

**REPORT OF THE AUDITOR-GENERAL TO THE PROVINCIAL LEGISLATURE
OF THE EASTERN CAPE PROVINCE ON THE FINANCIAL STATEMENTS AND
PERFORMANCE INFORMATION OF ELUNDINI 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 Elundini Local 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 the IMFO basis of accounting as set out in accounting policy 1 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)] [section of applicable legislation], 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 matter(s) discussed in the Basis for disclaimer of opinion paragraph(s), however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis of accounting

4. The municipality policy is to prepare financial statements on an entity specific basis of accounting as set out in accounting policy note 1.

Basis for disclaimer of opinion

A number of accounting records and other source documents, in support of transactions and the annual financial statements of the council could not be produced during the audit. This situation was caused by the lack of internal controls which include information processing and physical controls. The accounting records, necessary to reflect the transactions and financial state of affairs of the municipality as required by section 74 (1) of the Municipal Finance Management Act, 2003 (Act No.56 of 2003), could not be produced for audit purposes in respect of the following:

Journal entries

5. Supporting documentation for authorization of all journal entries could not be obtained for audit purposes and the municipality's records did not permit the application of alternative procedures relating to recording and control over journal entries. Consequently we were unable to carry out all the auditing procedures, or obtain all information and explanation we considered necessary to verify completeness, accuracy and validity of the journal entries processed during the financial year.

Revenue

6. Supporting documentation in respect of pre-paid electricity sold in Ugie with a value of R641 617 could not be obtained. The municipality's records did not permit application of alternative procedures. Therefore I could not vouch validity, accuracy and completeness of revenue from sale of pre-paid units.

Supporting documentation in respect of rental income amounting to R407 387 could not be obtained. The municipality's records did not permit application of alternative procedures. Consequently, I did not obtain all the information and explanations I considered necessary to satisfy myself that this income received is accurate, occurred and completely recorded.

Income received is not reconciled to supporting documentation and during the audit a number of differences were noted between amounts recorded in the municipality books and documentation attached.

The audit also revealed that not all the consumers were billed for services provided to them, as result thereof the conclusion drawn was that revenue is not completely recorded.

Receivables

7. Supporting documentation in respect of the provision for bad debts amounting to R20,9 million could not be obtained. No alternative procedures could be performed, thus I was therefore unable to obtain all the information and explanations I considered necessary to satisfy myself as to the valuation and recoverability of receivables disclosed in the annual financial statements.

Employee costs

8. Supporting documentation for an amount of R2,1 million in respect of allowances paid to employees could not be obtained. The municipality's records did not permit application of alternative procedures. Consequently, I did not obtain all the information and explanations I considered necessary to vouch that this expense is valid and was properly authorised.

Accumulated funds

9. Supporting documentation for prior year adjustments could not be obtained. The municipality's records did not permit application of alternative procedures. I was therefore unable to obtain all the information and explanations I considered necessary to satisfy myself as to the accuracy and of the accumulated surplus disclosed in the annual financial statements.

Fixed assets

10. Supporting documentation for an amount of R31,7 million in respect of capital work in progress could not be obtained. The municipality's records did not permit application of alternative procedures. I was therefore unable to obtain all the information and explanations I considered necessary to satisfy myself as to the valuation, accuracy and completeness of fixed assets disclosed in the annual financial statements.

Unknown deposits

11. Included in accounts payable is R5 million that relates to a suspense account made up of unknown deposits, the audit revealed that this account is not cleared up timeously, not properly monitored and the municipality cannot provide and identify the sources of the transactions included in this account. Consequently completeness and accuracy of this account could not be vouched.

VAT

12. No reconciliation is performed between the general ledger and VAT 201 returns submitted to the Receiver of Revenue, as a result thereof there is a difference of R1,3 million between the returns and the annual financial statements.

DISCLAIMER OF AUDIT OPINION

13. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraph, I have been unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of Elundini Local Municipality. Accordingly, I do not express an opinion on the financial statements.

EMPHASIS OF MATTERS

14. I draw attention to the following matters:

OTHER MATTERS

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

Material non-compliance with applicable legislation

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

15. Expenditure to the value of R2,2 million was incurred without three quotes being obtained as stipulated by the supply chain management.
16. Expenditure to the value of the value R255, 832 was incurred without approval of cheque requisition as stipulated by the supply chain management.
17. Expenditure to the value of the value R269, 153 was incurred without orders as stipulated by the supply chain management.
18. There is no proof that budget was checked before expenditure was incurred.

Matters of governance

19. Sections 165 and 166 of the Municipal Finance Management (Act No. 56 of 2003) requires the establishment of an internal audit unit and audit committee which was not yet in place at the time of audit. In the circumstances no reliance could be placed on the internal audit unit.

Internal control

20. 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					
Journal entries	✓		✓		✓
Revenue	✓				✓
Debtors	✓				✓
Employee costs	✓				✓
Accumulated funds	✓				✓
Fixed assets	✓				✓
Unknown deposits	✓				✓
VAT	✓				✓
Other matters					
Material non-compliance with applicable legislation	✓		✓		
Matters of governance	✓				✓
Other reporting responsibilities matters					
Non-availability of performance information	✓				✓

Investigation in progress

21. At the time of reporting, legal confirmation was still outstanding regarding the pending case against the municipality on environmental rehabilitation and another pending investigation on misappropriation of traffic fines.

OTHER REPORTING RESPONSIBILITIES

Reporting on performance information

22. I was engaged to audit the performance information

Responsibility of the accounting officer

23. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

Responsibility of the Auditor-General

24. I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004) read with *General Notice 464 of 2007*, issued in *Government Gazette No. 464 of 25 May 2007* section 45 of the MSA.

25. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate audit evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

26. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit findings

Non-compliance with regulatory requirements

I was not able to complete an evaluation of the quality of the reported performance information, since the information was not received.

APPRECIATION

27. The assistance rendered by the staff of the Elundini municipality during the audit is sincerely appreciated.

MTHATHA

08 February 2008



AUDITOR - GENERAL