



AUDITOR-GENERAL

**REPORT OF UKHAHLAMBA DISTRICT
MUNICIPALITY
FOR THE
FINANCIAL YEAR ENDED
30 JUNE 2005**

ANNEXURE "A"
PAGE 001 - 009

REPORT OF THE AUDITOR-GENERAL TO THE COUNCIL, ON THE FINANCIAL STATEMENTS OF UKHAHLAMBA DISTRICT 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 (Act No. 108 of 1996), read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 126(3) 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 the financial statements based on the audit.

2. SCOPE

The audit was conducted in accordance with International Standards on Auditing. 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, as well as
- 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 the audit provides a reasonable basis for my opinion.

3. BASIS OF ACCOUNTING

The municipality is required to prepare financial statements according to the standards prescribed by the Institute of Municipal Financial Officers in its Code of Accounting Practice (1977).

4. QUALIFICATION

4.1 Creditors

Due to lack of regular reconciliation and reviews by the municipality's management, creditors amounting to R67 046 240 as disclosed in the financial statements differ from the amount of R6 696 755 recorded in the trial balance by R60 349 485.

Furthermore in many instances the municipality could not provide the detailed supporting documents for the amount of creditors disclosed in the financial statements. The inability to provide supporting documents for the amounts in the financial statements is as result of capacity and skills constraints in the finance department and thus basic control function of reconciling financial statements to the trial balance could not be performed. The municipality's records did not permit the application of alternative audit procedures. I was therefore unable to carry out all the auditing procedures or obtain all the information I considered necessary to verify the completeness and accuracy of creditors.

4.2 Long term liabilities

In terms of section 96(2)(a) of the Municipal Finance Management Act No.56 of 2003, the accounting officer is required to take all reasonable steps to ensure that the entity has and maintains accounting and information system that accounts for proper assets and liabilities of the entity. Due to lack of management monitoring the municipality has not accounted for an amount of long term loan due to the Development Bank of Southern Africa amounting to R7 633 835.81. Consequently the long term liabilities as at 30 June 2005 are understated by R7 633 835.81.

Furthermore the total amount of loan receipts of R7 633 835.81 has exceeded the approved loan of R7 400 000 by R233 835.81. The excess amount of loan was obtained in contravention of section 46(2) of the Public Finance Management Act which requires municipal council resolution, signed by the mayor for any long term debt incurred by the municipality and is therefore considered to be irregular.

4.3 Lack of supporting document

In terms of section 74(1) of the Municipal Finance Management Act No.56 of 2003, the accounting officer is required to submit to the Auditor - General such information, documents, explanations and motivations as may be prescribed or as may be required. Due to lack of proper filing system and management monitoring the documents that were requested for audit purposes could not be provided by the management. Limitation of scope was placed on the work of auditors to verify the validity and accuracy of the transactions listed below:

(a) Debtors

Included in the current debtors of R204 653 669 are debtors amounting to R92 686 080.37 without supporting documentation. The municipality's management could not provide evidence regarding the existence and recoverability of these debtors. The municipality's records did not permit the application of alternative audit procedures to verify the existence of debtors.

(b) Goods and services

Supporting vouchers for goods and services amounting to R5 619 014.50 could not be provided for audit purposes. Consequently, it was not possible to confirm the validity and the accuracy of the payment for goods and services.

(c) Repairs and Maintenance

Included in the repairs and maintenance expense of R3 940 166 as disclosed in the analysis and expenditure statement (Appendix D), are repairs and maintenance totaling to R915 864.97 that could not be traced to the supporting documents.

(d) Statutory funds

An amount of R500 000 was withdrawn from the capital development fund but the supporting documents and council resolution to prove authorization of the withdrawal could not be provided to the auditors. Consequently, it was not possible to confirm the authorization of the withdrawal from the fund.

4.4 Bank and Cash

Bank Reconciliation

Due to lack of capacity in the finance department the municipality's bank reconciliations were not appropriately reviewed to ensure prevention and detection of errors in the bank reconciliation. As a result of lack of adequate review, transactions amounting to R68 844 063.80 as recorded in the bank reconciliation could not be traced to the ledger and the municipality's cash book. Consequently, the accuracy and validity of the transactions could not be confirmed.

Supporting documents for journal debits and journal credits amounting to R8 655 693.66 and R16 427 884 respectively, as per bank reconciliation could not be provided by the municipality's management and no adequate explanation could be provided to verify the validity and accuracy of these journals.

The bank balance of the municipality as per financial statements reflects an overdraft of R57 491 707. However the bank statements show a favourable balance of R12 840 591. The bank reconciliation had numerous reconciling entries that could not either be explained by the management or supporting document provided to confirm the validity of the reconciling amounts. Consequently the validity and accuracy of the bank overdraft amounting to R57 491 707 as disclosed in the financial statement could not be confirmed. The finding is as a result of lack of capacity in the municipality's finance department and as such significant errors in the bank reconciliation could not be detected and corrected by the municipality's management.

The direct deposits and receipts dating back to 2003/04 financial year amounting to R10 418 359.16 and R55 925 493.25 respectively, were still outstanding at the end of 2004/05 financial year. The non-clearing of reconciling amounts in the bank reconciliation is due to lack of regular and appropriate review of the bank reconciliation by the municipality's management.

4.5 Prior year adjustment

The municipality's reserves were adjusted by an amount of R6 719 702 representing prior year adjustment. The nature and the reasons for the prior year adjustment are not disclosed in the municipality's notes to the financial statements as required by the Institute of Municipal Financial Officers guidelines. The finding is as a result of capacity constraints

in the finance department and thus instances of non compliance to the Institute of Municipal Financial Officer's guidelines could not be detected and corrected by the management prior submitting financial statements to the Auditor General.

4.6 Long term debtors

Included in the long term debtors balance of R22 692 161 is an amount R21 344 200 that is due from the department of Health. This amount has been outstanding for more than a year and the uncertainty regarding its validity was reported in paragraph 3.4 of the 2003/04 financial year audit report. No supporting documents could be provided to verify the recoverability of the debtors. The records of the municipality did not permit the application of alternative audit procedures. I was therefore unable to carry out all the auditing procedures or obtain all the information I considered necessary to verify the valuation and existence of the debtors.

The municipality management could not provide adequate explanation for the significant increase in debtors amounting to R18 270 383 from R203 977 271 in the previous year to R222 147 654 in the current year. Consequently the validity and the existence of debtors could not be confirmed.

In terms of section 64(2)(f) of the Municipal Finance Management Act, the accounting officer of the municipality is required to take all reasonable steps to ensure that the municipality has and maintains a system of internal controls in respect of debtors. The municipality has however not complied with this section as the amount of debtors amounting to R431 786 due from the previous Transitional Local Councils (TLC) were still outstanding at year end. No repayments of the loan have been made during the period under review and the recoverability of the loan is uncertain, consequently the long term debtors are overstated by R431 786.

4.7 Funds

Due to lack of regular reconciliations and reviews by management, public transport trust funds amounting to R2 099 694 as per financial statements differ from the investment as per bank confirmation by R1 031 887 and no adequate explanation could be provided for the variance. Consequently I was unable to confirm the accuracy of investment as disclosed in the financial statements.

Furthermore, funds totaling to R110 660 961 selected for audit test differ with the municipality's investment register by R95 733 728.65. The finding is a result of the municipality not introducing a practice of updating investment register with the movement of the investment. The non updating of the investment register and the lack of reconciliation between the financial statements is in contravention of section 63(2)(a) of the Municipal Finance Management Act, which states that the accounting officer must take all the reasonable steps to ensure that the municipality has and maintains a management, accounting and information system that accounts for the assets and liabilities of the municipality. A limitation of scope was placed on audit to verify validity, accuracy, valuation and completeness of trust funds. The records of Ukhahlamba District Municipality did not permit the application of alternative audit procedures.

4.8 Suspense accounts

Due to lack of regular monitoring and reviews by the municipality's management, debtors and creditors balance at year end included an amount of R17 493 985 and R40 303 293 respectively, representing suspense account. No supporting documents could be provided for the suspense accounts debtors and creditors, consequently it was not possible to confirm the validity and accuracy of the suspense accounts.

4.9 Comparative amounts

Comparative amounts for the 2003-04 financial year have not been correctly transferred to 2004-05 financial statements. Significant variances were noted in the account balances listed below and thus the comparative amounts for these account balances are misstated, consequently the fair presentation of financial statements has not been achieved. Furthermore no appropriate disclosures have been made in the financial statements regarding the changes in the comparative amounts as required by the Institute of Municipal Finance Officers.

Account Balance	2003-04 AFS	2004-05 AFS	Variance
Trust Funds	131 439 137	160 103 238	28 664 101
Investments	71 296 500	68 296 500	3 000 000
Debtors	203 877 271	174 994 069	28 883 202
Creditors	63 597 985	60 378 884	3 219 101

5. ADVERSE AUDIT OPINION

In my opinion, because of the effects of the matters discussed in the preceding paragraph 4, the financial statements do not present fairly, in all material respect the financial position of the municipality as at 30 June 2005 and the results of its operations and cash flow for the year then ended, in accordance with the basis of accounting as determined by the institute of municipal finance officers and in the manner required by the Municipal Finance Management Act No. 56 of 2003.

6. EMPHASIS OF MATTER

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

6.1 Internal control weaknesses

The accounting officer is required by section 95(c) of the Municipal Finance Management Act No. 56 of 2003 to ensure that the municipality has and maintains effective system of financial management and internal control. Control is not adequately exercised and records are not always properly maintained. Material weaknesses are set out below:

- (a) The municipality does not have an approved leave encashment and leave provision policy, consequently the validity and accuracy of the leave encashment and leave provision amounting to R1 383 936 and R14 978, respectively could not be confirmed.

- (b) Budget is not always adhered to and in most cases expenditure exceeds budget.
- (c) There is no investment policy and written quotations are not obtained from financial institutions when investment decisions are made. In many instances substantial amounts of the municipality's investments did not earn any interest in the period under review.
- (d) The municipality does not prepare debtors age analysis and debtors collection procedures are not always enforced.
- (e) Most of the municipality's accounting system and policies were not approved by the management.
- (f) Statutory and trust funds are sometimes not adequately backed by investments.
- (g) The municipality's asset register is not adequately designed and maintained to assist in the safeguarding of the municipality's assets. The asset register does not include details regarding acquisition and disposal of assets, consequently the completeness, and valuation of capital assets could not be confirmed.
- (l) The municipality was not able to provide a list of accrued expenditure at balance sheet date. A limitation of scope was placed on audit to verify validity, accuracy, valuation and completeness of the accruals. The records of UKhahlamba District Municipality did not permit the application of alternative audit procedures.

6.2 Internal audit function

In compliance with section 165 and 166 of the Municipal Finance Management Act, the Ukhahlamba District Municipality has established the internal audit function and audit committee. However the following material weaknesses were noted in the internal audit unit and functioning of the audit committee:

- The internal audit has not developed structured procedures to allocate resources to meet the objectives of the unit as per the internal audit plans.
- The audit committee has not evaluated the effectiveness of the internal audit unit.
- Performance report outlining the performance of the internal audit section against its annual plans were not submitted to the audit committee.
- Internal audit unit is staffed with one person and thus no review on the work of internal audit was performed.

6.3 Human resource management

- (a) The municipality's organisational structure is not properly designed to indicate filled and vacant posts and consequently vacant posts could not be identified from the organizational structure.
- (b) Payment vouchers for the payment of wages in many instances were not authorised as evidence of being reviewed for validity of the payment and the time sheets that support the payment voucher were also in many instance also not authorised.

- (c) Furthermore the workers are not required to sign wages register to confirm receipt of payment and thus theft of uncollected or fictitious wages could not be detected. The municipality also does not perform physical verification to confirm existence of its workers and consequently the validity of wages salaries could not be confirmed.
- (d) Overtime in many instances was worked without prior approval of the management, consequently the overtime amount for many workers amounted to more than 30% of their basic salary.

6.4 Material non-compliance with laws and regulations

- (a) The accounting officer of Ukhahlamba District Municipality has not submitted financial statements within two months after the end of the financial year as required by the section 126(1)(a) of the Municipal Finance Management Act No. 56 of 2003.
- (b) The municipality has not addressed audit findings reported in the audit report of the Auditor - General as required by section 131(1) of the Municipal Finance Management Act No. 56 of 2003 as similar findings that were reported in the 2003/04 financial year have been reported again in the 2004/05 financial year audit report.

Furthermore no evidence could be found with regards to steps taken by the mayor of the Ukhahlamba District Municipality to prevent re-occurrence of similar findings in the audit report as required by section 131(1) of the Municipal Finance Management Act No. 56 of 2003.

- (c) The municipality has not disclosed the remuneration paid to its councilors, directors and officials as required by section 124 of the Municipal Finance Management Act No. 56 of 2003.

7. APPRECIATION

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


SM Ngqwaia
for Auditor-General

East London

Date 28 February 2007



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AUDITOR-GENERAL

**REPORT OF UKHAHLAMBA DISTRICT
MUNICIPALITY
FOR THE
FINANCIAL YEAR ENDED
30 JUNE 2005**

ANNEXURE "B"
PAGE 010 - 015

**REPORT OF THE AUDITOR-GENERAL TO THE COUNCIL ON PERFORMANCE
MEASUREMENT AT UKHAHLAMBA DISTRICT MUNICIPALITY FOR THE YEAR
ENDED 30 JUNE 2005**

1. ASSIGNMENT

The compilation, presentation and publishing of performance measurements [as included on pages....to.... of this annual report] and the implementation, management and internal control of supporting systems, are the responsibility of the municipal manager.

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 assess or comment on the municipality's actual performance, but rather to assess 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 Ukhahlamba District Municipality. The assignment was undertaken in accordance with the Statements of South African Auditing Standards applicable to agreed upon procedures engagements.

The responsibility of determining the adequacy or otherwise of the procedures agreed to be performed is that of Ukhahlamba District Municipality. My procedures were performed solely to evaluate the controls implemented by the municipal manager regarding the municipality's performance management system against the criteria set out in:

- chapter 6 of the Municipal Systems Act, 2000;
- the Local Government: Municipal Planning and Performance Management Regulations, 2001 (No. R. 796); and
- international good 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 accounting officer 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

I report my findings below:

3.1 Development of an integrated development plan

The integrated development plan review of 2004/05 includes all the essential characteristics as required by the relevant laws and regulations.

3.2 Development and implementation of a performance management system

Although the Municipality has a performance management system framework, implementation thereof does not appear to have been properly implemented.

- Only section 57 Managers were assessed and evaluated
- Consequences for substandard performance were not included.
- The Municipality did not display transparency as public involvement processes were not engaged.

3.3 Development and implementation of key performance indicators & setting targets for key performance indicators

The Municipality did not follow the process prescribed in its performance management system (PMS) to develop and improve its Key Performance Indicators (KPI's) for the 2004/05 financial year, as KPI's were only set for measuring performance of managers and excluded those of other staff and service providers. The KPI's set for managers, lacked the necessary detail as they were too broad and not measurable.

It was also noted that there was no evidence that local community was involved in the setting of appropriate key performance targets for the Municipality. Furthermore, there was no proof that the Municipality entered into service delivery agreement with service providers.

3.4 Actual service delivery

During the performance of our review it was found out that the Municipality did not promote a culture of performance management among its political structures, political office bearers, councilors and in its administration, as only the performance of Section 57 employees was measured and monitored during the year under review.

3.5 Internal monitoring

The municipality has not monitored its actual progress in terms of a formally documented process.

3.6 Internal control

During the year under review, the internal Audit section did not audit the performance measurements of the municipality and its service providers during the year under review. Furthermore, the Audit committee did not table any performance measurement items in its meetings. Consequently, the performance measurement activity of internal audit could not be audited.

3.7 Performance measurement and reporting

The Municipality has not reviewed its performance in order to identify its strengths, weaknesses, opportunities and threats in meeting all the key performance indicators and performance targets for the 2004/2005 financial year.

3.8 Revision of strategies and objectives

There was no evidence which indicates that the Municipality followed the process prescribed in its performance management system to revise their strategies and objectives for the 2004/05 financial year.

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 20 February 2007.

An audit of the financial statements in accordance with statements of South African Auditing Standards was concluded and a report to this effect was included in the annual report.

This report relates only to the specific phases of the performance management system as specified above, and does not extend to any financial statements of Ukhahlamba Municipality, taken as a whole.

5. APPRECIATION

The assistance rendered by the staff of Ukhahlamba District Municipality during the assignment is sincerely appreciated.



SM Ngqwaia
for Auditor-General

East London

28 February 2007



AUDITOR-GENERAL