losses		
Notes to AFS - Finance Division:		
a) List of material decisions or events which occurred after the reporting period and which might have a significant financial implication to the Council in the future		
b) Original and Adjustment Budgets		
c) Summary of over-/under expenditure per municipal vote for operating income and operating expenditure, including reasons for deviations above 10%		
d) Summary of over-/under expenditure per municipal vote for capital expenditure, including reasons for deviations above 5%		
Notes to AFS – Other:		
a) Reconciliation of unauthorised, irregular, fruitless and wasteful expenditure, showing: <ul style="list-style-type: none"> - Balance beginning of year - Expenditure occurred during the year - Condoned/Written-off by Council - Balance end of year 		
b) Summary of unauthorised, irregular, fruitless and wasteful expenditure with supporting documentation.		
c) Copy of Council resolution regarding unauthorised, irregular, fruitless and wasteful expenditure.		
d) Report by municipal manager to Mayor, MEC and Auditor-General regarding any unauthorised, irregular, fruitless and wasteful expenditure.		

AUDIT FILE GUIDELINE	YES/NO	Comment
OTHER		
Municipal Entities/Joint Ventures/Associates:		
a) Financial statements of Municipal Entities/ Joint Ventures/ Associates		
b) Calculation and supporting documentation of municipality's share of gains and losses in associate		
c) Calculations of consolidations		
d) Contracts with Municipal Entities/ Joint Venture/Associates		
e) Authorised year-end adjustment journals with supporting documentation		
f) Authorised general journals, in numeric order, with supporting documentation		
g) IDP evaluation and SDBIP with linkages to MTREF		
h) Employee performance contracts		
General		
1. Does the municipality have an Audit File Tool that is used to gather information?		
2. Is there a proper document management system in place (controlled lock up room)?		
3. Does the municipality have Electronic Document Management Systems? If yes, specify.		
4. Did the municipality appoint an Audit File Champion to facilitate the audit file throughout the year?		
5. Are there proper procedures in place to gather information from different departments within the municipality?		
6. Is the audit evidence collated regularly throughout the year? If no, specify when. List the information that is easily organized and available during the year and which information can only be obtained at year end?		

AUDIT FILE GUIDELINE	YES/NO	Comment
7. Are the auditors finding it easy to use the municipal audit file? Which version does the auditors preferred, electronic or manual?		
8. Are all sourced documents filed in other files other than the main audit files clearly referenced and easy accessible?		

Overall comments:

I hereby acknowledge that the above questions were relevant/not relevant to our audit file management system and were answered to the best of my ability.

Signed:

Name:

Rank:

Date: