



REPORT OF THE AUDITOR-GENERAL

ON THE FINANCIAL STATEMENTS TO THE COUNCIL OF THE BUFFALO CITY MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2004

1. AUDIT ASSIGNMENT

The financial statements, as set out on pages 46 to 80 for the financial year ended 30 June 2004 have been audited in terms of section 188 (1)(b) of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 3 and 5 of the Auditor-General Act, 1995 (Act No. 12 of 1995) and section 10G(2)(d)(ii) of the Local Government Transition Act, 1993 (Act No. 209 of 1993). The 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 the financial statements and compliance with relevant laws and regulations, applicable to financial matters, 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 included in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- 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.

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

3. UNQUALIFIED AUDIT OPINION

In my opinion, the financial statements fairly present, in all material respects, the financial position of Buffalo City Municipality as at 30 June 2004 and the results of its operations and cash flows for the year ended, in accordance with the prescribed accounting practice.

4. EMPHASIS OF MATTER

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

4.1 Matters affecting the financial statements

4.1.1 Outstanding debt on land sales

Approximately R2.4 million of land sales included in the land sales debtors balance of R3 654 257 at year-end are recorded as greater than 120 days outstanding as at September 2004.

4.1.2 Unallocated receipts

It has not been possible to obtain a detailed listing to confirm the validity of the amount of R1 187 328 included in sundry creditors as unallocated receipts.

4.2 Matters not affecting the financial statements

4.2.1 Significant unaccounted for water losses

Water lost in distribution for the year equates to 44%. Normal background losses, inherent in all systems, are expected to approximate 25%. Hence, the value of water losses above the expected norm equates to approximately R16 million.



4.2.2 Significant unaccounted for electricity losses

Electricity lost in distribution for the year equates to 12% on units purchased. Normal losses are expected to approximate 8%. Hence, the value of electricity losses above the expected norm equates to approximately R17 million.

4.2.3 Internal control

a) Reconciliations

- i. Creditor reconciliations for sundry creditors have not been adequately reconciled to sundry creditor statements.
- ii. No reconciliation was prepared between the valuation roll (BP 182) and the valuation control book during the course of the year under review.
- iii. During the course of the current financial year, no reconciliation was prepared between the rental listing and the rental income vote.
- iv. The reconciliation of land sales votes was not performed correctly at year-end.
- v. No reconciliation was performed between the traffic cashbook and the vote in respect of traffic income.

b) Supervisory and monitoring controls

Supervisory controls are not performed over the capturing and uploading of data from the building control department listing to the Venus system.

c) Bank Reconciliation

Only differences between physical cash banked and receipting totals per the Venus system should be processed to the underbanking suspense vote. These differences should be investigated daily and cleared out on a monthly basis.

d) Personnel records

Leave records were not properly maintained. It was found that authorised leave forms had not always been captured timeously on the personnel PAYDAY system. Captured leave forms and documentation relating to employees, whose services have been terminated, were not filed.

4.2.5 Internal audit

As reported in the prior year audit report, the internal audit component has not functioned optimally in terms of its internal audit charter. Internal audit personnel continue to perform, as allocated by management, unrelated non-audit tasks. Consequently, the organisational control environment and the follow up of recommendations from this component are limited.

4.2.6 Audit committee

As reported in the prior year audit report, the audit committee has not met as required by its charter. As a result of this, the audit committee is non-operational and has not fulfilled the mandate required of it.

4.2.7 Unauthorised expenditure

The office conducted a forensic audit into Phase 2 of the Dimbaza Housing Project and a final report was issued during July 2004. As disclosed in note 10 to the Annual Financial Statements, unauthorised expenditure, in terms of Section 10G(2)(j)(ii) of the Local Government Transition Act, amounting to R24 348 037 was incurred on the project.





4.2.8 Computer environment and systems

- a) Disaster recovery plan The Municipality has not developed and implemented a comprehensive disaster recovery plan. This plan should outline procedures for reducing the risk of business disruption in the event of a disaster. No documentation or policies exist to govern these plans. The backup policies are inadequate and there are no contingency plans for a disaster recovery.
- b) Security policy
Although the Municipality has an information technology security policy, which includes aspects normally addressed in such a plan, the policy has not been approved, nor communicated to all users. There is inadequate control over the use of administrative accounts. The security parameter settings were not optimally utilised and password controls are not enforced.
- c) Backups
Backups of the computerised data are not regularly deposited at the remote facility. In addition, the backups are not tested regularly to ensure the effective restoration of the data. Control to the physical access was not controlled. No operating procedures, systems, application software, or system documentation is kept with the backup tapes in the vault at the offsite location.
- d) Access of consultants to the production environment
Consultants had direct full system access to the production environment via a dial-up facility. A dial-back system, to reduce the risk of unauthorised access, was not used.
- e) Segregation of duties
Inadequate segregation of duties existed as users were assigned privileges that did not correspond to their job descriptions.

6. APPRECIATION

The assistance rendered by the management and staff during the audit of the Buffalo City Municipality is sincerely appreciated.

S.M. NGQWALA,
for Auditor-General

East London
30 November 2004

REPORT ON PERFORMANCE

REPORT OF THE AUDITOR-GENERAL TO THE COUNCIL OF BUFFALO CITY MUNICIPALITY ON THE RESULTS OF PERFORMANCE MEASUREMENT FOR THE YEAR ENDED 30 JUNE 2004

1. AUDIT ASSIGNMENT

The results of the performance measurement in the annual report for the year ended 30 June 2004 as set out on pages 96 to 121 is the responsibility of the accounting officer. My responsibility is to provide an assessment of the controls implemented by the accounting officer to develop and manage the municipality's performance management system as required by section 45(b) of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000). My role is not to assist or comment on the municipality's actual performance, but rather to evaluate the processes followed during the implementation of the performance management system.

2. NATURE AND SCOPE

I have performed the procedures agreed with management and described below regarding the performance management system of the Buffalo City Municipality. Our engagement was undertaken in accordance with the Statements of South African Auditing Standards applicable to an agreed upon procedures engagement.

The responsibility of determining the adequacy or otherwise of the procedures agreed to be performed is that of Buffalo City Municipality. My procedures were performed solely to evaluate the controls implemented by the accounting officer regarding the municipality's performance management system against the criteria included in Chapter 6 of the Municipal Systems Act, 2000, the Local Government: Municipal Planning and Performance Management Regulations, 2001 (No. R. 796) and best practices so as to report on the applicable compliance with legislation and to assist in identifying possible areas for improvement.

The procedures performed during our assignment were based on the feedback received from the completion of the high-level overview checklist by the municipal manager and included a review of the following aspects:

- Development of an integrated development plan
- Development of a performance management system
- Development and implementation of key performance indicators
- Setting of targets for key performance indicators
- Actual service delivery process
- Internal monitoring of performance measurements
- Internal control of the performance management system
- Performance measurement and reporting
- Revision of strategies and objectives

3. FINDINGS

The following matters were identified:

3.1 Development of an integrated development plan

The integrated development plan (IDP) adopted by Buffalo City Municipality and the integrated development plan review of 2003-04 included all the essential characteristics as required by the relevant laws and regulations.

3.2 Development and implementation of a performance management system

The framework and the process in place for the performance management system complies with the essential output criteria included in the legislation and guidelines.

However, a shortcoming identified in the initial performance management system was that it focused more on individual performance (specific to section 57 employees and general managers) within the core municipality and not so much on other employees, service providers and public entities as required by legislation.

The framework for the performance management system clearly illustrates the relevant roles and responsibilities of each role player in the functioning of the system, and also the link to the IDP process and the employee performance management process.



3.3 Development and implementation of key performance indicators

The key performance indicators affected by the amendments of the IDP have been reviewed and reflected in the 2004-05 review process in accordance with the relevant legislation. The municipality has set key performance indicators for each of the development priorities and objectives included in the IDP, in accordance with the relevant legislation.

It is noted that the municipality has not set any key performance indicators specifically for employees other than section 57 employees and general managers, or service providers.

3.4 Setting targets for key performance indicators

Targets were set for each of the key performance indicators.

However, performance targets for the employees other than Section 57 employees and general managers, and service providers have not been included.

3.5 Actual service delivery process

The framework for the tracking of performance does not clarify the breakdown of the performance targets for all levels in the organisation, nor the service providers and municipal entities.

The service contracts for the section 57 employees and general managers do specify the methods for tracking their performance and the intervals for reporting.

3.6 Internal monitoring

Performance contracts for all section 57 employees and general managers have been completed and these officials have been assessed based on the performance targets set in their contracts. However, the municipality is in the process of cascading the performance management system to other employees, service providers and municipal entities; and are currently at a stage where they are re-defining and aligning their key performance indicators and performance targets.

3.7 Internal control

The municipality does have an operating internal audit activity. However, there has not been any internal audit activity in relation to the Performance Measurement System during the year under review.

As at 1 July 2004, an audit committee has been appointed and the charter has been amended to enable the committee to perform the function of a Performance Audit Committee. This has been done in accordance with regulation 14 per GNR. 796 of 24 August 2001: Local Government: Municipal Planning and Performance Management Regulations, 2001.

The internal audit department has not been able to perform any audit work on the functionality or compliance of the performance management system, or on the reliability of the key performance indicators, since the system has not been fully implemented and operational throughout the year under review.

3.8 Performance measurement and reporting

A cycle and process of performance reporting according to the performance measurement framework has been developed. The performance of the municipality and the section 57 employees and general managers will be reported on in the annual report of the municipality.

3.9 Revision of strategies and objectives

The municipality has as part of its performance management system established a cycle and processes of performance review and improvement. However, this process currently focuses on the section 57 employees and General Managers, and does not address other employees, service providers or municipal entities.

The municipality has developed a review framework, and does review the performance of the section 57 employees and general managers according to the review framework. The review framework does not provide a basis for the municipality to benchmark against other municipalities, or provide mechanisms for customer surveys or community feedback.

4. CONCLUSION

Because the above procedures do not constitute either an audit or a review made in accordance with Statements of South African Auditing Standards, I do not express any assurance on any performance measurement as at 30 June 2004.

This report relates only to the specific phases of the performance management system as specified above, and does not extend to the financial statements of Buffalo City Municipality. An audit of the financial statements was concluded in accordance with statements of South African Auditing Standards and a report to this effect will be included in the annual report.

5. APPRECIATION

The assistance rendered by the staff of Buffalo City Municipality during the assignment is sincerely appreciated.

S.M. NGQWALA,
for Auditor-General

East London
30 November 2004

