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KAAPSTAD / CAPE TOWN  
HOPEFIELD  
&  
ST HELENABAAI/ST HELENA BAY

# Cecil Kilpin & Kie./Co.

Geotrooieerde Rekenmeesters (S.A.)  
Chartered Accountants (S.A.)

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B6

11 May 2009

The Management  
Institute of Municipal Administration  
for South Africa  
P.O. Box 54  
**LANGEBAAAN**  
7357

Dear Management

## REPORT TO THE MANAGEMENT ON EXTERNAL AUDIT FINDINGS

### 1. INTRODUCTION AND STATUS OF THE AUDIT

#### Status of our audit

The audit was conducted in accordance with our letter of appointment.

The following are the only matters still outstanding:

- Management representations.
- Signing of the audited annual financial statements for the year ended 31 December 2008.

We do not expect these matters to affect our audit opinion.

#### Scope of the audit

The primary aim of our audit procedures is to enable us to express an opinion on the reasonable presentation of the financial statements as a whole. An audit opinion is based on the principle of reasonable reliance. It is no guarantee that the financial statements are free of misrepresentation. Our audit procedures are designed to support our opinion of material misrepresentation, taking into consideration the inherent risk of fraud and our opinion on the effectiveness of internal controls in preventing or reducing these risks.

#### VENNOTE/PARTNERS

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**INSTITUTE OF MUNICIPAL ADMINISTRATION FOR SOUTHERN AFRICA**  
**REPORT TO MANAGEMENT ON EXTERNAL AUDIT FINDINGS**

**1. INTRODUCTION AND STATUS OF THE AUDIT (Continue)**

**Aim**

The primary aim of this report is to report significant issues arising from our audit to you, and to formally communicate to the management any shortcomings in internal controls that came to our attention during the course of our audit.

We generally review controls as a whole. In practice we cannot investigate every operational activity or accounting procedure that exists within the organisation. We can also not replace management's responsibility to maintain sufficient control at all levels of operations. We can therefore not be expected to identify all shortcomings in your systems and procedures.

With regard to the possibility of fraud, our audit is planned in such a way that there is reasonable expectation that fraud will be detected if the potential effect thereof would be material to the financial statements. However, fraud takes many forms, particularly that which includes falsification, collusion and subversion of controls by management, which a normal statutory audit could not be expected to detect.

**2. AUDIT FINDINGS AND RECOMMENDATIONS FOR THE CURRENT YEAR**

**2.1 REVENUE**

**2.1.1 Membership fees**

***Audit findings***

Nearly no invoices exist for membership fees, and if invoices were made out to member branches, the amount received differ from the invoice amount, without any explanation from the branch.

***Risk***

Member branches may not pay the correct amount due to the Institute.

***Recommendation***

As early as possible, perhaps January or February, member branches should send reports to the Institute of their members.

The Institute can then make out invoices to the different branches, based on the membership report received from each branch. Invoices should be numbered. If the branch pay it's membership fees and it still differ from the invoice amount, they will have to explain the difference for audit purposes.

Membership fees should not be paid later than, say for instance the end of June, which give the member branches enough time to collect their fees from their members. Strict control should be implemented.

**INSTITUTE OF MUNICIPAL ADMINISTRATION FOR SOUTHERN AFRICA**  
**REPORT TO MANAGEMENT ON EXTERNAL AUDIT FINDINGS**

**2. AUDIT FINDINGS AND RECOMMENDATIONS FOR THE CURRENT YEAR (Continue)**

**2.1.2 Conference profits**

***Audit findings***

The member branch, Kwazulu Natal, send their report through to Mr. Palm in May 2009, while the conference was held in January/February of 2008 – more than a year later!

***Risk***

These reports are not audited, so if a branch report more than a year later, surely nobody can remember what costs were involved.

***Recommendation***

These reports have to be forwarded to the Institute as soon as possible. A period of two to three months would be more than sufficient to prepare a report like this. Member branches should actually attach certified copies of income and expenditure to the report so that Mr. Palm could check it thoroughly and also for presentation to the auditors.

**2.1.3 Registration fees - workshop**

***Audit findings***

Payments to the Institute were not specified, as to which branch and how many members are going to attend these workshops. Payments to the Institute must be followed up by fax or e-mail with a proper breakdown by the branch of the attendance to a workshop.

***Risk***

If payments to the Institute were not represented by proper invoices, the Institute may pay for workshop fees that branch members had not paid over.

***Recommendation***

Branches who want to attend these workshops, have to pay upfront for their members and also have to indicate the members' names who are going to attend the workshop.

A payment direct into the bank account by a member branch, must indicate the branch and for what the amount was, for example, invoice nr. 10, etc.

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2. AUDIT FINDINGS AND RECOMMENDATIONS FOR THE CURRENT YEAR (Continue)

2.2 EXPENSES

*Audit finding*

- (a) Invoices were not made out in the name of the Institute.
- (b) A lot of invoices were not presented for audit purposes. These invoices mostly represent expenses incurred by management or people on behalf of which the Institute paid expenses. It is of no use to obtain a quotation for car rental, but only the rate per day is mentioned, and not the rate per kilo. Obtain a proper invoice in the name of the Institute. This also apply to flight reservations. It is of no use to the auditors to obtain a flight schedule, but no invoice. This are merely examples of what took place during the past year's audit.

*Risk*

Payments or refunds could easily be made without proper evidence thereof, and may be lead to a loss for the Institute.

*Recommendation*

Every person who incurred cost on behalf of the Institute and who must be refunded, must post the invoice to Mr. Palm before any refund can take place.

Every expense must be represented by proper expense vouchers made out in the name of the Institute.

2.3 MINUTES

*Audit finding*

Minutes were not signed by management and do not refer to each other.

Expenses were not approved by management and amounts were not mentioned. It is of no use to say that a person's expenses will be paid by the Institute, but amounts are not mentioned.

*Risk*

Auditors cannot rely on minutes that are not signed. Expenses could be paid with no reference to amounts in the minutes.

*Recommendation*

Minutes should be pasted in a minute book. Minutes should refer to each other. Income and expenses should be approved at meetings and correct amounts should be mentioned.

We suggest that a schedule of expenses and income be layed before the meeting to be approved, and if an expense consists of more than one amount, it must be breakdown per cheque number and the amount thereof as well as to whom it was paid.

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2. AUDIT FINDINGS AND RECOMMENDATIONS FOR THE CURRENT YEAR (Continue)

2.3 MINUTES (Continue)

*Recommendation (continue)*

The meeting must approve the statement of income and expenses for the period, and signed by at least two persons of the management, and if an expense voucher could not be obtained for some reason, the amount of that specific expense must be approved.

2.4 We notice that Mr. Palm pays a lot of expenses with his own credit card. Therefore we suggest that the Institute obtain it's own card.

2.5 We also notice that the president and deputy-president signed cheques in advance. This is of no use for audit purposes and could be replaced by only one signature per cheque.

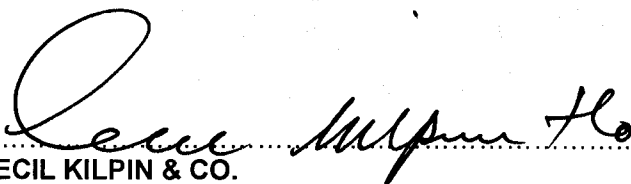
The above audit findings were not to criticize anyone, but merely an indication why we do not express an opinion on the financial statements.

Mr. Palm mentioned that there also seems to be a need for audited financial statements for the previous two financial years, but this, according to my view, would be a waste of time and money as the same kind of audit results will be reached and the same management letter will be applicable.

A lot of time was spent on this audit, actually more than double the quoted amount, i.e. to go through all the vouchers for income and expenses, having discussions with Mr. Palm, preparing this letter of audit findings and recommendations as well as drawing up financial statements. Therefore we will appreciate if management will approve a higher fee of above R12 000,00, excluding VAT.

If you should have any queries about this letter, please do not hesitate to contact our office.

Yours faithfully

  
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CECIL KILPIN & CO.