

### 5.3 Financial Status of the Municipality

*At the end of 2006/07 financial year we reported that the debt owed to the municipality by residents was “growing by R700 000 (over seven hundred thousand Rands) a per month”. Little did change during the year under review, in fact the situation got worse. Currently, the value of accounts we send out is approximately R1,4 million and the income we receive is around R800 000. As a consequence we have a cumulative effect of R7,2 million unrealized revenue per year. The majority of residents who are suppose to pay are not paying. Currently it is those that are indigent - through indigent subsidies.*

We closed the year on very sad state of financial affairs – with the municipality’s inability to meet its financial obligations. National Treasury, Provincial Treasury, Department of Local Government and Traditional Affairs, and Chris Hani District were informed of our situation. The Assessment and Diagnosis exercises that were conducted revealed, that at the cracks of our financial woes lies the following :

- **Systemic problems:** the municipality changed its Turbo Munex system to Venus during 2006/2007 financial year. During migration data accuracy was critical affected. The new system E-Venus was not compatible for the implementation of the Property Rates Act 2005 as a consequence the first six months was lost as no rates account were issued. Even when they were finally issued, most were incorrect, that further resulted in reluctance to pay on the side of residents.
- **National grants may not be sufficient:** The Equitable Share allocation is based on 2001 Census statistics. Since that census, the number of households has risen from 5384 to 6569 in terms of our municipal data. Between 2001 and 2007 we have added three new townships with 934 poor households (Nceduluntu 116 units, Dennekruin/Langgewag 97 and Sonwabile 721). These of poor households are not taken into account when the equitable share allocations are made.
- **Revenue Base:** Revenue collection is based on a non-scientific tax base. Whilst it is common knowledge that our revenue base is limited or lean, there has never been a study conducted or a survey and subsequent analysis to support such an understanding. We cannot for sure say the current tax base is sufficient to ensure the municipality’s financial viability
- **Unrealistic budget:** That the expenditure is greater than the revenue - the pressures and constant rising costs of service delivery, obligatory commitments like personnel expenditure which in 2008/09 stands at 63% of the operating budget makes it impossible to balance expenditure and revenue

# INKWANCA LOCAL MUNICIPALITY

## ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

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### GENERAL INFORMATION

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#### MEMBERS OF THE COUNCIL

M E YEKANI

Mayor

K. P. KIDO

Councillor

N.S. NOYI

Councillor

P. PARKER

Councillor

J.G STETTON

Councillor

N. T. FOLOSE

Councillor

#### MANAGEMENT

N.A NCUBE

Accounting Officer

Z FOLOSE

Chief Financial Officer

A KOOS

Technical Services

GRADING OF LOCAL AUTHORITY:      Grade 2

#### **AUDITORS**

Auditor General

#### **BANKERS**

Standard Bank

P. O. Box 14

Molteno

5500

#### **REGISTERED OFFICE**

39 Smith Street

Molteno

5500

Telephone: 045 967 0021

Fax: 045 967 0467

## ACCOUNTING OFFICER'S REPORT

I am responsible for the preparations of these annual financial statements which are set out on page 1 in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in note 12 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public officer Bearers Act and the Minister of Provincial and Local Government's determination accordance with this Act.

### EXPRESSION OF APPRECIATION

I am grateful to the Mayor, Councillors and to the municipal staff for their assistance and support during the year.

.....  
**MUNICIPAL MANAGER: NA NCUBE**

Dip. Advanced Public Administration (Univ. of Stellenbosch)  
CPMD (Univ. of Witwatersrand)  
STD (Univ. of Transkei)  
AWS (Univ. of Stellenbosch)

**(Accounting Officer)**

## ACCOUNTING POLICIES

### 1. Basis of preparation

- 1.1 These financial statements have been prepared so as to conform to the standards laid down by the Institute of Municipal Treasurers and Accountants and its Code of Practice for Local Government Accounting (1997) and the Published Annual Financial Statements for Local Authorities (2<sup>nd</sup> edition – January 1996). And the disclosure requirements of the MFMA
- 1.2 The financial statements are prepared on the historical cost basis, adjusted for fixed assets as more fully detailed in Accounting Policy note 3. The accounting policies are consistent with those applied in the previous year, except if otherwise indicated.
- 1.3 The financial statements are prepared on the accrual basis as stated:
- ❖ Income is accrued when measurable and available to finance operations. Certain direct income is accrued when received, such as traffic fines and certain licences.
  - ❖ Expenditure is accrued in the year it is incurred.

### 2. Consolidation

The balance sheet includes Rates and General Services, Trading Services and the different funds and reserves. All inter-departmental charges are set off against each other with the exception of assessment rates, refuse removal, sewerage, electricity and water which are treated as income and expenditure in the respective departments.

### 3. Fixed assets

- 3.1 Fixed assets are stated at historical cost or a valuation (based on the market Price at date of acquisition), where assets have been acquired by grant or donation, while they are in existence

and fit for use, except in the case of bulk assets which are written off at the end of their estimated useful life as determined by the Treasurer.

### 3.2 Depreciation

The balance shown against the heading "Loans Redeemed and other Capital Receipts" in the notes to the financial statements is tantamount to a provision for depreciation, however certain structural differences do exist. By way of this "provision" assets are written down over their estimated useful life. Apart from advances from the various council funds, assets may also be acquired through:

- ❖ Appropriations from operating income, where the full cost of the assets forms an immediate and direct charge against the operating income, and therefore it is unnecessary to make any further provision for depreciation.
- ❖ Grant or donation, where the amount representing the value of such grant or donation is immediately credited to the "Loans Redeemed and other Capital Receipts" account.

3.3 All net proceeds from the sale of fixed property are credited to the Revolving Fund.

3.4 Fixed assets are financed from different sources, including external loans, operating income, endowments and internal advances. These loans and advances are repaid within the estimated lives of the assets acquired from such loans or advances. Interest is charged to the service concerned at the ruling interest rate applicable at the time that the advance is made.

3.5 A detailed GAMAP compliant assets register has been prepared.

## 4. Funds and reserves

### 4.1 Revolving fund

The fund requires a minimum contribution of 7.5% of the product of the assessment rates that were levied for the immediately preceding financial year. It is not required from Council to contribute an amount that is 20% more

than the amount required to be contributed in the immediately preceding financial year.

**Subject to the availability of funds**

Net proceeds from the sale of fixed property are invested in the Revolving fund. Funds accumulated in the Revolving Fund are utilised for the purpose of providing advances to borrowing services and to finance the acquisition or upgrading of land or fixed property.

4.2 Other funds and reserves

Other funds and reserves, which are disclosed in the notes (1 – 3) and appendix A to the financial statements, are built up either by appropriations made on an annual basis from the operating account to the relevant funds and reserves or from contributions received from the public and State with the objective of providing community facilities and funds to finance bad debts.

**5. Provisions**

Provisions are created for liabilities or contingencies that are known at the date of the balance sheet but for which the amounts involved cannot be determined with substantial accuracy.

**6. Retirement benefits**

The Council and its employees contribute to various pension, provident and retirement funds. The larger funds include the SAMWU National Provident fund, the Cape Joint Retirement Fund and the SALA Pension Fund.

The retirement benefits are calculated in accordance with the rules of the respective funds. Current contributions by the Council are charged against operating income at the rate of a fixed percentage of the basic salary paid to employees.

Full actuarial valuations are performed at least every three years.

**7. Surpluses and deficits**

Any surpluses and deficits arising from the operation of the Electricity and Water Services are transferred to Rates

and General Services.

## **8. Treatment of administration and other overhead expenses**

The costs of internal support services are transferred to the different services in accordance with the IMTA's Report on Accounting for Support Services (June 1990).

## **9. Investments**

Investments are disclosed at the lower of cost or market value if a permanent decline in value has occurred and are invested on such conditions as the Minister may approve.

## **10. Income recognition**

### **10.1 Electricity and water billings**

All meters are read and billed monthly. Income is recognised when meters are read and the monthly levies debited to the respective consume account. Where meters cannot be read during a particular month, they are provisionally billed with the necessary adjustments made in the month they are indeed read. With regard to prepayment electricity purchases, income is recognized at the date of purchase.

### **10.2 Assessment rates**

The local authority applies a uniform system of rating. In terms of this system the assessment rates are levied on the land value of property and improvements of different categories of properties, at the rate and Rebates are granted as approved in the budget. Income is recognised when such levies are raised and debited to the respective ratepayer account.

### **10.3 Other income**

Income from services such as refuse removal and sewerage, recovered by way of debtors, is recognised when such levies are raised and debited against the respective consumer account. Income from other sources is

recognised when paid.

## INKWANCA LOCAL MUNICIPALITY

### INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

2007 Actual income	2007 Actual expenditure	2007 surplus/ (deficit)		2008 Actual income	2008 Actual expenditure	2008 surplus/ (deficit)	2008 Budgeted surplus/ (deficit)
R	R	R		R	R	R	R
14,852,075	10,165,435	4,686,640	<b>RATES AND GENERAL SERVICES</b>	<b>16,081,599</b>	<b>21,009,021</b>	<b>(4,927,423)</b>	<b>(305,509)</b>
7,969,479	4,786,196	3,183,283	Rates & Corporate services	9,874,341	15,318,320	(5,443,979)	3,728,689
2,802,659	3,277,186	(474,527)	Community/Subsidised services	2,418,894	3,944,210	(1,525,316)	(3,287,996)
4,079,937	2,102,053	1,977,884	Development /Economic services	3,788,364	1,746,491	2,041,872	(746,202)



29,693	277,913	(248,220)	<b>HOUSING SERVICES</b>	9,906	593,229	(583,323)	(1,233,752)
8,216,544	4,205,894	4,010,650	<b>TRADING SERVICES</b>	7,944,692	3,902,692	4,042,000	1,341,860
<u>23,098,312</u>	<u>14,649,243</u>	<u>8,449,070</u>	<b>TOTAL</b>	<u>24,036,197</u>	<u>25,504,942</u>	<u>(1,468,745)</u>	<u>(197,401)</u>
		(6,670,627)	Appropriations for the year (refer note 16)			1,696,280	
		<u>1,778,442</u>	<b>NET SURPLUS (DEFICIT) FOR THE YEAR</b>			<u>227,536</u>	
		(1,342,421)	Accumulated surplus/(deficit) beginning of the year			436,022	
		<u>436,022</u>	<b>ACCUMULATED SURPLUS END OF THE YEAR</b>			<u>663,558</u>	

### CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	NOTES	2008	2007
		R (29,061)	R 17,341,948
<b>CASH RETAINED FROM OPERATING ACTIVITIES</b>			
Cash generated by operations	15	(5,684,339)	3,055,978
(Increase)/Decrease in working capital	16	314,864	2,223,153
Less: External interest paid		(5,369,476)	5,279,131
<b>Cash available from operations</b>		164,863	(82,232)
Cash contributions from the public and the		(5,204,612)	5,196,899
		5,175,551	12,145,049

State			
<b>CASH UTILISED IN INVESTING ACTIVITIES</b>		<b>(748,559)</b>	<b>(134,293)</b>
Investment in fixed assets		(748,559)	(134,293)
Disposal of fixed assets		-	-
<b>NET CASH FLOW</b>		<b>(777,620)</b>	<b>(336,758)</b>
<b>CASH EFFECTS OF FINANCING ACTIVITIES</b>		<b>1,467,859</b>	<b>(224,659)</b>
(Decrease)/increase in long-term liabilities	17	1,622,978	(59,549)
Decrease / (increase) in cash on hand	19	(159,829)	(167,587)
Decrease /(increase) in external cash investments	18	4,709	2,477
<b>NET CASH UTILISED</b>		<b>748,361</b>	<b>(165,111)</b>

## INKWANCA LOCAL MUNICIPALITY

### BALANCE SHEET AT 30 JUNE 2008

	Note	2008 R	2007 R
<b>CAPITAL EMPLOYED</b>			

**FUNDS AND RESERVES****2,938,579****2,904,777**

Statutory funds

1

2,936,505

2,902,853

Reserves

2

2,073

1,924

**ACCUMULATED SURPLUS****663,558****436,022****3,602,136****3,340,800**

CONDITIONAL GRANTS

3

531,486

497,107

LONG TERM LIABILITIES

4

2,052,305

429,327

CONSUMER DEPOSITS: SERVICES

5

162,437

139,174

**6,348,364****4,406,408****EMPLOYMENT OF CAPITAL**

CONDITIONAL GRANTS INVESTMENTS

3

35,937

31,228

FIXED ASSETS

6

4,292,611

3,544,052

**4,328,548****3,575,279****NET CURRENT ASSETS****2,019,816****831,129****CURRENT ASSETS****7,088,260****4,405,797**

Accounts receivable

7

6,812,670

4,364,799

Cash resources

275,590

38,002

Short-term deposits

0

2,997

**CURRENT LIABILITIES**

		<b>5,068,444</b>	<b>3,574,668</b>
Accounts payable	8	3,727,000	1,783,219
Bank overdraft		435,418	1,183,779
Short-term portion of long-term liabilities	4	297,984	188,855
Provisions	9	608,041	418,814
		<b>6,348,364</b>	<b>4,406,408</b>

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**ANALYSIS OF FIXED ASSETS**

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2007 Expenditure	Balance at 30 June 2007	Expenditure during year	Redeemed, trans- ferred or written off during year	Balance at 20-Jun-08
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R		R	R	R	R
134,293	<b>RATES AND GENERAL SERVICES</b>	64,376,218	1,497,120	-	65,124,778
-	<b>Community Assets</b>	2,355,102			2,355,102
	Land and Buildings	2,090,001			2,090,001
	Resort Development	213,288			213,288
	Koos Ras Game Reserve	51,813			51,813
-	<b>Infrastructure Assets</b>	47,841,644			47,841,644
	Sewerage	11,629,636			11,629,636
-	Water	17,456,787			17,456,787
-	Electricity	8,693,229			8,693,229
	Streets and Stormwater	10,061,993			10,061,993
134,292	<b>Other Assets</b>	3,155,087			3,903,647
38,239	Furniture and Fittings	235,687			235,687
	Land and Buildings	886,944	500,000		1,386,944
	Tractors	208,286			208,286
96,054	Motor Vehicles	1,115,642	248,560		1,364,202
	Graders	319,241			319,241

-	Computers	389,287			389,287
	Housing Services	11,024,385			11,024,385
134,294	<b>TOTAL FIXED ASSETS</b>	<b>64,376,218</b>	<b>748,560</b>	-	<b># # 65,124,778</b>
	<b>LESS: LOANS REDEEMED AND OTHER CAPITAL RECEIPTS</b>		<b>60,832,167</b>	-	<b>- #</b>
	Loans redeemed and advances repaid	5,869,985			5,869,985
	Contributions from operating income	3,709,216			3,709,216
	Grants and subsidies	51,252,966			51,252,966
	Public contributions				
	<b>NET FIXED ASSETS</b>	<b><u>3,544,051</u> #</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b># # <u>4,292,611</u></b>

## NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2008

	2008 R	2007 R
<b>1. STATUTORY FUNDS</b>		
Revolving Fund	<u>(2,936,505)</u>	<u>2,902,853</u>

The revolving fund is represented by an investment at standard bank of R3,746.68 and internal loans of R 895,610 resulting in an underfunding of R2,003,496 at 30 June 2007

**2. RESERVES**

Leave Reserve Fund

(2,073)	1,924
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The leave reserve fund is represented by an investment at standard bank of R 1,924 at 30 June 2007.

**3. Conditional Grants**

Spatial Development	7,224	6,892
Resort Development	4,431	4,227
Land Ownership	1,729	1,605
Structure Plan	2,944	2,733
Survey of Masakhe	1,934	1,795
Sterkstroom Zoning Map	3,554	3,299
CDF: LEAVE RESERVE F	2,073	-
CDF: REVOLVING FUND	3,927	-
Valuations	3,578	3,320
Community Gardens	-	578
CMIP	-	2,447
MSP	1,601	1,527
Disaster Fund	1,559	1,487

Cemetery Investigation

1,382

1,319

**Total Trust Funds**

**35,937**

**31,228**

- Advances to Operating Account

495,548

465,879

**Total Trust Funds**

**531,486**

**497,107**

Invested as follows:

- Standard Bank short-term investments

35,937

31,228

- Standard Bank current accounts

- Advances to Operating Account

495,548

465,879

**531,486**

**497,107**

**4. LONG-TERM LIABILITIES**

a) Wesbank DDL3689A

32,898

-

b) Wesbank DDL36725K

32,899

-

c) Wesbank D45519X

100,134

-

d) Toyota T54306H

70,067

-

e) Toyota T54306B

55,694

-

f) Wesbank DDL55350J

112,465

-

g) Wesbank DDL55644G

109,117

H) Wesbank DDL52169B

70,592.70

Less Deferred Finance Charges

(206,030)

(183,217)

377,836

(183,217)

Short Term Portion

(297,984)

(188,855)

**79,852**

**(372,072)**



Internal Loans	(96,558)	
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Loan from Chris Hani District Municipality	2,069,011	
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<b>Total Value of Long Term Liabilities</b>	<b>2,350,289</b>	
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**5. CONSUMER DEPOSITS:SERVICES**

Electricity and Water	162,437	142,097
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**6. FIXED ASSETS**

Fixed assets at the beginning of the year	64,376,217	64,241,925
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Write off during the year		
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Capital expenditure during the year	748,560	134,293
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<b>Total fixed assets</b>	<b>65,124,777</b>	<b>64,376,217</b>
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Less: Loans redeemed and other capital receipts	60,832,167	60,832,167
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	4,292,611	3,544,052
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**7. ACCOUNTS RECEIVABLE**

Current debtors (consumers)	31,542,649	24,204,312
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Less: Provision for bad debts	24,763,700	19,002,473
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	6,778,949	5,201,839
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Other debtors:	33,721	(837,041)
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Sundry debtors	33,721	(2,513)
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SARS VAT  
Community services

-	(834,528)
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6,812,670

4,364,799

Consumer debtors are aged as follows:

Current

1,000,384

30 days

903,352

1,034,379

60 days

865,240

902,783

90 days

978,031

711,639

120 days

17,384,411

21,555,512

21,131,417

24,204,312

**8. ACCOUNTS PAYABLE**

Trade Creditors

3,727,000

1,783,219

**9. PROVISIONS**

Leave

608,041

418,814

**10. ASSESSMENT RATES**

Site valuations at 1 July 2005

- Residential

34,799,700

34,799,700

- Commercial

6,258,250

6,258,250

- Government

10,848,000

10,848,000

- Municipal

888,800

888,800

- Churches Exempt

1,292,200

1,292,200

54,086,950

54,086,950

Income from rates

3,169,076

2,157,011

Assessment rates:

## 11. COUNCILLOR'S REMUNERATION

### Mayor's allowance:

341,847

293,968

Salary

207,085

201,532

Travelling allowance

79,032

79,032

Telephone allowance

13,404

6,000

Personal allowance

42,326

7,404

### Councillor's allowances:

681,787

685,363

Salaries

399,255

398,152

Pensions

88,911

88,911

Travelling allowances

148,200

148,200

Telephone allowances

41,820

26,220

Personal allowances

3,601

15,600

1,023,634

979,330

Municipal Manager:

423,599

430,002

Salaries

277,875

252,504

Travelling allowance	127,544	132,216
Substance allowance	6,060	12,120
Telephone Allowance	12,120	12,120
Bonus	-	21,042
<b>Chief Financial Officer:</b>	<b>130,678</b>	<b>344,000</b>
Salaries	77,060	178,523
Travelling allowance	50,619	63,508
Substance allowance	-	63,508
Telephone Allowance	3,000	38,462
<b>Manager :Technical services</b>	<b>237,730</b>	<b>344,000</b>
Salaries	102,746	190,523
Travelling allowance	67,492	60,508
Substance allowance	-	66,508
Telephone Allowance	67,492	26,462
<b>Manager : Community Services</b>	<b>220,983</b>	<b>344,000</b>
Salaries	94,720	190,523
Travelling allowance	94,720	60,508
Substance allowance	25,212	60,508
Telephone Allowance	6,332	6,000
Bonus	-	26,462
	<b>882,312</b>	

**12. FINANCE TRANSACTIONS**

Total external interest earned or paid:

- Interest earned

-

- Interest paid

164,863

46,915

**164,863**

**46,915**

Capital charges debited to operating account:

- Interest paid on external loans

120,316

82,232

- Interest paid on internal loans

44,547

32,798

- Redemption of external loans

148,992

165,612

- Redemption of internal loans

52,011

94,833

**365,866**

**375,474**

**1,118,002**

**13. APPROPRIATIONS**

**Appropriation account**

Accumulated surplus at the beginning of the year

436,022

(1,342,422)

Operating surplus / (Deficit) for the year

(1,468,745)

8,449,069

**(1,032,723)**

**7,106,647**

**Less: Appropriations for the year:**

**1,696,280**

**6,670,627**

- Contribution to leave reserve

- Contribution to Revolving Fund

- Prior year adjustments

7,457,507

2,670,627

- Provision for bad debts

(5,761,227)

Accumulated surplus (deficit): end of year

663,558

4,000,000

436,020

14. APPROPRIATIONS (continued)

Operating account

Capital expenditure

-

-

Contributions to:

- Revolving Fund

33,653

35,130

33,653

35,130

15. CASH GENERATED BY OPERATIONS

Surplus / (Deficit) for the year

-1,468,745

8,449,069

Appropriations charged against income:

33,653

35,130

- Fixed assets

-

- Revolving Fund

33,653

35,130

Capital charges:

375,474

Interest paid:

- to internal funds

44,547

32,798

- on external loans

120,316

82,232

Redemption:

- of internal advances

52,011

94,833

- of external loans

148,992

165,612

Grants and subsidies received from the state

(4,249,247)

(5,803,696)

	<u>(5,684,339)</u>	<u>3,055,978</u>
<b>16. (INCREASE) / DECREASE IN WORKING CAPITAL</b>		
(Increase) / decrease in debtors	2,447,872	(253,589)
Increase / (decrease) in creditors	<u>(2,133,008)</u>	<u>2,476,743</u>
	<b><u>314,864</u></b>	<b><u>2,223,153</u></b>
<b>17. (DECREASE)/ INCREASE IN LONG-TERM LIABILITIES</b>		
Loans raised	2,069,011	106,062
Loans repaid	<u>446,033</u>	<u>(165,612)</u>
	<b><u>1,622,978</u></b>	<b><u>(59,549)</u></b>
<b>18. (INCREASE)/DECREASE IN EXTERNAL CASH INVESTMENTS</b>	<b><u>4,709</u></b>	<b><u>2,477</u></b>
<b>19. DECREASE / (INCREASE) IN CASH ON HAND</b>		
Other cash balances for the year	275,590	55,776
Add: Bank overdraft at end of year	<u>(435,418)</u>	<u>(38,002)</u>
	<b><u>(159,829)</u></b>	<b><u>17,774</u></b>

**20. RETIREMENT BENEFITS**

Inkwanca Municipality and its employees contribute to various pension, provident and retirement funds. The larger funds include the SAMWU National Provident Fund, the Cape Joint Retirement Fund and the SALA Pension Fund.

The retirement benefits are calculated in accordance with the rules of the respective funds. Current contributions by the Council are charged against operating income at the rate of a fixed percentage of the basic salary paid to employees.

Full actuarial valuations are performed at least every three years.

**21. OUTSTANDING ADVANCES TO BORROWING SERVICES**

<b>Internal advances</b>	<b>895,610</b>	<b>895,610</b>
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( Refer to Appendix B for more detail)

**22. CAPITAL COMMITMENTS**

Commitments in respect of capital expenditure:

- Approved and contracted for	0	0
- Approved but not yet contracted for	0	0
	0	0

This expenditure will be financed from:

- Internal sources	0	0
- External sources	0	0
	0	0

**23.a LEASE COMMITMENTS**

	<b>&lt;1 Year</b>	<b>2-5 Years</b>	<b>&lt;1 Year</b>
Commitments in respect of rental agreements:			
(a) Axial -Plessey Vending Machine for 7 years started 22 Oct 99 to 30 Oct 2006,Monthly rental of R3489 subject to inflation	0		0
(b) Fintech- Xeror Photocopier for 5 years started 31 Oct 2003 to 1Oct 2008,Monthly rental of R620 escalate by 10%		2,997	8,991



©	Gestetner-Photocopier for 5 years started 03 Nov 2003 to 31 October 2008,Monthly rental of R1446.56 escalate by 0%	5,786	17,359
(d)	Office World -Telephone maintennce and Management system commenced 11Nov 2003 to 31 Oct 2006 Monthly rental of R 1559.24		0
		<b>8,783</b>	<b>26,350</b>

#### 24. CONTINGENT LIABILITIES AND CONTRACTUAL OBLIGATIONS

A fire caused damage to property. A contingent liability of R407 000 was raised to cater for the amount due to likelihood of an obligation that may be due.

#### 25. POST BALANCE SHEET EVENTS

None

#### 26. UNAUTHORISED,FRUITLESS AND WASTEFUL EXPENDITURE

None

#### 27. GOING CONCERN

Inkwanca Municipality will continue with it operations

**DETAILED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2008**

2007 Actual income	2007 Actual expenditure	2007 Surplus/ (deficit)		2008 Actual income	2008 Actual expenditure	2008 Surplus/ (deficit)	2008 Budgeted surplus/ (deficit)
R	R	R		R	R	R	R
14,852,075	10,165,435	4,686,640	<b>RATES AND GENERAL SERVICES</b>	16,081,599	21,009,021	(4,927,423)	(305,509)
<b>7,969,479</b>	<b>4,786,196</b>	<b>3,183,283</b>	<b>Rates &amp; Corporate services</b>	<b>9,874,341</b>	<b>15,318,320</b>	<b>-5,443,979</b>	<b>3,728,689</b>
7,969,479	1,497,424	6,472,055	Assessment Rates & Estates	9,872,141	8,351,280	1,520,861	7,463,758
0	1,854,156	(1,854,156)	Executive & Council	2,200	4,037,894	(4,035,694)	(1,181,124)
0	1,434,616	(1,434,616)	Administration	0	2,929,146	(2,929,146)	(2,553,944)
<b>2,802,659</b>	<b>3,277,186</b>	<b>(474,527)</b>	<b>Community/Subsidised services</b>	<b>2,418,894</b>	<b>3,944,210</b>	<b>-1,525,316</b>	<b>-3,287,996</b>
28,911	6,413	22,498	Cemetery	58,663	84,396	(25,733)	(12,674)
0	21,936	(21,936)	Clinic,Creche,Aged centre	0	0	-	-
351	317,328	(316,977)	Library Service	0	304,575	(304,575)	(298,935)
34,456	991,917	(957,461)	Parks , Recreation and Halls	31,584	834,342	(802,759)	(720,255)
2,595,816	1,853,585	742,231	Cleansing	2,269,472	2,508,886	(239,414)	(2,123,880)
143,125	86,008	57,117	Traffic Services	59,176	212,011	(152,835)	(132,252)

4,079,937	2,102,053	1,977,884	<b>Development /Economic services</b>	3,788,364	1,746,491	2,041,872	-746,202
4,079,937	1,047,464	3,032,473	Sewerage	3,788,364	1,013,762	2,774,602	(363,655)
0	1,054,589	(1,054,589)	Public works, Roads	0	732,729	(732,729)	(382,547)
<b>29,693</b>	<b>277,913</b>	<b>(248,220)</b>	<b>HOUSING SERVICES</b>	<b>9,906</b>	<b>593,229</b>	<b>-583,323</b>	<b>-1,233,752</b>
29,693	277,913	(248,220)	Selling and letting schemes	9,906	593,229	(583,323)	(1,233,752)
<b>8,216,544</b>	<b>4,205,894</b>	<b>4,010,650</b>	<b>TRADING SERVICES</b>	<b>7,944,692</b>	<b>3,902,692</b>	<b>4,042,000</b>	<b>1,341,860</b>
2,379,915	2,743,439	(363,524)	Electricity supply	2,621,721	2,876,731	(255,010)	(781,581)
5,836,628	1,462,455	4,374,173	Water supply	5,322,971	1,025,961	4,297,010	2,123,441
<b><u>23,098,312</u></b>	<b><u>14,649,243</u></b>	<b><u>8,449,069</u></b>	<b>TOTAL</b>	<b><u>24,036,197</u></b>	<b><u>25,504,942</u></b>	<b><u>-1,468,745</u></b>	<b><u>-197,401</u></b>
		(6,670,627)	Appropriations for the year (refer to note 16)				(1,696,280)
		1,778,442	<b>NET SURPLUS FOR THE YEAR</b>			227,536	
		(1,342,421)	Accumulated surplus / (deficit) beginning of the year				436,022
		<b><u>436,022</u></b>	<b>ACCUMULATED SURPLUS END OF THE YEAR</b>				<b><u>663,558</u></b>





# **REPORT OF THE AUDITOR-GENERAL TO THE COUNCIL OF THE INKWANCA LOCAL MUNICIPALITY AND THE EASTERN CAPE PROVINCIAL LEGISLATURE ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF INKWANCA LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2008**

## **Introduction**

1. I was engaged to audit the accompanying financial statements of the Inkwanca Local Municipality which comprise the balance sheet as at 30 June 2008, income statement, and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the treasurer's report, as set out on pages xx to xx.

## **Responsibility of the accounting officer for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the standards laid down by the Institute of Municipal Finance Officers (IMFO) in the Code of Practice (1997) and the Report of Financial Statements (2<sup>nd</sup> edition, January 1996) and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (Municipal Finance and Management Act (56 of 2003)). This responsibility includes:
  - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
  - selecting and applying appropriate accounting policies
  - making accounting estimates that are reasonable in the circumstances.

## **Responsibility of the Auditor-General**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126 (3) of the Municipal Finance and Management Act (56 of 2003), my responsibility is to express an opinion on these financial statements based on my audit in accordance with the International Standards on Auditing. *General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008.* Because of the matters discussed in the Basis for disclaimer of opinion paragraphs, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

## **Basis of accounting**

4. The municipality's policy is to prepare financial statements on the standards laid down by the Institute of Municipal Finance Officers (IMFO) in the Code of Practice (1997) and the Report of Financial Statements (2<sup>nd</sup> edition, January 1996) as set out in accounting policy note 1.

## **Basis for adverse opinion**

5. Management has an obligation to put controls in place to help identify and implement the appropriate accounting frameworks and policies to structure and govern its financial management responsibilities, as required by the Municipal Finance and Management Act (56 of 2003). Management is also required to properly analyse financial risk at account balance level and implement appropriate controls to minimise these risks. During the performance of the audit we identified many instances where controls had not been designed and implemented, resulting in material misstatement of the financial position of the municipality.

## **Corresponding figures**

6. Numerous errors in the prior period financial statements that were reported in the audit report for the year ended 30 June 2007 were corrected by adjusting the accumulated surplus and the relevant account balance in the current period without restating the corresponding figures.

7. Prior year adjustments of R7.5 million are disclosed in note 13 to the financial statements. No supporting documentation was provided in support thereof nor was the detail of these adjustments disclosed in the notes as required. I am unable to conclude which account balances are affected by these corrections. There were no alternative procedures that could be performed on these adjustments. As a result, sufficient appropriate evidence relating to the completeness, accuracy, existence, classification, presentation and disclosure of the accumulated surplus and the affected balances could not be obtained.
8. It was reported in the 2006-07 audit report that, revenue was overstated, accounts receivable was understated, cash and cash equivalents was understated and fixed assets were overstated. The cash flow statement contained errors, the short term portion of the long term liability was overstated, unspent conditional grant liability was incorrectly disclosed and the disclosure of taxes, duties, pension, medical contribution, capital commitments, details of long term liabilities conditions and securities, details of bank and cash balances, irregular expenditure and unauthorised expenditure were omitted. No adjustments are reflected in the corresponding figures to correct the errors reflected in the previous year.

Furthermore, the net effect of the errors reported above was not adjusted in the current year. As a result, accumulated surplus is overstated by R2.82 million, whilst expenditure is understated by R178 000 and revenue is understated by R2.64 million for the year under review.

### **Journals**

9. Journals to the value of R18.4 million have been processed without adequate supporting documentation to balance the trial balance to the financial statements. The net effect of these journals resulted in an understatement of conditional grants of R998 506, understatement of expenditure of R5.3 million, understatement of accumulated surplus of R687 215, understatement of accounts receivable of R5.5 million, overstatement of cash and cash equivalents of R155 845, understatement of accounts payable of R867 001 and overstatement of VAT of R2.4 million.

### **Suspense accounts**

10. Suspense accounts of R2.4 million are not recorded in the financial statements. Furthermore the information recorded in the general ledger was not sufficient to identify the nature of the transactions recorded in these accounts. There were no alternative procedures that could be performed to verify these balances. As a result sufficient appropriate evidence relating to the existence, classification, completeness and accuracy of the creditors and debtors and the occurrence, accuracy, classification and completeness of revenue and expenditure could not be obtained.

### **Accumulated Surplus/Deficit**

11. The accumulated surplus/ deficit disclosed in the balance sheet exceeds the amount disclosed in trial balance/ general ledger by R9.7 million. This difference could not be supported by documentation and/ or explanations. As a result sufficient appropriate relating to the completeness, accuracy, existence, classification, presentation and disclosure of the accumulated surplus and the affected balances could not be obtained.

### **Statutory Fund**

12. The contribution to the revolving fund was not correctly calculated and the contribution for the year of R33 653 was incorrectly debited to the accumulated surplus. As a result the statutory funds disclosed in the balance sheet is understated by R128 123, whilst the expenditure for the year disclosed in the income statement is understated by R161 776, and the accumulated surplus is understated by R33 653.

### **Long term liabilities**

13. The nature and book values of the securities provided for the long term liabilities amounting to R2.35 million are not disclosed in note 4 to the annual financial statements as required by the *Code of Accounting Practice For Local Authorities in South Africa*.
14. The short term portion of long term liabilities was incorrectly calculated. As a result the long term liabilities is understated by R103 047 whilst current liabilities are overstated by this amount.

### **Consumer Deposits**

15. A register/ schedule of consumer deposits was not maintained. Furthermore, as the consumer deposits represent less than one percent of the amount due to the municipality for services rendered, the municipal officials did not ensure that adequate consumer deposits were obtained before services were supplied to consumers. There were no alternative procedures that could be performed to verify this balance. As a result it was not possible to obtain sufficient appropriate evidence relating to the completeness, existence and accuracy of consumer deposits and the related debtors.

### **Fixed assets**

16. Fixed assets to the value of R4.3 million disclosed in the balance sheet and in note 6 to the financial statements are stated at cost less loans redeemed and other capital receipts. The cost of fixed assets recorded in the fixed asset register that was provided for audit purposes exceeds the cost of assets reflected in note 6 to the financial statements by R859 437. The fixed asset register does not contain adequate information related to the fixed assets recorded therein. Furthermore assets are not properly marked with unique identification numbers that are appropriately cross referenced to the asset register. As a result assets could not be reliably verified. There were no alternative procedures that could have been performed.

Consequently, sufficient appropriate evidence relating to the existence, completeness, classification, and accuracy of fixed assets to the value of R4.3 million disclosed in the balance sheet and the completeness, accuracy and occurrence of the related expenditure disclosed in the income statement could not be obtained.

17. Loans redeemed during the year of R372 069 were not recorded. As a result the fixed assets disclosed in the financial statements are overstated whilst expenditure disclosed in the income statement is understated by this amount.

### **Receivables and revenue**

18. Net consumer receivables of R6.8 million disclosed in the balance and in note 7 are inaccurate. The accounts receivable control account did not reconcile to the age analysis and is overstated by R1.2 million. The individual debtors were also not reconciled for more than three years, meter readings have not been recorded on the billing system, indigent consumer subsidies of R1 million were not allocated to the indigent consumer accounts, the basic water and electricity charges have not been billed to consumers, rates have not been billed or have been incorrectly billed, the latest property valuations were not correctly captured on the billing system, numerous journals were incorrectly processed to individual consumer accounts.



Furthermore the receivables total annual financial statements of R6.8 million (net of provision) did not reconcile to the trial balance and is understated by R481 139. This difference could not be explained and was not supported by appropriate documentation.

As a result it was not possible to obtain sufficient appropriate evidence relating to the existence, valuation, classification, accuracy, cut off, rights and completeness of the consumer receivables and completeness, classification, cut –off, accuracy and occurrence of revenue.

19. Note 7 of the financial statements discloses current debtors of R 31.5 million whilst the age analysis disclosed in the same note reflects total consumer debtors of R 21.1 million. The difference of R 10.4 million is not explained in the financial statements.
20. The Municipality does not have an accounting policy for doubtful debts and as such it was not possible to calculate the provision for doubtful debts based on an approved policy. Audit work revealed that the provision for doubtful debts as disclosed in note 7 is understated by an amount of R 4.2 million whilst expenditure is also understated by the same amount.
21. The movement in the provision for doubtful debts of R5.5 million was incorrectly debited against the accumulated surplus. As a result the accumulated surplus and expenditure is understated by this amount.
22. The rates revenue of R3.1 million, which is included in the revenue of R24 million disclosed in the income statement, did not reconcile to the revenue calculated based on the valuation roll. As a result revenue and accounts receivable are understated by R5 million.
23. Consumers were charged the incorrect tariff for refuse removal services. As a result refuse revenue included in the total revenue of R24 million disclosed in the income statement and accounts receivable are overstated by R278 787.
24. The electricity tariffs approved by the National Electricity Regulator of South Africa were not correctly applied by the municipality. As a result electricity revenue, which is included in the revenue of R24 million disclosed in the income statement, and debtors disclosed in the balance sheet are overstated by R 259 176.
25. The amount of collection commission on motor vehicle licenses per the general ledger of R59 176 could not be verified. The motor vehicle registration licenses are not sequentially numbered. All the completed books are sent back to the provincial department of transport and as such no register is kept. Furthermore the monthly NATIS reports that reflect the amount of motor vehicle licenses issued by the municipality for each month were not submitted for audit purposes. As a result it was not possible to obtain sufficient appropriate evidence relating to the completeness, accuracy, cut off, occurrence and classification of the collection commission of R59 176 included in the revenue of R24 million and the completeness, existence, accuracy, cut off and classification of cash and cash equivalents.

#### **Cash and cash equivalents**

26. A bank overdraft of R435 419 is disclosed in the balance sheet. Unreconciled differences totalling R342 610 are reflected on the bank reconciliation that reconciles the amount recorded on the financial statements to the bank statements. These reconciling items could not be adequately explained and were not supported by appropriate documentation. As a result it was not possible to obtain sufficient appropriate evidence relating to the completeness, classification, existence and accuracy of the cash and cash equivalents recorded on the balance sheet and the completeness, accuracy, occurrence and classification of income and expenditure disclosed in the income statement.

27. The Annual Financial Statements does not have a note for bank and cash in the manner prescribed in section 125 (2)(a) of the Municipal Finance and Management Act (56 of 2003).

### **Provisions**

28. Although attendance registers were used to ensure that all leave taken was recorded, the leave records of employees are generally inaccurate. The attendance register is not signed by the supervisor or manager to ensure that the employee was actually present. Leave capping and the forfeiture of leave was also not correctly applied. As a result the leave pay provision and employee costs are overstated by R365 688.
29. The municipality does not have permits or a restoration plan for its landfill sites and as such is in breach of sections 20 and 28 of the National Environmental Management Act 1998 (Act. No 107 of 1998). No provision is included or contingent liability is disclosed the financial statements for the future restoration costs of these landfill sites or for the penalties that may be imposed by the regulatory authorities in terms of section 29 of this act.

Due to the specialist nature of the calculations required and the lack of available specialists together with the limited nature of the available information it was not possible to determine the effect of this non- compliance on the provisions, expenditure and contingent liabilities disclosed in the financial statements.

### **Employee Costs**

30. Casual wage payments of R363 224 were paid to employees who were not on the municipal payroll during the year under review. Supporting documentation such as attendance register reflecting the signatures of the employees who had collected their wages could not be produced for the payments tested during the audit. Furthermore, in those cases where the required listings were available adequate records of the existence of the employees such as copies of identity documents were not available. There were no alternative procedures that could be performed to verify this expenditure. As a result it was not possible to obtain sufficient appropriate evidence relating to the occurrence, completeness, accuracy and classification of wages paid and the completeness, accuracy, existence and classification of bank and cash. .
31. The contributions to and outstanding amounts in respect of taxes, levies duties and pension and medical aid are not disclosed in the financial statements as required by S125(1)(c) and (e) of the MFMA.
32. The bonuses paid to the the municipal manager, chief financial officer, community and technical services managers totaling R46 915 are not included in the amounts disclosed in note 11 to the financial statements.
33. No accrual was raised for bonuses for the period between the last bonus payment and the year end. As a result employee costs and payables are understated by R240 518.
34. Leave on paid out on termination was calculated incorrectly. Overpayments of R68 969 were made to employees for the year under review. As a result employee costs are overstated and bank and cash is understated by this amount.
35. Fruitless and wasteful penalties and interest of R125 657 on the late payments reported in paragraph 59 have not been accrued or disclosed. As a result paybles and expenditure are understated this amount. Furthermore no fruitless and wasteful expenditure is disclosed in the notes to the financial statements.

### **Expenditure and payables**

36. The expenditure of R25.5 million (including salaries and wages of R10.2 million) disclosed in the income statement does not reconcile to the trial balance and is overstated by R9 million. The corresponding entry affected is reported in paragraph 11.
37. The travel allowances paid to section 57 managers were not included in the calculation of PAYE. As a result receivables and payables are understated by R107 377. Furthermore potential fruitless and wasteful interest and penalties of R15 105 have not been raised or disclosed in the financial statements.
38. The accounts payable disclosed in the balance sheet and in note 8 to the financial statements of R3.7 million does not reconcile to the trial balance. An unreconciled understatement of R2.9 million that could not be adequately explained or supported by documentation exists. Furthermore the amount disclosed as payables does not agree to the listing of creditors provided for audit purposes and is overstated by R461 957. There were no alternative procedures that could be performed to verify these differences. This difference could also not be supported by appropriate documentation or explained. As a result sufficient appropriate evidence relating to the completeness, accuracy, cut off, classification, existence and obligations of payables and the completeness, occurrence, classification, cut off and accuracy of expenditure could not be obtained.
39. Prize money of R200 000 received for the cleanest town competition was incorrectly included in payables. As a result revenue is understated whilst payables are overstated by this amount.
40. The trade payables of R3.7 million are not detailed in note 8 as required by the *Code of Accounting Practice For Local Authorities in South Africa*.
41. Logbooks, trip authorisations and records of maintenance for all municipal vehicles were not adequately maintained for the year under review. As a result I could not obtain sufficient appropriate evidence about the classification and occurrence of expenditure of R1.2 million incurred on fuel and maintenance of the municipal vehicles and the classification and completeness of the related staff debt that should have been disclosed in the financial statements.

### **VAT**

42. A value added tax liability of R1.1 million is included in the payables amounting to R3.7 million disclosed in the balance sheet and note 8 to the financial statements. The amount does not reconcile to the VAT returns for the year which were based on the amounts recorded in the relevant general ledger control account. An unreconciled difference of R1.2 million exists. Payables are thus overstated and expenditure is overstated by this amount.

### **Cash Flow Statement**

43. The cash generated from operation does not cast in cash flow statement and is overstated by R365 866.
44. The increase in cash on hand disclosed in the cash flow statement does not reconcile to the movement in the cash resources per the balance sheet and is understated by R1.15 million.
45. The increase in long term liabilities does not reconcile to the movement in long term liabilities disclosed in the balance sheet and is understated by R109 039.

46. The cash contributions from the public and the state of R5.17 million does not reconcile to the grants and subsidies disclosed in the analysis of operating income and expense and is understated by R3.54 million.

### **Contingent Liabilities**

47. A contingent liability of R407 000 is disclosed in note 24 to the financial statements. This resulted from a fire that caused damage to a property. The municipality admitted liability, however its insurers have declined to accept liability due late notification of the claim. Consequently this contingent liability should have been disclosed as a provision. As a result provisions and expenditure are understated by R407 000. Since the settlement of this liability will result in fruitless and wasteful expenditure, such expenditure should have been disclosed in the financial statements. No fruitless and wasteful expenditure is disclosed in the financial statements.

### **Capital Comittments**

48. Contracted capital comittments totalling R131 600 are not disclosed in the notes to the financial statements as required by the *Code of Accounting Practice For Local Authorities in South Africa*.

### **Unauthorised expenditure**

49. The municipality did not provide a budget that reconciled to the budget disclosed in the financial statements or to the integrated development plan for the year under review. As a result sufficient appropriate evidence relating to the completeness and disclosure of unauthorised expenditure could not be obtained.

### **Irregular expenditure**

50. Management did not monitor the implementation of the requirements of the Municipal Supply Chain Management Regulations issued in terms of the Municipal Finance and Management Act (56 of 2003). As a result expenditure transactions with a value of R3.9 million were not procured or complied in accordance with these regulations. This irregular expenditure is not disclosed in the financial statements.
51. DORA grants of R495 548 were used to fund operating expenditure. This is contrary to the requirements of section 44(2) of DORA and is thus irregular. No disclosures of irregular expenditure are included in the financial statements.

### **Going concern**

52. Note 27 to the financial statements states that the municipality will continue as a going concern. During the audit a number of risks to the municipality's ability to continue as a going concern were identified. The most significant being:
- The collection of overdue amounts due to the municipality by customers remains a significant challenge. There is no implemented credit control or debt collection policy in the municipality and there is no evidence that collections have improved in the current year.
  - The municipality is experiencing cash-flow difficulties and is incurring further liabilities in order to finance operations. The municipality has borrowed R2.5 million from the district municipality to fund its operations.
  - The findings reported in paragraph 6 to 87 affect the financial statements significantly. Had the required adjustments been processed, the financial statements will reflect that the municipality's liabilities exceed its assets, and it is facing serious

financial difficulties. Furthermore, no steps have been taken to report this matter as required by chapter 13 of the MFMA.

- Supplier and statutory payments were also not settled in the prescribed period
- The cash and cash equivalents reflect a net overdrawn position of R160 000.

As a result of the above, the adverse effect on cash flows is expected to remain in the foreseeable future. The risks to the municipality's ability to continue as a going concern reported in paragraph above are not disclosed in the financial statements.

### Disclaimer of opinion

53. In my opinion, because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have been unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the Inkwanca Municipality. Accordingly, I do not express an opinion on the financial statements.

### Emphasis of matter

I draw attention to the following matters:

#### Highlighting critically important matters presented or disclosed in the financial statements

##### Staff debt

54. Arrear staff debt relating to service charges of R496 196 is included in the accounts receivable amount of R6.8 million disclosed in note 7. The municipality has not implemented processes to collect this arrear staff debt.

##### Revolving fund

55. As disclosed, in note 1 to the financial statements, the revolving fund investments was used to finance operating costs and as a result the revolving fund of R2.9 million is only supported by investments of R0.9 million.

### OTHER MATTERS

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

#### Internal controls

56. Section 62(1)(c)(i) of the Municipal Finance and Management Act (56 of 2003) states that the accounting officer must ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the inefficiencies in the system of internal control, which led to the disclaimer of opinion. The root causes are categorised according to the five components of an effective system of internal control. In some instances deficiencies exist in more than one internal control component.

Reporting item	Control environment	Risk assessment	Control activities	Information and communication	Monitoring
Consumer deposits	X				
Fixed assets	X				
Inventory	X				
Debtors	X				

Reporting item	Control environment	Risk assessment	Control activities	Information and communication	Monitoring
Provisions	X				
Revenue	X				
Expenditure	X				
Irregular expenditure	X				

Control environment: establishes the foundation for the internal control system by providing fundamental discipline and structure for financial reporting.

Risk assessment: involves the identification and analysis by management of relevant financial reporting risks to achieve predetermined financial reporting objectives.

Control activities: policies, procedures and practices that ensure that management's financial reporting objectives are achieved and financial reporting risk mitigation strategies are carried out.

Information and communication: supports all other control components by communicating control responsibilities for financial reporting to employees and by providing financial reporting information in a form and time frame that allows people to carry out their financial reporting duties.

Monitoring: covers external oversight of internal controls over financial reporting by management or other parties outside the process; or the application of independent methodologies, like customised procedures or standard checklists, by employees within a process.

### Non-compliance with applicable legislation

57. The municipality did not comply with any of the reporting requirements contained in sections 54(1), 66, 70(1), 71(1-5) and section 74 of the Municipal Finance and Management Act (56 of 2003) that deal with the budgetary control exercised by the mayor, expenditure on staff benefits, budgeted revenue shortfalls and expenditure overspending, and the submission of monthly budget statements to the provincial treasury.
58. Salary deductions of R3.3 million and other supplier payments totaling R909 242 were not paid timeously as required by section 65(2)(e)&(f) of the MFMA. The fruitless and wasteful penalties and interest on these late payments is reported in paragraph 36.
59. The accounting officer did not notify the National Treasury of the municipality's net overdrawn position in terms s 70(2) of the MFMA.
60. The budget for the year which is disclosed on the income statement reflects a deficit of R197 401. This is contrary to the requirements of section 18 of the MFMA.

### Environmental matters

61. Physical inspections conducted during the audit revealed the following health and environmental hazards:
  - The sewerage water in the oxidation ponds in Molteno was overflowing and running into a river nearby. The gates at the sewerage ponds were kept open, and there



were animals drinking from the sewerage ponds and grazing in this area which is a “no-go-area” . This was also noted and reported in prior year audit

- The gates at the Sterkstroom sewerage purification plant were kept open, and there were animals drinking from the sewerage and grazing in this area. Stagnant and flowing sewerage was present in the river running to Burgersdorp. This water used by the community for drinking purposes, bathing and the manufacture of bricks.
- There are also pig pens and freely roaming pigs and faeces present at the river. This area is also littered with rubbish (plastics, bottles, paper, waste matter).

### Matters of governance

62. The Municipal Finance and Management Act (56 of 2003) tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

No.	Matters of governance	Yes	No
	<b>Audit committee</b>		
1(a)	The Inkwanca Local Municipality had an audit committee in operation throughout the financial year.		X
1(b)	The audit committee operates in accordance with approved written terms of reference.		X
1(c)	The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the Municipal Finance and Management Act (56 of 2003).		X
	<b>Internal audit</b>		
2(a)	The [type of entity] had an internal audit function in operation throughout the financial year.		X
2(b)	The internal audit function operates in terms of an approved internal audit plan.		X
2(c)	The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the Municipal Finance and Management Act (56 of 2003).		X
	<b>Other matters of governance</b>		
3	The annual financial statements were submitted to audit as per the legislated deadlines in Section 126 of the Municipal Finance and Management Act (56 of 2003).	X	
4	The annual report was submitted for the auditor for consideration prior to the date of the auditor's report.		X
5	The financial statements submitted for audit were not subject to any material amendments resulting from the audit.	X	
6	Significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.	X	
7	The prior year's external audit recommendations have been substantially implemented.		X
9	There are documented policies and procedures and control systems to ensure the reliability of financial reporting.		X
10	There are documented policies and procedures and control systems to ensure compliance with applicable laws and regulations.		X
11	The information systems were appropriate to facilitate the preparation of financial statements that are free from material misstatement.		X

No.	Matters of governance	Yes	No
12	Delegations of responsibilities are in place.		X
13	Supply chain management policies and procedures were appropriately applied.		X
14	There is a functioning performance management system.		X
	<b>Implementation of Standards of Generally Recognised Accounting Practice (GRAP)</b>		
15	The municipality submitted an implementation plan, detailing progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 30 October 2007.		X
16	The municipality substantially complied with the implementation plan it submitted to the National Treasury and the relevant provincial treasury before 30 October 2007, detailing its progress towards full compliance with GRAP.		X
17	The municipality submitted an implementation plan, detailing further progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 31 March 2008.		X

#### **Material inconsistencies in published information**

63. Capital charges debited to operating accounts of R365 866 as disclosed in note 12 of the financial statements does not reconcile to capital charges as per Appendix D.

#### **Unaudited supplementary schedules**

The schedules set out on pages xxx to xxx have not been audited. Accordingly no opinion is expressed thereon.

### **OTHER REPORTING RESPONSIBILITIES**

#### **REPORT ON PERFORMANCE INFORMATION**

64. I was engaged to review the performance information.

#### **Responsibility of the accounting officer for the performance information**

65. In terms of section 121(3)(c) of the Municipal Finance and Management Act (56 of 2003), the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

#### **Responsibility of the Auditor-General**

66. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* [and section 45 of the MSA].

67. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

68. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.



## **Audit findings (performance information)**

### **Performance information not received**

69. I was not able to complete an evaluation of the quality of the reported performance information as set out on pages xx to xx of the annual report, since the information was not received in time.

### **Audit findings**

#### **Key Performance Indicators**

70. Key performance indicators for each of the development priorities and objectives, as required by section 6 of the MSA, were not developed. Furthermore the integrated development plan did not include key performance indicators.

#### **Development priorities and objectives**

71. Development priorities and objectives of the municipality's integrated development plan are neither consistent with the budget nor clear and concise. Furthermore these development priorities and objectives are not measurable.

#### **Integrated Development Plan and budget**

72. The budget contained in the integrated development plan did not reconcile to the annual budget.

## **APPRECIATION**

73. The assistance rendered by the staff of the Inkwanca Municipality during the audit is sincerely appreciated.

*Auditor-General*

EAST LONDON

30 November 2008



AUDITOR - GENERAL

## Action Taken by the Municipality to address issues raised by the Auditor-General

### Action Plan

We have come up with an action plan (See Appendix A) to ensure that issues raised are comprehensively dealt with. The action plan is divided into short-term (within 3 months period), medium-term (3 to 6 months) and long term (over 6 months) actions to be undertaken with clear time frames as to when such intended implementation is to commence and when it is envisaged to be completed. We have established a six-member Steering Committee chaired by the Mayor (who is also a councilor responsible for finance. Also sitting in the committee is Clr Patrick Parker responsible for infrastructure. Other members of this committee are: the Municipal Manager as the Accounting Officer, The CFO, the Technical Adviser (from the National Treasury), and a representative of the Provincial Treasury. The committee meets fortnightly to oversee the implementation of the action plan. Appropriate controls like supply chain management structures; separation of duties in the BTO; and appropriate delegations have been put in place.

### Shared Audit Committee

With the assistance of Chris Hanu District Municipality Inkwanca Lm has established a shared Audit Committee services function with the municipalities of Inxuba Yethemba and Tsolwana. As per Audit Charter, the committee has been given the authority to :

- Investigate matters.
- Full and unrestricted access.
- Free access to management, employees and Internal Audit Unit.
- Right to seek legal advice; and
- Freedom to communicate with Auditor-General and the Council.

### Internal Audit Unit

At the beginning of 2009, the municipality has established an independent internal audit unit. The unit is co-sourced with Chris Hanu DM. The scope of the unit encompasses the examination and evaluation of the adequacy and the effectiveness of the municipality's system of internal controls; the quality of internal control; as well as the quality of performance in carrying out assigned responsibilities.

## APPENDIX A

### **ACTION PLAN**

#### **Short Term**

<b>KPA</b>	<b>Output / Projects</b>	<b>MFMA Priority</b>	<b>Implementation Plan</b>	
			<b>Activity</b>	<b>Task</b>
<b>MFMA Reports</b>	<b>Ensure that all MFMA reports are completed and submitted to Provincial and National Treasury.</b>	<b>1, 6 &amp; 8</b>	<b>Prepare monthly, quarterly, half yearly and yearly MFMA reports.</b>	<b>Complete the MFMA Implementation Plan, Budget Evaluation Checklist, Competency Levels, Borrowing Monitoring, Long Term, Municipal Entities and Implementation Priorities</b>

				<i>Contracts, FMG, S71</i>
<b>Revenue Enhancement</b>	<i>Ensure that the credit control policy is implemented by the municipality</i>		<i>Reconciliation of monies owed by Government Departments</i>	<i>Assist in the reconciliation of the monies owed by government departments. Follow up on payments made by government departments.</i>
			<i>Reconciliation of businesses accounts</i>	<i>Assist in the reconciliation of the monies owed by businesses. Implement the credit control policy and follow up on arrangements made.</i>
			<i>Reconciliation of consumers accounts</i>	<i>Reconcile consumer accounts. Implement the credit control policy and follow up on arrangements made.</i>
			<i>Determine the possibility of line losses and theft for water and electricity</i>	<i>Go through the electricity system to check for people that are not buying electricity. Visit households and businesses where tempering is suspected</i>
<b>Municipal Property Rates Act</b>	<i>Ensure that the MPRA is properly implemented</i>		<i>Review the valuation roll</i>	<i>Reconcile the valuation roll with the system and ensure that the information captured on the system agrees to the valuation roll and the deeds office</i>
			<i>Reconciliation of the farmers accounts</i>	<i>Reconcile the farmer's accounts with the valuation roll. Ensure that the amounts billed for farmers are not in contradiction with the rates and tariff policies.</i>
<b>Website</b>	<i>Creation of the municipal website</i>	<b>14</b>	<i>Ensure that the municipality has a website that is operational</i>	<i>Visit the municipality to look at their networking for the installation of a website. Create a website for the municipality. Ensure that the municipality complies with s75 of the MFMA</i>
<b>Financial Statements</b>	<i>Updated monthly reconciliations for bank, creditors, debtors, salaries, and VAT. Update the Investments, trust accounts and external loans. Clear all the suspense accounts.</i>	<b>9</b>	<i>Updated bank reconciliations.</i>	<i>Assist the municipality in updating the bank reconciliation.</i>
			<i>Updated monthly reconciliations for creditors, debtors, salaries, and VAT.</i>	<i>Assist the municipality in preparing monthly reconciliations for creditors, debtors, salaries and VAT.</i>
			<i>Reconciliation of Trust accounts, internal and external loans, statutory funds and advance accounts.</i>	<i>Assist the municipality in preparing and clearing of trust accounts, internal loans, statutory funds and advances.</i>
			<i>Cleared suspense accounts.</i>	<i>Assist the municipality in clearing the suspense accounts.</i>
			<i>Review of journals</i>	<i>Scrutinize all journals passed during the year to ensure completeness and correctness</i>

**Medium Term**

<b>KPA</b>	<b>Output / Projects</b>	<b>Implementation Plan</b>		
<b>Structural Arrangements</b>	<b>Reviewed Organizational Structure</b>		<b>Activity</b> Review the organizational structure Align the organizational structure to MFMA	<b>Task</b> Analyses of existing Structure Prepare proposed structure. Submit the proposed structure to the municipality
			Municipality consults with unions and other stakeholders	Council Adoption
<b>Financial Statements</b>	<b>Fixed Asset Register</b>	<b>9</b>	<b>Compilation of Asset Register.</b>	<b>Physical verification of assets. Updating of new assets to the system. Ensure that all assets are bar coded and agree to the fixed asset register.</b>
<b>Policies and by laws</b>	<b>Updated policy register</b>	<b>5</b>	<b>Request current policies of the municipality</b>	<b>Identify existing policies.</b>
			<b>Compile database of generic policies</b>	<b>Compile a register of generic policies. Review the existing policies in line with the generic policies.</b>
			<b>Compile a database of proposed policies</b>	<b>Consultation on reviewed policies Council adopts the policies.</b>
<b>Audit Action Plan</b>	<b>Develop the audit action plan for 2007/08</b>	<b>12</b>	<b>Develop the audit action plan for 2007/08</b>	<b>Assist the municipality in developing the audit action plan for 2007/08 Ensure that the municipality is addressing the issues raised in the audit report Ensure that the audit outcome for 2008/09 is improved</b>
<b>Budget 2009/10</b>	<b>Prepare the budget for 2009/10</b>	<b>13</b>	<b>Assist the municipality in the preparation of the 2009/10</b>	<b>Ensure that the half year budget report is prepared Ensure that the s57 managers have received their departmental budgets Ensure that the consultation process with departments is in process Ensure that the draft budget is tabled by 31/03/2009 Ensure that all the budget supporting documentation is tabled with the draft budget</b>
<b>Skills Audit</b>	<b>Conduct the skills audit in the municipality</b>		<b>Secure appointments Conduct Survey Report</b>	<b>Liaise with the municipality to secure suitable dates Interview personnel Consolidate the report of the audit</b>

<i>SCM Unit</i>	<i>Establishment of Supply Chain Management unit</i>	<i>7 11</i>	<i>Establishment of the SCM unit Implementation of the SCM policy</i>	<i>Assist the municipality in establishing the SCM unit Ensure that the municipality is implementing the SCM policy Ensure that the gift register is in place.</i>
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**Long Term**

<i>KPA</i>	<i>Output / Projects</i>	<i>Implementation Plan</i>		
<i>Capacity Building</i>	<i>MFMA Learning AFS/GRAP/GAMAP /Asset Register SCM Budgets MFMA Reporting Annual Reports</i>		<i><u>Activity</u> Organize training for the Senior Managers and Budget &amp; Treasury staff</i>	<i><u>Task</u> Secure dates for training/workshops Arrange for facilitators that will provide training Assess progress of the training given</i>
<i>Internal Audit Unit</i>	<i>Establishment of the Internal Audit Unit</i>	<i>12</i>	<i>Ensure that the municipality has an operational audit unit</i>	<i>Assist the municipality in establishing the internal audit unit</i>
<i>Internal Controls</i>	<i>Development of Internal Controls</i>		<i>Develop and Implement internal controls</i>	<i>Develop internal for the municipality Ensure that the internal controls are implemented by the municipality</i>
<i>Annual Report</i>	<i>Ensure Legal compliance</i>	<i>10</i>	<i>Ensure that the municipality develops an annual report that is compliant with the requirements of the MFMA</i>	<i>Ensure that the annual report for 2008/09 is completed and complies with the MFMA.</i>