



AUDITOR - GENERAL

The Municipal Manager
Senqu Municipality
PO Box 18
Lady Grey
9755

Enquiries: M Rasmeni
Reference: 21290REG06/07

29 January 2008

Dear Sir

**REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS
OF SENQU MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2007.**

A copy of the report to the Mayor is forwarded herewith for your information.

Yours faithfully


AUDITOR-GENERAL

AUDITOR-GENERAL	
SENQU MUNICIPALITY	
5/15/2	
FINANCE	
M. MANAGER	
	07/02/08

Senqu Municipality

07 FEB 2008

Lady Grey Admin. Unit

**REPORT OF THE AUDITOR-GENERAL TO THE PROVINCIAL LEGISLATURE
OF THE EASTERN CAPE PROVINCE AND THE COUNCIL ON THE FINANCIAL
STATEMENTS AND PERFORMANCE INFORMATION OF SENQU
MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2007**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Senqu municipality which comprise of a balance sheet as at 30 June 2007, income statement of financial performance, and separate cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages....to....

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)(PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
6. An audit also includes evaluating the:
 - appropriateness of accounting policies used
 - reasonableness of accounting estimates made by management
 - overall presentation of the financial statements.

7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

8. 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 qualified opinion

9. Fixed assets

Fixed assets are disclosed at R95 million in appendix C to the annual financial statements. Assets to the value of R361 772 could not be physically verified whilst assets to the amount of R218 700 were identified to be impaired. Furthermore rights to land could not be verified.

10. Debtors and Provisions

Debtors are disclosed at R8 million on the face of the balance sheet and note 10 to the annual financial statements. I am unable to confirm the recoverability of debts due from other municipalities to the amount of R4,7 million, consequently the provision for bad debts disclosure is similarly misstated by the same amount.

Qualified opinion

11. In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of Senqu municipality as at 30 June 2007 and cash flows for the year then ended, have been prepared as set out in accounting policy, in all material respects, in accordance with the basis of accounting described in note 1 and in the manner required by the MFMA.

EMPHASIS OF MATTERS

12. I draw attention to the following matter:

Average electricity distribution losses are 29.10 percent whilst distribution losses for water are not calculated.

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

Local government Municipal Systems Act No. 32 of 2000

13. Non compliance with Section 26: A disaster management plan is not included in the Integrated Development Plan.
14. Non compliance with section 26 (h): Integrated Development Plan does not include budget projection for at least the next three years.
15. Non compliance with section 26 (b): The Integrated Development Plan does not include assessment of existing level of development and identification of communities which do not have access to basic municipal services.
16. Non compliance with section 41: Senqu municipality has a performance management system for section 57 managers only.

Local Government: Municipal Planning and Performance Management Regulations 2001

17. Non compliance with regulation 2(3)(c): Integrated Development Plan for Senqu Municipality does not include a financial strategy that defines means of increasing revenues and external funding for the municipality.
18. Non compliance with regulation 9(1)(a): The municipality has not set key performance indicator, including input indicators, output indicators and outcome indicators, in respect of each of the development priorities and objectives set out in the Integrated Development Plan.
19. Non compliance with regulation 14(1)(a): internal audit has not audited results of performance measurements.
20. Non compliance with regulation 14(2) (a): Senqu municipality has not established a performance audit committee.

Local government: Municipal performance regulations for municipal managers and managers directly accountable to municipal managers 2006

21. Non compliance with regulation 28(1): Performance review of managers are only performed annually and not quarterly.

Basic Conditions of Employment Act 75 of 1997

22. Non compliance with regulation 23 sec (1): medical practitioner certificate is not attached to leave forms.

National Road Traffic Act (Chapter III)

23. Non compliance with Section 4(2): municipal tractors were not registered.

Material corrections made to the financial statements submitted for audit

24. The financial statements, approved by the accounting office and submitted for audit on 31 August 2007, have been significantly revised in respect of the following misstatements identified during the audit.
 - Appendix E was restated to confirm the format prescribed by the standards laid down by the Institute of Municipal Treasurers and Accountants in its Code of Accounting Practice (1997) and Published Annual Financial Statements for Local Authorities (2nd edition 1996, as amended)
 - Comparative amounts and information as per 2006/2007 was restated to agree to the 2005/2006 financial statements.
 - Cash flow statement was adjusted to disclose line items prescribed by Institute of Municipal Treasurers and Accountants
 - Note 23 for appropriations was amended to provide a general description for abnormal adjustments affected against the appropriation account.

- An identified contingent liability amounting to R500,000 was added to the contingent liability disclosed.
- The provision for leave disclosure to the amount of R1 million was reclassified from reserves to provisions
- The provision for performance bonus was amended to disclose an amount of R495,745
- Statutory funds were adjusted to disclose the contribution to revolving fund to the amount R156,735.

25. Internal control

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 qualification opinion					
Fixed assets			✓		
Debtors					✓
Provisions					✓
Other matters					
Material non-compliance with applicable legislation			✓		
Matters of governance					✓
Material corrections to the financial statements			✓		

OTHER REPORTING RESPONSIBILITIES

Reporting on performance information

26. I was engaged to audit the performance information.

Responsibility of the accounting officer

27. 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

28. 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.
29. 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.
30. 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 as set out on pages ...to...of the annual report, since the information was not received.

APPRECIATION

31. The assistance rendered by the staff of the Senqu municipality during the audit is sincerely appreciated.

Auditor-General

Mthatha

29 January 2008



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