

REPORT OF THE AUDITOR-GENERAL TO THE COUNCIL OF THE GREAT KEI MUNICIPALITY AND THE EASTERN CAPE PROVINCIAL LEGISLATURE ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF GREAT KEI LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2007.

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the Great Kei Municipality which comprise the balance sheet as at 30 June 2007, income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, 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 entity specific basis of accounting and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). 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 MFMA, my responsibility is to express an opinion on these financial statements based on my audit in accordance with the International Standards on Auditing. 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 entity-specific basis of accounting, as set out in accounting policy note 1.

Basis for disclaimer of opinion

Opening balances and prior year comparatives

5. The audit report on the annual financial statements for the year ended 30 June 2006 contained a disclaimer of opinion on the financial statements taken as a whole. This was a result of significant uncertainties and a limitation of the scope of that audit.

The effect of the prior year uncertainties and the scope restriction on the accumulated deficit, revenue, expenditure and the comparative figures for the year under review could not be determined.

Funds and reserves

6. It was reported in the audit report for the year ended 30 June 2006 that the revolving fund was understated by approximately R1.05 million. This understatement consisted of transfers to and from the operating account and an error in the opening balance of the revolving fund. No adjustments were affected to the accounting records or the financial statements to correct this understatement. As a result the revolving fund and creditors disclosed in the financial statements are still understated by this amount.

Long term liabilities

7. The calculation of the current portion of the long term liabilities does not include the scheduled capital repayments for the period ended 30 June 2008. Consequently the long term liabilities are overstated whilst current liabilities are understated by R336 337.

Consumer deposits

8. A register 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. In these circumstances it was not possible to obtain sufficient acceptable evidence relating to the completeness, existence and accuracy of consumer deposits.

Long term debtors

9. A register of long term debtors detailing the balance receivable, interest received, payments received, and the capital amount repaid was not maintained. As a result payroll deductions were not allocated to the motor vehicle loans of the erstwhile municipal manager and the erstwhile chief financial officer. It also appears that a motor vehicle loan of R80 000 awarded to the abovementioned chief financial officer during September 2004 was not recorded in the municipality's accounting records.

The outstanding balances on these motor vehicle loans were not recovered from the final salaries awarded to these officials. Furthermore these officials have not been permanently employed since their departure and it is unlikely that the outstanding balance on these loan accounts will be recovered.

It is thus estimated that long term debtors are overstated by R73 270, the accumulated loss is overstated by R91 733, expenditure is understated by R91 223 and interest revenue is understated by R27 422.

Fixed assets

10. It was reported in the audit report for the year ended 30 June 2006 that motor vehicles with a cost of R114 000 that had been scraped were recorded in the asset register. Since the date of that report no action was taken by management to remove these assets from the asset register. As a result the cost of assets disclosed in the financial statements and the contributions from income as disclosed on annexure D are overstated by R114 000.
11. Assets are not properly marked with unique identification numbers that are appropriately cross referenced to the asset register. As a result assets with an approximate cost of R535 829 could not be physically verified and assets selected for testing from the various offices could not be traced to the asset register.

Consequently, sufficient appropriate evidence relating to the existence and completeness of fixed assets disclosed in Annexure C was not obtained.
12. Logbooks, trip authorisations and records of maintenance for the municipal vehicles could not be produced for the year under review. The only log books that were available related to the 2007-08 financial year. In these circumstances it was not possible to verify that the expenditure of R509 835 incurred on fuel and maintenance of the municipal vehicles was incurred for business purposes only.
13. The accounting policies do not include a policy for the recognition and treatment of finance and operating leases. As a result finance leases that meet the criteria for capitalisation have been expensed. Consequently it is estimated that fixed assets and long term liabilities are understated by R109 378. Furthermore no disclosures relating to the future lease commitments are included in the financial statements.

Inventory

14. The inventory on hand of 223 165 disclosed in the financial statements is not supported by stock count working papers or any other records. As a result it was not possible to obtain sufficient appropriate evidence relating to the existence, completeness or accuracy of the inventory balance at 30 June 2007.
15. No record of stores (including fuel) was maintained during the year under review. In these circumstances it was not possible to obtain sufficient appropriate evidence to verify that the expenditure of R415 634 incurred on spares, stores and materials was complete, accurate, and used for municipal business purposes only.

Debtors

16. Water and sanitation debt of R8.84 million together with a related provision of R8.27 million were transferred to the Amathole District Municipality (ADM). Detailed calculations of the amount transferred could not be provided for audit purposes. It was also not possible to recalculate the amount that should have been transferred as the billing system could not allocate the balances owing by consumers at 30 June 2006 to the various service types (rates, water, sanitation, and etc.).

Furthermore, the effect of the unallocated receipts referred to in paragraph 17 on the calculation of the amount transferred was not considered. It was also noted that once the transfer was effected on the billing system certain consumer accounts which had previously reflected amounts due to the municipality now reflected that they had over paid their accounts by R274 293.

As a result, sufficient appropriate evidence relating to the completeness, accuracy and valuation of the amounts transferred was not obtained.

17. The general ledger contains unallocated receipt accounts totaling R4.9 million. These unallocated receipts have been deducted from the balances reflected in the age analysis to arrive at the amount disclosed as debtors in the financial statements. Whilst these accounts appear to represent payments that have been received from consumers and that have not been allocated to the consumer accounts they may also represent revenue that was not recorded in the revenue accounts. As a result sufficient acceptable evidence relating to the classification of the unallocated receipts between debtors and revenue could not be obtained.

18. Indigent debtors were not properly identified. A list of only 1026 indigent residents was supplied for audit purposes. This in an area where the unemployment rate is high and a large number of residents subsist on a welfare grant of R820 per month.

Furthermore, where the indigent consumers were identified their accounts were not allocated against the equitable share. It was noted that all consumers were billed and the full equitable share was allocated to revenue resulting in revenue being double counted.

This has resulted in an overstatement of debtors and revenue by a material amount that could not be quantified.

19. Credit notes totalling R33 289 relating to the receivables balance at 30 June 2007 were processed to the consumer accounts after year end. As a result debtors and revenue are overstated by this amount.

Creditors

20. VAT input of R536 201 relating to two housing projects was not separately accounted for in the annual financial statements and was also not claimed on the VAT returns submitted to the South African Revenue Services. As a result the project creditor and the value added tax asset (debtors) are understated by this amount.

Provisions

21. Although attendance registers were used to ensure that all leave taken was recorded, the leave records of employees are generally inaccurate. It was noted that the leave balances brought forward from previous years were not mathematically correct, leave taken and leave encashed in prior years was not reflected on the leave record cards, employees were credited with their full leave at the commencement of the leave cycle, and non accumulative leave was not forfeited at the end of the relevant leave cycle.

These inaccurate records were used as the basis for the calculation of the provision for leave pay and the payment of leave gratuities. As a result the leave pay provision of R330 779 and the movement therein of R158 802 that is recorded in the income statement are not complete and accurate. The full extent of this finding could not be quantified.

22. The municipality does not possess permits for its landfill sites and as such is in breach of section 20 of the Environmental Conservation Act 1989 (Act No.73 of 1989). This may result in the penalties contained in section 29 of this act being imposed by the regulatory authorities. No adjustments have been effected to the financial statements or disclosures made in respect of these potential penalties.

23. The municipality does not have a restoration plan for its landfill sites and as such in breach of section 28 of the National Environmental Management Act 1998 (Act no. 107 of 1998).

Furthermore, no provision is included or contingent liability disclosed in the financial statements for the future restoration costs of these landfill sites. Due to the limited information available the financial effect of this non compliance could not be quantified.

Revenue

24. Significant deficiencies in the revenue collection system for rates were identified during the audit. Details are:

- A single valuation roll for the entire Great Kei Municipal area does not exist.
- No interim or final property valuations, as required by sections 8(1) and (2) of the Property Valuation Ordinance 148 of 1993 and section 88 of the Property Rates Act of 2004, have been conducted since 1996.
- The assesment of rates in Haga Haga, Chintsa, Morgans Bay and Kei Mouth was based on property values contained in computerised spreadsheet registers that were not supported by valuation rolls. As a result it was not possible to verify the completeness and accuracy of the valuations contained in the valuation registers.
- The assesment rates in the financial statements does not reconcile to the spreadsheet valuation registers and is understated by R50 637.
- A large number of properties have not been valued and a large number of valuations recorded in the valuation registers consist of land only valuations for properties that have dwellings and businesses erected on them.

In these circumstances it was not possible to obtain sufficient acceptable evidence relating to the completeness, accuracy and occurrence of rates income.

25. The average number of households billed for refuse removal services declined from 4653 to 3996 per month during the year under review. Adequate explanations for this decrease could not be provided. As a result revenue and debtors are understated by approximately R260 918 in respect of those households that were not billed.
26. The municipal officials have not applied to the National Electricity Regulator for approval of the municipality's electricity tariff since 1998. As a result the electricity tariffs applied to Khomga residents and businesses for the period 1 April 2001 until 30 June 2007 were not approved. Consequently revenue, debtors and the accumulated deficit are overstated by an amount that can not be determined.
27. Abnormal electricity distribution losses amounting to 37 percent of the 8.6 million units of electricity purchased during the year under review were incurred. This has resulted in an understatement of revenue and debtors by approximately R1.6 million.
28. No revenue was raised for the period between the last meter reading and the year end. The municipality's records did not allow for the quantification of this amount. As a result revenue and debtors is understated by a material amount that could not be quantified.
29. No interest was raised on outstanding accounts as required by section 64(2)(g) of the MFMA. Due to the inaccurate consumer accounts reported in paragraphs 16 to 19 the amount of interest that should have been raised could not be calculated. As a result interest revenue and debtors are understated by a material amount that could not be quantified.
30. Grant revenue of R290 398 from the Amathole District Municipality (ADM) is included in the grant revenue disclosed in the annual financial statements. This revenue consists of all deposits into the bank account that were received from the ADM during the year under review. It was noted that the payments received from the ADM were re-imbursments of actual expenditure incurred on various projects on behalf of ADM and that such re-imbursments were claimed on manual invoices.

The manual invoice book was not adequately reconciled and it was noted that:

- R208 967 of the amount recorded in grant revenue related to invoices issued in the previous year;
- R15 000 received from the ADM was allocated to the unallocated receipts account that was netted off debtors;
- Outstanding debtors of R65 525 were not raised at year end.

Consequently grant revenue is overstated by R128 442, receivables are understated by R80 525 and the accumulated deficit is overstated by R208 967.

31. An inspection of the Kei Mouth municipal office on 15 August 2007 revealed that non-official receipt books were used to issue receipts to the holiday makers that made use of the caravan park facilities. The use of these books creates the opportunity for officials to commit fraud in the receipting of revenue.

The general ledger reflects that only R139 584 in revenue was generated by the caravan park during the year under review. Although it is not possible to predict the revenue that should have been generated by the caravan park, it is possible that this revenue is understated by a material amount that can not be quantified.

These circumstances may be the result of fraud, corruption and collusion in the receipting of caravan park revenue and require further investigation.

Employee costs

32. The personnel files of all employees, other than the erstwhile municipal manager and erstwhile chief financial officer, do not contain updated contracts of employment or employment letters that specify the post grade/level and the related salary and benefits of each employee. Furthermore, the salary grading system developed by the South African Local Government Association was not properly implemented as a number of officials tested during the audit received remuneration packages that were in excess of the packages attributable to their grades/ levels.

In these circumstances it was not possible to obtain sufficient acceptable evidence relating to the accuracy and occurrence of salaries and benefits of R6.06 million paid to permanent staff members during the year under review.

33. Casual wage payments of R1.1 million were paid to employees who were not on the municipal payroll during the year under review. Supporting documentation such as payment listings reflecting the signatures of the employees who had collected their wages could not always be produced for the casual wage 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 could not be made available for audit purposes.

In addition unclaimed wages were not recorded in a register and banked if not collected. In these circumstances it was not possible to obtain sufficient acceptable evidence to verify the occurrence and accuracy of the casual wage payments made during the year under review.

34. Documentation evidencing that overtime was approved prior to being worked could not be provided for overtime payments totalling R35 919 made during the year under review. As a result sufficient acceptable evidence relating to the occurrence and accuracy of these overtime payments was not obtained. This error occurred during the first half of the year under review. No overtime was paid during the second half of the year.

Expenditure

35. The general ledger contains an unallocated expenditure account with a balance of R422 402 that is included in the general expenses disclosed in the financial statements. This account is made up of electronic transfers reflected on the bank statement but for which there are no details. This is the result of the electronic payment system only reflecting the total amount of transfers on the bank statement for a particular day. The detail of particular day's electronic transactions is reflected on the audit trail that is required to be printed after transfers have been effected.

The erstwhile chief financial officer who personally captured and authorised all electronic payments failed to ensure that the audit trails of the transactions reflected in the unallocated expenditure account were retained. The possibility that these audit trails were deliberately destroyed and that these payments are fraudulent cannot be excluded.

As a result of the non availability of any supporting records it was not possible to obtain sufficient acceptable evidence relating to the validity, accuracy, and classification of the transactions recorded in this account.

36. Supporting documentation for payments totalling R1.3 million that were made to suppliers either did not exist or were not sufficient to establish the reasons for and the nature of the payments made. As a result sufficient appropriate evidence that these payments were made only after the required services had been rendered to the municipality was not obtained.
37. The municipality does not have a system in place to ensure that private phone calls are recovered from its officials. As a result sufficient acceptable evidence that the telephone expenses of R502 394 was spent entirely for business purposes could not be obtained. The effect of this finding on the possible overstatement of expenses could not be determined.

Irregular expenditure

38. Management did not monitor the implementation of the requirements of the Municipal Supply Chain Management Regulations issued in terms of the MFMA. As a result audit tests, conducted on a sample, revealed that expenditure transactions with a value of R2.1 million were not procured in accordance with these regulations. Accordingly irregular expenditure, the full extent of which could not be determined, was incurred and is not disclosed in the financial statements.
39. Audit tests conducted on a sample of payments revealed that transactions with a value of R3 million were not reviewed or approved by an appropriately delegated senior official as required by section 11 of the MFMA. This expenditure is thus considered to be irregular. No irregular expenditure is disclosed in the financial statements.
40. It was reported in the previous audit report that expenditure incurred on two housing projects was irregular as proper procurement processes were not followed in appointing the contractor and consultants. During the year under review a further R70 410 was incurred on these projects and is also irregular. No irregular expenditure is disclosed in the financial statements.
41. It was reported in the audit reports for the years ended 30 June 2005 and 30 June 2006 that councillors were paid R454 421 in excess of the allowances and benefits contained in the government notices, issued in terms of the Remuneration of Office Bearers Act of 1998, applicable to those years.

These overpayments have not been recovered as required by section 167(2) (a) of the MFMA.

During the year under review the allowances and benefits paid to all councillors exceeded the maximum amounts contained in the applicable government notice (R1 224) by R405 210. These overpayments are also irregular.

No adjustments or disclosures relating to this irregular expenditure have been effected in the financial statements. As a result debtors are understated by R859 631, the accumulated loss is overstated by R454 421, and personnel expenditure is overstated by R405 210.

42. Municipal infrastructure grant funding of R76 443 was used to fund operating expenses during the year under review. This is contrary to the requirements of the Division of Revenue Act of 2006 (DORA) and is thus irregular. No adjustments or disclosures relating to this irregular expenditure have been effected to the financial statements.
43. Section 11(4) of DORA required a municipality receiving the municipal infrastructure grant (MIG) to table a three year capital budget as part of its budget for the 2006-07 financial year. The municipality did not comply with this prescript and as a result the total MIG expenditure for the year of R727 399 is considered to be irregular. No adjustments or disclosures relating to this irregular expenditure have been effected to the financial statements.
44. It was reported in the audit report for the year ended 30 June 2006 that conditional grants of R8.28 million was used to finance operating expenditure and was considered to be irregular. The grant investment accounts were not reimbursed, however a further irregular conditional grant transfer of R940 000 was used to finance operating expenditure. No adjustments or disclosure relating to the total irregular expenditure of R9.28 million have been effected to the financial statements.
45. During the year under review the Speaker (Mrs. M. Kema) occupied a council owned house in Kei Mouth. No monthly rentals and refuse charges were raised or deductions affected against her salary for the use of this house. Furthermore, no council resolutions authorising the occupation of this house by the Speaker exist.

This benefit, which is estimated at R19 000 for the year under review, is not in accordance with the notices issued in terms of the Remuneration of Office Bearer's Act of 1998 and is considered to be irregular. This irregular transaction is not disclosed in the annual financial statements.

46. During the year under review a council owned house in Khomga was occupied by the local economic development officer. No rentals or service charges were raised or deducted from her salary for the use of this house. Furthermore no lease agreement or other contract that established her right to occupy this property could be provided for audit purposes. As a result the use of this house, the value of which is estimated at R10 000 for the year, is considered to be irregular. This irregular transaction is also not disclosed in the financial statements.

Fruitless and wasteful expenditure

47. The municipality did not ensure that its long term loan commitments were settled in accordance with the relevant loan agreements and as a result thereof the DBSA loans were in arrears by R1.25 million at 30 June 2007.

Fruitless and wasteful interest of R223 123 was incurred on the arrear balance during the year under review. No disclosures or adjustments relating to this fruitless and wasteful expenditure have been made in the financial statements.

48. It was reported in the audit report for the year ended 30 June 2006 that R1.5 million was received from an irregular sale of land. During the year under review this sale was rescinded and a court order was granted requiring the municipality to repay the capital amount received plus interest of 15.5% per annum. Although the capital amount and interest payable of R330 851 is correctly included in creditors at the year, the interest payable is fruitless and wasteful and is not disclosed as such in the financial statements.
49. The inaccurate leave records reported in paragraph 21 above resulted in fruitless and wasteful leave encashment and gratuity overpayments of R57 108 during the year under review. No disclosures or adjustments in respect of this fruitless and wasteful expenditure were made to the financial statements.

Disclosure

50. The financial statements do not include the mandatory disclosures required by sections 125(2) (e) of the MFMA that relate to non-compliance with the MFMA. Numerous instances of non-compliance were detected during the audit and are reported in paragraphs 54 to 58 of this report.

Going concern

51. The financial statements are prepared on the assumption that the municipality will continue as a going concern into the foreseeable future. This assumption presumes that sufficient cash will be generated during the ordinary course of the municipality's activities to enable it to settle its obligations to its suppliers and employees and fulfil any other financial commitment as they fall due.

The financial statements for the year under review do not disclose any factors that indicate that the municipality may not be a going concern. However, during the audit a number of factors were identified that suggest that the municipality may not be a going concern. The most significant being:

- The municipality has net liabilities of R10.57 million and net current liabilities of R12.9 million;
- Significant operating losses were incurred during the past five years and are continuing to be incurred;
- The municipality has experienced and still is experiencing negative cash flows from operating activities;
- The municipality is facing pending litigation and associated costs of more than R1.7 million;
- Supplier accounts were/are not settled within the prescribed periods;
- The monthly operating costs exceed own revenue collections and the current level of grant funding by R500 000 per month.

Although the municipality has reported its financial problems to the relevant authorities in terms of chapter 13 of the MFMA and has prepared a financial recovery plan, it was noted that this plan was not adequately costed and financed by means of an approved budget.

Accordingly, the municipality's ability to continue as a going concern is dependant on the intervention and support of the government. In the absence of such support it is unlikely that the municipality will be able to continue to provide uninterrupted services to its stakeholders.

Disclaimer of opinion

52. Because of the significance of the matters described in the preceding 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 Great Kei Municipality. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matter

I draw attention to the following matters:

Highlighting matters affecting the financial statements

Unauthorised expenditure

53. The accounting officer did not ensure that the spending of funds was in accordance with the approved budget or that revenue and expenditure was monitored as required by section 69(1) of the MFMA. As a result, the budgets of five votes were exceeded resulting in unauthorised expenditure of R5.9 million, which is disclosed in note 30 to the financial statements.

OTHER MATTERS

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

Non-compliance with applicable legislation

Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA)

54. A lack of monitoring resulted in the municipal budget for the 2006-07 financial year not complying with the requirements of the MFMA. Details are:

- The budget was not in the format and did not contain all of the information as prescribed by section 17(1) and 17(3) of the MFMA.
- The budget was not funded by realistically anticipated revenues as prescribed by section 18 of the MFMA. The most significant deficiencies were:
 - (i.) Grant income of R18 million was included in the budget without confirmation from the relevant financiers that it would be received;
 - (ii.) DBSA loans of R2.4 million were included in revenue;
 - (iii.) Equitable share was reflected as revenue whilst the service and other charges of indigent residents were also included in revenue resulting in the double counting of revenue.

- (iv.) The amounts budgeted for rates, electricity, and refuse revenue were not based on the billings of the previous year and resulted in an overstatement of budgeted own revenue of approximately R3 million.
 - (v.) The rates and service charges collection rate of only 30% was not taken into account in the calculation of the anticipated expenditure for the year under review.
- No evidence could be obtained that National Treasury was consulted on the approved budget as prescribed by sections 22, 23 and 24(2) of the MFMA.
55. The municipality did not comply with any of the reporting requirements contained in sections 52(d), 54(1), 66, 70(1), 71(1-5) and section 74 of the MFMA that deal with the submission of quarterly reports by the mayor to council, 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.
56. According to section 126(1) (a) of the MFMA read with section 93(4)(a) of the Municipal Structures Act, 1998 (Act No. 117 of 1998), the municipal manager must submit annual financial statements for auditing within two months after the end of the financial year. The annual financial statements for the year under review were only submitted on 31 October 2007. This late submission together with the non availability of key officials during the audit delayed the finalisation of the audit report.

Municipal Systems Act, 2000 (Act no. 32 of 2000) (MSA)

57. No performance contracts for the municipal manager and those managers reporting directly to him were in place during the year under review. This is a material contravention of section 57 of the MSA and is likely to impact negatively on the municipality's performance.
58. Section 130 of the MFMA requires council meetings where audit reports are discussed to be open to the public. Section 21 of the MSA requires the notification of public meetings to be advertised in a local newspaper. The notice for the meeting of 31 May 2007 where the prior year audit reports were discussed was not advertised in the local newspaper. Consequently the prior year audit reports have not been adequately dealt with in terms of section 127 of the MFMA.

Income Tax Act, 1962 (Act no. 58 of 1962)

59. The deductions from employee's salaries in respect of pay –as- you- earn for the periods June 2005, October 2005 to November 2006 and April 2007 and unemployment insurance and skills development levy for the periods December 2005 to February 2006, August 2006 to November 2006 and April 2007 were only submitted to the South African Revenue Services during July 2007.
- The late submission and non -payment of an amount due to the South African Revenue Services may result in fruitless and wasteful penalty and interest charges.

Matters of governance

60. The consumer accounts of the erstwhile municipal manager and erstwhile chief financial officer contained credits totalling R23 459 that did not reconcile to the amounts deducted from their salaries and could also not be adequately explained.

These erstwhile officials owed the municipality R10 445 for municipal service charges at 30 June 2007, which had not been recovered at the date of this report.

61. The final salary payment made to the erstwhile chief financial officer included a payment of R23 239 in respect of 17 leave days due to him. In the management letter for the year ended 30 June 2007, dated 31 March 2007, management were made aware that at 30 November 2006, this official owed the municipality a considerable amount of leave. This final payment together with the leave encashment in November 2006 resulted in a net overpayment of 26 days leave with a value of R34 972 (included in paragraph 50 above).

Furthermore no deductions were effected against the final salary for amounts due to the municipality in respect of rent, service charges and the outstanding balance on his motor vehicle loan.

Value for money

62. The contract awarded for the construction of the drivers' testing station required the testing station to be completed within three months of commencing construction. At the date of this report, more than 19 months after the contract was awarded, this contract is still in progress. Furthermore, the municipality has not enforced the penalty and termination clauses contained in the contract.

Internal Control

63. Section 62 (1) (c) (i) of the MFMA 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 of the matters indicated, as they relate to the five components of internal control. In some instances deficiencies exist in more than one internal control component.

Reporting Item	Control environment	Assessment of risks	Control activities	Information and communication	Monitoring
Basis for disclaimer of opinion					
Opening balances and prior year comparatives	✓	✓	✓		✓
Funds and reserves	✓		✓		✓
Long term liabilities	✓		✓		✓
Consumer deposits	✓		✓		✓
Long term debtors	✓		✓		✓
Fixed assets	✓		✓		✓
Inventory	✓	✓	✓		✓
Debtors	✓		✓		✓
Creditors	✓		✓		✓
Provisions	✓		✓		✓
Revenue	✓		✓		✓
Employee costs	✓		✓		✓
Expenditure	✓		✓		✓
Irregular Expenditure	✓		✓		✓
Fruitless and wasteful expenditure	✓		✓		✓
Disclosure	✓		✓		✓
Going concern	✓	✓	✓		✓
Emphasis of matters					
Unauthorised expenditure	✓		✓		✓
Other matters					
Non-compliance with legislation	✓		✓		✓
Matters of governance	✓		✓		✓
Value for money	✓		✓		✓

Control environment

64. The municipality did not establish the key elements of a control environment to achieve sound financial management. This resulted in a general lack of policies and procedures and limitations of scope that affected all matters reported above.

Control activities

65. The effectiveness of control activities over business and accounting processes was not adequate and contributed to the all of the matters reported above.

Monitoring

66. The monitoring of controls such as the review of reconciliations and documentation was not effective. This contributed to all of the matters reported above.

Material corrections made to the financial statements submitted for audit

67. The financial statements, approved by the accounting officer and submitted for audit on 31 October 2007, have been significantly revised in respect of the following misstatements identified during the audit:

- The incorrect recording of project grants resulted in debtors and creditors being overstated by R1.4 million;
- Interest of R331 000 was raised on the amount of R1.5 million received in respect of the irregular sale of land in Kei Mouth;
- The balance of the selling prices of R1.3 million on the sale of the Morgan's Bay properties was raised as the sale agreements indicated that the sales were effected before the year end;
- The VAT debtor was overstated by R1.05 million;
- Conditional grants of R1.1 million were incorrectly allocated to the income statement.
- Advance receipts from debtors of R215 523 were incorrectly credited to debtors instead of being raised as creditors;
- The net assets of R513 165 transferred to the ADM were expensed as no prospect compensation will be received;
- Sundry receivables of R59 396 were expensed as they could not be supported.
- The portion of R996 324 of the sanitation loan used for the conversion of the hotel into office accommodation was raised as a liability.
- The momentum investment with a value of R1 817 873 that was expensed in the previous years was raised as an investment.
- Additional disclosures in respect of contingencies, commitments unauthorised expenditure and retirement benefits were made.

OTHER REPORTING RESPONSIBILITIES

Reporting on performance information

68. 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.

APPRECIATION

69. The assistance rendered by the staff of the Great Kei Municipality during the audit is sincerely appreciated.

Auditor-General

EAST LONDON

31 March 2008



AUDITOR - GENERAL