

**REPORT OF THE AUDITOR-GENERAL TO COUNCIL ON THE CONSOLIDATED
FINANCIAL STATEMENTS OF THE EKURHULENI METROPOLITAN MUNICIPALITY FOR
THE YEAR ENDED 30 JUNE 2005**

1. AUDIT ASSIGNMENT

The financial statements as set out on pages to , for the year ended 30 June 2005, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996, read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 126(3)(a) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements, based on the audit

2. NATURE AND SCOPE

The audit was conducted in accordance with Statements of South African Auditing Standards. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements
- assessing the accounting principles used and significant estimates made by management
- evaluating the overall financial statement presentation

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations which came to my attention and are applicable to financial matters.

The audit was completed in accordance with Auditor-General Directive No. 1 of 2005.

I believe that the audit provides a reasonable basis for my opinion.

Ekurhuleni Metropolitan Municipality has opted for early implementation of Statements of Generally Recognised Accounting Practice (GRAP) and Generally Accepted Municipal Accounting Practice (GAMAP). Although the effective dates of application of these Standards of GRAP and GAMAP, also referred to in my opinion in paragraph 4 below, have not yet been gazetted by the Minister of Finance, they have been recommended for implementation by the Accounting Standards Board and National Treasury.

3. QUALIFICATION

Property, plant and equipment

- 3.1 During the audit various assets could not be physically verified. It could also not be confirmed that all assets, as disclosed in the fixed asset register, actually existed. This was mainly due to poor monitoring of the movement of assets between departments and customer care centres and the fixed asset register was not being regularly updated. Various assets could not be found at the locations indicated in the fixed asset register and some assets, included in the fixed asset register in particular infrastructure

assets, had no clear descriptions to facilitate the verification of the existence of these assets.

- 3.2 Ekurhuleni Metropolitan Municipality implemented the GAMAP for the first time during the year under review. The municipality did not perform a periodic review on the carrying amount of their assets and of the remaining useful life of assets, as required by GAMAP 17.
- 3.3 The ownership of investment property to the value of R22 411 240 held by the municipality could not be verified as the physical addresses were not recorded in the fixed asset register. The municipality also did not adopt an accounting policy for the treatment of investment property.
- 3.4 Greater Germiston Inner Housing Corporation Pharoe Park (Pty) Ltd, a municipal entity under the control of the municipality, did not maintain fixed asset registers during the financial year. Therefore it was not possible to verify the existence of the fixed assets.

These weaknesses were mainly due to ineffective implementation of internal controls and ineffective safeguarding of assets.

4. AUDIT OPINION

In my opinion, except for the effect on the financial statements of the matters referred to in paragraph 3, the consolidated financial statements fairly present, in all material respects, the financial position of the Ekurhuleni Metropolitan Municipality (the municipality) and its entities at 30 June 2005 and the results of its operations and cash flows for the year then ended, in accordance with Statements of GRAP/GAMAP and in the manner required by the MFMA.

5. EMPHASIS OF MATTER

Without further qualifying the audit opinion expressed above, attention is drawn to the following matters:

5.1 Credit control policy

The municipality did not enforce its credit control policy consistently throughout the financial year under review which resulted in the provision for bad debts representing 83% of the current debtors at 30 June 2005. The municipality, contrary to section 98(1) of the Local Government Municipal Systems Act, 2000 (Act No. 32 of 2000), had not adopted by-laws to give effect to the municipality's credit control and debt collection policy, its implementation and enforcement. Furthermore the large decrease (31%) in monies set aside for debt collection, confirmed that the municipality did not hand over all long-outstanding debtors to debt-collection agencies.

5.2 Audit committee

In terms of section 166(4)(b) of the MFMA, an audit committee must meet as often as is required to perform its functions, but at least four times a year. The audit committee of the municipality met only twice during the year under review.

Furthermore, in contravention of section 166(1) of the MFMA, audit committees were not appointed for the following municipal entities:

- Greater Germiston Inner City Housing Corporation Pharoe Park (Pty) Ltd

- Greater Germiston Inner City Housing Corporation Phase II (Pty) Ltd
- Greater Germiston Inner City Housing Corporation Management Services (Pty) Ltd
- Brakpan Bus Company (Pty) Ltd
- East Rand Water Care Company (ERWAT)
- Lethabong Housing Institute

The municipality did not provide the required guidance to the municipal entities under its control.

5.3 Internal audit

In terms of section 165(1) of the MFMA, each municipal entity must have an internal audit unit, subject to section 165(3). Section 165(3) stipulates that such internal audit function may be outsourced. The following municipal entities did not have an internal audit function for the year under review:

- Greater Germiston Inner City Housing Corporation Pharos Park (Pty) Ltd
- Greater Germiston Inner City Housing Corporation Phase II (Pty) Ltd
- Greater Germiston Inner City Housing Corporation Management Services (Pty) Ltd
- Brakpan Bus Company (Pty) Ltd
- East Rand Water Care Company (ERWAT)
- Lethabong Housing Institute

The municipality did not provide the required guidance to the municipal entities under its control.

5.4 Remuneration packages

In terms of section 89(a) of the MFMA, the parent municipality of a municipal entity must determine the upper limits of the salary, allowances and other benefits of the chief executive officer and senior managers of the entity. The municipality did not provide the required guidelines to the municipal entities under its control.

5.5 Forensic investigation

An internal forensic investigation was launched by the Municipality into possible irregularities at the municipality involving employees at the mechanical workshops. At the time of compiling this report this investigation was not yet completed.

5.6 Late completion of audit

The annual financial statements were submitted on 31 August 2005, as required by sections 126(1) and 126(2) of the MFMA. Due to significant audit and accounting issues, the statements were amended, re-signed and resubmitted to the Auditor-General on 15 September 2006. Audit capacity constraints also contributed to the late completion of the audit.

6. INFORMATION SYSTEMS AUDIT

6.1 The audit revealed the following weaknesses within the IT general control environment:

- (i) Segregation of duties was not adequate.
- (ii) A disaster recovery plan or business continuity plan did not exist.
- (iii) A number of physical security weaknesses were identified in the municipality's server rooms.

- (iv) Inadequate user account management on the operating system.
- (v) Inadequate change control procedures.
- (vi) Adequate programmed controls were not built into a key business application.
- (vii) Numerous shortcomings were identified during the evaluation of the information technology supply chain management process.

6.2 The network audit also revealed the following weaknesses:

- (i) There was a lack of adequate, formally documented security standards to ensure effective security management.
- (ii) Certain databases were poorly secured.
- (iii) Application, database and operating system software were not updated with the latest vendor updates to minimise the risk of unauthorised access being gained to information on the systems.
- (iv) Lack of standardised security configuration was identified on the application, database and operating system software.

Weaknesses pertaining to change control, password and logical access controls on the operating system and user account management raised concerns regarding the integrity of the data.

7. PERFORMANCE MEASURES

An audit on the municipality's performance measurement according to section 46(1) of the Local Government Municipal Systems Act, 2000 (Act No. 32 of 2000) was conducted and is reported on separately.

8. APPRECIATION

The assistance rendered by the staff of the municipality and its municipal entities during the audit is sincerely appreciated.

Terence Nombembe
Auditor-General

Pretoria

29 January 2007



AUDITOR - GENERAL