

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

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 2 to 7 and 16 to 26, 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 (Act No. 108 of 1996), read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004). 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. 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.

3. QUALIFICATION

Apart from a travelling and accommodation policy, the municipality did not have any documented and approved policies and procedures. This resulted in the following:

3.1 Assets

- The value of assets as indicated in the asset register did not correspond to the value of assets as disclosed in the financial statements.

Description	Amount R
Asset register	50 375 273
Financial statements	41 605 687
Difference	8 769 586

- The municipality did not perform an asset count or a reconciliation between the asset register and the physical assets for the 2004-05 financial year.
- The asset register did not contain sufficient detail to identify and physically verify the assets.
- Debtors in advance of R215 409 were allocated to assets instead of liabilities. Assets and liabilities were therefore understated by R215 409 in the financial statements.
- Assets in the electricity department and public works stores were not uniquely marked to indicate ownership of the municipality.
- Inventory amounting to R69 092 were capitalised instead of allocated to inventory.

3.2 Bank and cash

- A cheque sequence error occurred during the 2004-05 financial year without it being detected or corrected when bank reconciliations were prepared. Cheque numbers captured in the cash book for three months did not correspond with the cheque numbers on the physical cheques and bank statements.
- Ten cheques amounting to R114 616 were marked as cancelled in the cash book but the bank statements indicated that the cheque payment went through the bank.

- Seven cheques amounting to R82 407 with cheque dates prior to year-end were captured and recognised after year-end.

3.3 Debtors

- The debtors balance at 30 June 2005 differed between the debtors age analysis and the debtors breakdown report that were generated from the same system. Furthermore, none of these balances agreed with the debtors balance in the financial statements.

Source	Amount R
Debtors age analysis	12 732 115
Debtors breakdown report	14 143 494
Financial statements	14 010 670

- Consumer debtors increased by 27,15% from R11 019 187 at 30 June 2004 to R14 010 670 at 30 June 2005. The provision for bad debts remained unchanged from the previous financial year at R3 060 429. According to the debtors age analysis at 30 June 2005 debtors of 90 days and older amounted to R13 235 478. The provision for bad debts seemed to be understated by approximately R10 175 049.
- According to the June 2005 VAT return there was a VAT debtor amounting to R79 199. This amount was, however, not disclosed in the financial statements under debtors.

3.4 Investments

- Supporting documentation could not be obtained for the debit movement of R3 661 999 and the credit movement of R3 435 232 on two investment accounts in order to established if the money in the investment accounts were utilised for the intended purposes.
- Five payments amounting to R63 000 from an investment account could not be substantiated with supporting documentation.

3.5 Income

- Traffic income accruing to the provincial Department of Transport, Roads and Public Works for the 2004-05 financial year was calculated as R2 055 758. According to the bank deposit slips only R1 740 408 was paid to the department. The difference of R315 349 related to payments not processed in the 2004-05 financial year. Suspense accounts were not utilised in the general ledger to manage these agency activities. Cash and creditor suspense accounts are therefore understated by R315 349.

- Traffic income accruing to the municipality for the 2004-05 financial year was calculated as R260 936. According to the general ledger and financial statements R292 635 was recognised. The difference of R31 529 related to transactions not processed in the 2004-05 financial year.

3.6 Creditors and expenditure

- Payments relating to creditors of the previous financial year were expensed in the current financial year, resulting in expenditure being overstated by R345 473.
- Payments of R358 279 were made after 30 June 2005, which related to goods and services received in the 2004-05 financial year. These payments were not recognised in the 2004-05 accounting records, resulting in creditors and expenditure being understated by R358 279.

3.7 Leave provision

- The leave provision opening balance of R498 362 decreased to R386 401 at 30 June 2005. No supporting documentation could be obtained for the debit movement of R274 175 and the credit movement of R162 214.
- No calculation could be provided for the leave provision of R386 401 as disclosed in the financial statements at 30 June 2005.
- The leave register only indicated entries per official without indicating the balance per official.

3.8 Unappropriated surplus

- The unappropriated surplus opening balance of R248 064 increased to R268 519 at 30 June 2005. No supporting documentation could be obtained for the debit movement of R90 799 and the credit movement of R111 254.
- Transactions against the unappropriated surplus account were not approved or reviewed by an independent senior official.

4. ADVERSE AUDIT OPINION

In my opinion, because of the effect on the financial statements of the matters referred to in paragraph 3, the financial statements do not fairly present, in all material respects, the financial position of the Siyancuma Municipality at 30 June 2005 and the results of its operations and cash flows for the year then ended, in accordance with prescribed accounting practice and in the manner required by the relevant act.

5. EMPHASIS OF MATTER

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

5.1 Going concern

The accompanying financial statements do not draw attention specifically to doubts concerning the municipality's ability to continue as a going concern. Therefore the following are highlighted, together with the non-recovery of debtors in 3.3 above:

(a) Consumer debtors

Consumer debtors increased by 27,15% as indicated by the table below.

Description	Amount 2004-05 R	Amount 2003-04 R
Consumer debtors	14 010 670	11 019 187
Consumer debtors 90 days and older	13 235 478	12 156 368

(b) Liquidity of funds

The statutory funds and reserves of the municipality were not fully represented by investments. At 30 June 2005 the following balances were reflected in the accounting records of the municipality:

Description	Amount 2004-05 R	Amount 2003-04 R
Statutory funds and reserves	5 904 391	5 155 027
Less: Investments	924 705	810 291
Shortfall	4 979 705	4 344 736
% of funds represented by cash	15.66%	15.72%

(c) Douglas holiday resort

The holiday resort realised a deficit of R733 213 for the 2004-05 financial year and a deficit of R352 236 for the 2003-04 year.

5.2 Irregularities and losses

a) Mayoral vehicle

The municipality had an official mayoral vehicle. From 1 July 2004 the mayor was granted a motor vehicle allowance. The mayoral vehicle became a normal council vehicle from the date on which the mayor received a motor vehicle allowance. No logbook or any trip authorisation forms have been put in place by April 2006 for this council vehicle.

b) Mayor remuneration

On 7 February 2005 the council accepted the appointment of the mayor on contract with effect from 1 July 2004. The remuneration stipulated in the contract differed from the actual remuneration received and from the remuneration stipulated in Government Gazette 1477, dated 21 December 2004, relating to the upper limits of salaries as per the Remuneration of Public Office Bearers Act, 1998 (Act No. 20 of 1998).

Description	Contract amount	Government Gazette amount	Actual amount
	R	R	R
Basic salary	105 180	118 771	105 180
Travel allowance	72 000	29 692	72 000
Housing allowance	15 600	36 167	15 600
Medical aid	13 680	12 168	13 680
Pension	–	17 815	12 639
Cellphone	–	12 000	23 581
Total	206 460	226 614	242 681

c) Motor vehicle allowance

- From February 2005 officials on post levels zero to five received a motor vehicle allowance. The total allowance paid for the five months ended 30 June 2005 amounted to R554 480, which constituted an average of R110 896 per month.
- The council needed to approve the additional benefit for employees appointed according to section 57 of Local Government Municipal Systems Act, 2000 (Act No. 32 of 2000). According to council minutes no such item served before the council, either as a separate item or as an item from a subcommittee. Subsequent to year-end the council resolved as follows at a council meeting on 13 February 2006 *That Council give permission to the Administration Department to effect the necessary corrections to the minutes of the Finance Committee of 18 January 2005 that the Finance Committee approves the motor-car scheme for Municipal Officials as presented by the CFO.*
- The South African Local Government Association (SALGA) needed to approve the additional benefit for non-section 57 employees. Confirmation was received from SALGA that no approval was granted for the additional benefit.
- The basis used for the calculation of the allowance should be the annual remuneration, excluding overtime and any other allowance. However, the annual remuneration including overtime and other allowances was used. This resulted in higher allowances being paid than what should have been paid.
- The justification for the allowance was based on a calculation indicating that it would be more feasible to pay an allowance than to buy vehicles for the municipality. Independent calculations indicated that it would be more feasible to buy vehicles for the municipality than to pay an allowance.
- The following concerning matters were noted in the motor vehicle financing scheme policy document:
 - The nature of the benefit was not consistently defined as it was termed allowance, financing and subsidised motor scheme. According to section 164(c)(ii) of the MFMA no loans may be provided to any official. Therefore the term financing was contrary to the MFMA and therefore not allowable.
 - Incumbents on the first two reporting levels qualified to take part in the scheme. It was unclear what constituted a reporting level.

Discussions with the treasurer indicated that it should in fact refer to post levels. Furthermore, post levels zero to five participated in the scheme and not only levels zero to two.

- The policy indicated that an official should comprehensively insure the vehicle. No proof could be obtained that it is monitored if officials took up comprehensive insurance.
- In an annexure to the policy where the scope of the fixed travel allowance is described, it is stated that the fixed vehicle allowance will be paid indefinitely, not only until the vehicle is paid off or for a fixed period.

d) Leases

The municipality had seven lease agreements for assets during the 2004-05 financial year. The following were noted with regard to the debt agreements:

- According to section 44(2) of the MFMA the municipal manager should sign debt agreements and the mayor should approve them by signing the relevant council meeting minutes. These debt agreements were, however, signed by the treasurer. The mayor did not approve the debt agreements, as no item served before the council specifying that debt was taken up.
- No quotations or tenders could be submitted for audit purposes.
- Surveillance system

The serial number as indicated on the debt agreement was not the same as the serial number on the surveillance system computer.

The installation date of the surveillance system could not be obtained.

- Photocopiers and laptop

The serial number as indicated on the debt agreement was not the same as the serial number on the photocopiers and laptop computer.

- Air conditioners, dictaphones and financial system upgrade

Six air conditioners, a dictaphone system and a financial system upgrade were procured on 31 March 2005, payable over a period of 60 months at R9 120 per month. By April 2006 only five air conditioners have been installed, no dictaphone system has been delivered and no financial system upgrade has taken place.

- Computer server

A debt agreement was entered into during March 2005 at R7 411 per month for the procurement of a computer server. The components of the computer server could not be physically identified.

5.3 Weaknesses in internal control

a) *Control environment*

- Except for a travelling and accommodation policy, no documented and approved policies and procedures existed.
- No defined and approved financial delegations of responsibility existed within the municipality.
- There was no audit committee for the financial year under review. The internal audit function was outsourced to the district municipality, but limited work was performed by the internal auditors.
- No risk management strategy existed at the municipality. No risk assessment was performed for the year under review, with the result that no fraud prevention plan was compiled.
- Minutes of seven general council meetings held were not signed by the mayor as having been approved.
- Minutes of five subcommittee meetings held were not signed by the relevant chairperson as having been approved.
- Documents and subcommittee minutes discussed during council meetings were not filed with the council minutes.
- It could not be confirmed whether all resolutions taken by the council were implemented as no supporting documentation were presented for 19 items identified from the council minutes.
- No service level agreements were in place between the municipality and service providers.

b) Grant management

- Two projects managed by the municipality during the 2004-05 financial year were overspent.

Project	Income R	Expenditure R	Overspent R
Financial management	250 000	289 842	39 842
Capacity building	385 052	549 038	163 986
Total			203 828

c) Expenditure

- Two payments amounting to R6 535 were made without having invoices attached to the payment voucher or evidence that it was approved.
- Two payments amounting to R64 782 were made without obtaining other quotations.
- One payment amounting to R105 689 was made without having supporting documentation attached to the payment voucher.
- Detail descriptions of general ledger vote numbers were not indicated on the remittance advice to ensure the correctness of expenditure allocation.
- Goods received notes were not always attached to payment vouchers as proof that goods had been received.
- Eight cheque payments amounting to R47 282 were processed with the cheque date being before the invoice date. The absence of a creditor system contributed to this matter.
- Thirty-four payments amounting to R141 665 were noted where payments were made with no order forms attached to the payment voucher.
- Eighty-eight payments amounting to R5 327 993 were noted where invoices were not stamped "paid" after payment to prevent re-submission of invoices for payment.
- Various payments were noted where no indication could be found that the availability of funds were verified before the payment was made.
- Four payments amounting to R9 980 were made without having supporting documentation attached to the payment voucher.

- Nine payment vouchers amounting to R141 945 were not signed to indicate authorisation and approval of the expenditure.
- No business plans and contracts could be obtained for 14 projects. It was therefore not possible to determine if the expenditure incurred was in line with the objects of the business plan.

d) Debtors management

- From a selection of 19 signed agreements between the municipality and long-outstanding debtors, 15 debtors' balances have increased from the date on which the agreement was signed.
- Included in debtors were 11 debtor accounts amounting to R378 404 that were deemed irrecoverable by management, but had not been written off.

e) Rent income management

- Six new contracts for commonage rent were signed on 1 December 2004. No income was recognised by 30 June 2005 although the rent income according to the contracts should have been R10 839.
- Two rental agreements existed between the municipality and a provincial department. No rent income was recognised in the financial statements, although the rent income according to the contracts should have been R11 053.
- On 29 July 2003 a contract was signed for commonage rent. No rent amount or hectares were indicated in the contract. No rent was recognised in the financial statements.
- A company hired a part of the commonage land in Campbell. No contract could be provided for audit purposes.

f) Employee cost management

- Job descriptions were in the process of being compiled at year-end and have not been approved.
- No employment contract could be obtained for the administrative manager.
- Except for the municipal manager, none of the managers' performance contracts have been signed.

- For five officials a difference was noted in the overtime hours indicated on the overtime schedule and the overtime hours captured on the salary advice.
- For two officials overtime was paid out according to their salary advices, but no overtime schedule could be obtained.
- One official's personnel and leave files could not be obtained for audit purposes.

g) *Leave management*

- A lack of segregation of duties existed in the leave department as only one official was responsible for capturing, reconciling and monitoring leave activities.
- Changes were made to the leave register without obtaining authorisation.
- Leave application forms could not be agreed with the leave register, as leave forms were not filed per employee, but per month. All leave application forms of June 2005 were selected and followed through to the leave register. The information on three applications forms was not captured in the leave register.
- The leave register entries for December 2004 and January 2005 were followed through to the application forms. Three entries could not be substantiated with a leave application form.
- The majority of sick leave information were not entered in the leave register as the capturing of sick leave entries on the leave register started late during the 2004-05 financial year.

5.4 Matters in the public interest

a) *Cellphone expenses*

- Six persons were issued with cellphones, the accounts of which were paid by the municipality. The average cellphone expense for the 2004-05 financial year was R2 748 per person per month. Private calls were not indicated or paid for.

b) *Rental of municipal houses*

- A letter dated 9 September 2004 indicated that officials who have rented municipal houses for ten years, were entitled to having the title deed transferred to their names, without any amount being payable by them.

5.5 Non-compliance with laws and regulations

a) *Valuations*

- Section 10G(6)(a) of the Local Government Transition Act, 1993 (Act No. 209 of 1993) (LGTA) states that valuations on land and improvements should be performed every four years. Although a valuation was performed during 2005 the valuation was not implemented or incorporated into the accounting records of the municipality.

b) *Councillors' outstanding accounts*

- At 30 June 2005 a councillor was in arrears with the municipal accounts amounting to R26 705. This was in contravention of section 26(1)(e) of Ordinance 20 of 1974.

c) *Rental fringe benefit*

- Three senior officials rented a municipal house at the Douglas holiday resort at a 60% discounted rental amount. This taxable fringe benefit has not been taken into account in the remuneration of the officials. This also constituted non-compliance with the Income Tax Act, 1993 (Act No. 113 of 1993), paragraphs 2(d) and 9 of schedule 7. Outstanding rental from the officials at 30 June 2005 amounted to R21 290. These debtors have not been recognised in the accounting records of the municipality.

d) *Excessive overtime*

- Various officials' overtime compensation exceeded 30% of their basic monthly salaries, which was in contravention with the Basic Conditions of Employment Act, 1997 (Act No. 75 of 1997).

e) *Financial statements disclosure*

The following significant cases of non-compliance with the Institute of Municipal Finance Officers (IMFO) guidelines for compiling financial statements were noted:

- No commitments were disclosed in the financial statements, although the municipality entered into various projects that were running at 30 June 2005.
- The statistical information disclosed in appendix F was inaccurate and incomplete.

f) *Primary bank account*

- The municipal manager did not submit to the Auditor-General the bank account details before the start of the financial year as required by section 9(b) of the MFMA. The submission was received on 27 July 2005.

g) *Withdrawals from municipal bank accounts*

- The municipal manager did not submit to the Auditor-General the quarterly report of withdrawals made as required by section 11(4)(b) of the MFMA.

h) *Submission of annual financial statements*

- The municipal manager did not submit to the Auditor-General the annual financial statements within two months after the end of the financial year as required by section 126(1)(a) of the MFMA. The financial statements were submitted 16 September 2005.

5.6 Reference to other audits

a) *Performance management systems*

A performance management system has not yet been fully implemented and the council did not comply with all the requirements as set out in chapter 6 of the Local Government Municipal Systems Act and the performance measurement regulations. No performance report was submitted for audit purposes.

Refer to *Report of the Auditor General to the Siyancuma Council on the performance measurement at Siyancuma Municipality for the year ended 30 June 2005* dated 17 May 2006 for more detail.

6. APPRECIATION

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

M E Lorgat *for* Auditor-General

Kimberley

17 May 2006



A U D I T O R - G E N E R A L