

REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL OF THE KOU-KAMMA MUNICIPALITY ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE KOU-KAMMA MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2008

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the Kou-kamma Municipality (municipality) which comprise of the balance sheet as at 30 June 2008, income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the accounting officer's report, as set out on pages 6 to 34.

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 basis of accounting determined by the National Treasury, as set out in accounting policy note 1 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA), *Auditor-General audit circular 1 of 2008* and the Division of Revenue Act, 2007 (Act No. 1 of 2007) (DoRA). 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 (Constitution) read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with the International Standards on Auditing and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Because of the matters discussed in the Basis for disclaimer of opinion paragraphs, 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's policy is to prepare the financial statements on the basis of accounting determined by the National Treasury, as set out in accounting policy note 1.

Basis for disclaimer of opinion

5. In terms of section 126 of the MFMA, the accounting officer must prepare and submit the municipality's financial statements for auditing within two months after

year-end to the Auditor-General. The municipality only submitted its financial statements for the year ended 30 June 2008 to the Auditor-General on 11 December 2008, while the municipal manager was suspended on 13 January 2009. Various attempts to obtain the municipal audit file supporting the financial statements from management had to be made since 4 December 2008. The audit file was eventually collected from management on 23 January 2009 (one and a half months after the submission of the financial statements).

6. The audit findings reported in paragraphs 7, 11, 15, 18, 19 and 29 below were also reported in the 2006-07 audit report. Furthermore, no adjustments have been made in terms of the prior year's findings.

Fixed assets

7. Fixed assets are disclosed on the face of the balance sheet at a net amount of R3,6 million. There is an unexplained reconciling difference of R3,6 million (2006-07: R4,5 million) between the fixed assets and the source funding. There are inadequate controls over the reconciliation of fixed assets to the funding sources in the general ledger. I am therefore unable to conclude on the existence and valuation of fixed assets.
8. Expenditure on capital assets of R10.6 million is disclosed in note 5 to the financial statements. The fixed asset register reflects additions amounting to R13,9 million, which is R3,3 million more than the amount disclosed in note 5. The completeness of fixed assets is understated in the balance sheet. There are inadequate controls over the reconciliation of fixed assets in the general ledger to the fixed asset register.
9. Fixed assets are disclosed on the face of the balance sheet at a net amount of R3,6 million. I found that fixed assets with an estimated value of R1,3 million were not recorded in the fixed asset register. The completeness and valuation of fixed assets are understated in the financial statements. There are inadequate controls over the maintenance of the fixed asset register.
10. Repairs and maintenance are recorded in the financial statements at an amount of R2,1 million. Fixed assets purchased during the financial year to the amount of R322 387 were incorrectly expensed as repairs and maintenance. The completeness of fixed assets is understated and the occurrence of repairs and maintenance is overstated by R322 387 in the financial statements. This was as a result of inadequate controls over the processing of transactions related to the purchasing of assets.

Accumulated surplus

11. The accumulated surplus account is disclosed in the balance sheet at an amount of R10,8 million. The municipality passed a journal to the amount of R1,1 million (2006-07: R2,2 million) in order to force-balance the debtors ledger to the subsidiary ledger. Supporting documentation for this transaction to balance the debtors could not be provided for audit purposes. No alternative procedures could be performed due to the non-functioning accounting system and inadequate controls. As a result, I cannot conclude on the existence and valuation of the accumulated surplus and debtors.

Customer deposits

12. Customer deposits are disclosed in the balance sheet at an amount of R104 700. There was no movement from the prior year due to the misallocation of receipts to revenue. The completeness and valuation of customer deposits is understated and the classification of service revenue is overstated by an estimated R95 300. There are inadequate controls in place to ensure the correct allocation of receipts to customer deposits instead of revenue. The non-functioning accounting system further contributed to the error.

Income and debtors

13. Customer debtors and other debtors are disclosed on the face of the balance sheet at amounts of R25,9 million and R3,7 million, respectively. Information with regard to indigent debtors was not taken into account in determining the provision for bad debts. Based on this information, the estimated provision for bad debts should be R26,6 million and not R15,8 million. The valuation of debtors is overstated by R10,8 million and the accuracy of bad debts included under expenditure is understated by R10,8 million. The accounting policy to the financial statements does not indicate what policy was applied by the municipality related to the provision for bad debts.
14. Income from rates and general services is disclosed on the face of the income statement at R30,9 million. An estimated 83% of the revenue recognised by management relates to revenue from indigent persons. Based on an analysis of the receipt of rates revenue subsequent to year-end (and the non payment history of ratepayers over the last 2 years) it is not probable that the revenue recognised would in fact be received by the municipality. An estimated R18,9 million of the total revenue relates to transactions with indigent debtors. As such, the existence of debtors is overstated and the occurrence of revenue is overstated by an estimated R18,9 million. There are inadequate controls over the collection of amounts due by debtors, while the non-functioning accounting system further contributed to this finding.
15. Customer debtors and other debtors are disclosed on the face of the balance sheet at amounts of R25,9 million and R3,7 million, respectively. Journals and supporting documentation could not be provided for audit purposes to an amount of R1,9 million. The journals were passed to raise the customer debtors for the income of general services. No alternative procedures could be performed due to the non-functioning accounting system, while alternative documentation could also not be provided. I am therefore unable to conclude on the completeness and accuracy of revenue.
16. Direct income of R3,3 million is included under income in the income statement. The municipality was unable to provide a breakdown of the direct income amount so as to facilitate the identification of source documents to allow audit testing for completeness. No alternative procedures could be performed due to inadequate controls and accounting records. As a result, I am unable to conclude on the completeness and accuracy of direct income.
17. Assessment rates are disclosed in note 16 to the financial statements at an amount of R4,8 million. An amount of R341 539 has not been recorded under income, as the incorrect rate tariffs were used. The completeness and accuracy of revenue and

debtors are understated in the financial statements. There are inadequate controls over the assessment rates to ensure that the correct tariffs are used.

18. Sale of electricity and sale of water are included under 2007/8 actual income in the income statement at amounts of R1,4 million and R7,7 million respectively. The municipality was unable to provide the supporting documentation for meter readings for water and electricity. No alternative procedures could be performed due to inadequate controls and accounting records. I am therefore unable to conclude on the completeness and accuracy of revenue from trading services.

Creditors and expenditure

19. Creditors are recorded in the balance sheet at an amount of R11 million. (2006/7: R7.7 million) Management was unable to supply a detailed breakdown of the creditors balance, as the municipality does not have proper systems and controls in place. Alternative procedures were performed and it was found that creditors are not recorded in the correct financial year in the general ledger. Payments made after year-end to the amount of R2,9 million were incorrectly recorded in the 2008-09 financial period instead of the 2007-08 financial period. As a result, the completeness and cut-off of creditors and expenditure are understated by R2,9 million in the financial statements. The error also occurred due to the non-functioning accounting system over the creditors application.
20. Operating expenditure is recorded in the income statement at a total amount of R41,1 million. Included in this amount was expenditure to an amount of R387 951 which was not supported by suppliers' invoices. As a result the occurrence of expenditure appears to be overstated in the income statement. This was as a result of inadequate controls over expenditure to ensure that payments are made on valid invoices.

Provisions

21. Provisions are disclosed in the balance sheet at an amount of R1,2 million (2006-07: R1,2 million). The provision for leave pay was not calculated at year-end and no leave pay was set against the provision. No alternative procedures could be performed to verify the valuation and completeness of the leave pay provision, as leave records are not up to date in order to conclude on the valuation of the leave pay provision.
22. Provisions are disclosed in the balance sheet at an amount of R1,3 million. An amount of R350 000 for a lawsuit relating to an outstanding payment on an employee's contract was disclosed as a contingent liability, as it was probable that the plaintiff would be successful against the municipality. The completeness of provisions is understated and the disclosure of contingent liabilities is overstated in the financial statements. This was as a result of inadequate controls over the recognition of provisions.

Trust funds

23. In notes 1 and 3 to the financial statements, statutory funds and trust funds are reflected at R2,6 million and R19,9 million respectively. Unspent grants in the trust funds amount to R26,9 million as reflected in note 3. However, the statutory funds and unspent grants are only backed by cash or cash equivalents to an amount of

R10,8 million. As a result the valuation of statutory and trust funds appears to be overstated by R16,1 million. Inadequate controls are in place over the custody and investment of statutory funds and unspent conditional grants.

Employee costs

24. In note 14 to the financial statements, overtime for employees is reflected at an amount of R944 468. The municipality was unable to provide overtime sheets and registers with regard to the approval of overtime in support of this expense. Alternative procedures could not be performed due to inadequate controls and documentation. As a result, I am unable to conclude on the occurrence and accuracy of the overtime for employee costs.
25. Salaries, wages and allowances are recorded in the financial statements at an amount of R17,8 million. Housing and other allowances incurred to an amount of R70,000 was not supported by valid documentation. The occurrence of allowances is overstated in the income statement. This was as a result of inadequate controls over allowances to ensure that payments are made on valid documentation.

Disclosure notes

26. The aging of customer debtors is disclosed in note 8 to the financial statements. The municipality was unable to provide a detailed list of the debtors aging that supported the amounts disclosed in note 8.
27. Irregular as well as fruitless and wasteful expenditure
- 27.1 The following shortcomings with regard to the disclosure of irregular expenditure were identified:
- (a) The municipality omitted to disclose irregular expenditure of R145 058 in note 24.3 to the financial statements. Performance bonuses were paid to certain employees without an oversight committee being in place and before the annual report was finalised, contrary to the requirements of regulations 8, 23 and 34 of *GNR 805 of August 2006*, read with section 129(1) of the MFMA. The payment of these performance bonuses was contrary to the above-mentioned legislation and is therefore regarded as irregular. The non-disclosure occurred due to inadequate controls over financial reporting to ensure the completeness of the disclosure of irregular expenditure. The completeness of irregular expenditure is understated in the financial statements.
 - (b) An amount of R43 335 is not disclosed in the notes to irregular expenditure. Newly appointed employees are paid a basic salary in excess of the minimum notch of the salary scales as prescribed by the SALBC. As a result, the completeness of the disclosure for irregular expenditure is understated in the financial statements.
 - (c) An amount of R845 000 is not disclosed as unauthorised expenditure in the note to the financial statements. Travel and cell phone allowances were paid to certain employees who were not in line with the municipality's policy or a council resolution. As a result, the completeness of the disclosure of unauthorised expenditure is understated in the financial statements.
 - (d) Unspent conditional grants of R4,9 million were used for operational expenditure. The amount is not disclosed as unauthorised expenditure in the note to the

financial statements. As a result, the completeness of the disclosure of unauthorised expenditure is understated in the financial statements. In addition, the municipality failed to submit electronic and signed returns on its conditional grant spending for the period ended 30 June 2008 to the National Treasury, as required in terms of section 31(2) of DoRA.

27.2 Fruitless and wasteful expenditure is disclosed in note 24.2 to the financial statements.

During a no work no pay principal labour strike by employees in May and June 2008, the council authorised payment, contrary to management's recommendation of no work no pay, for salaries and wages to an amount of R2,2 million. Council approved that these amounts should be recouped over 6 months starting in January 2009. The amounts so paid during the financial year have not been separately disclosed in the notes to the financial statements. As the municipality received no benefit (production by staff) during the strike period, the amounts paid as salaries are regarded as fruitless expenditure. There are inadequate controls over the reporting of fruitless and wasteful expenditure. As a result, the completeness of the disclosure of fruitless and wasteful expenditure is understated in the financial statements by R2,2 million.

28. In terms of section 125 of the MFMA, taxes, levies, duties and pension and medical aid contributions must be disclosed in the financial statements, as well as whether any amounts were outstanding as at the end of the 2007-08 financial year. The transactions and balances for taxes, levies, duties and pension and medical aid contributions are not disclosed in the notes to the financial statements. There are inadequate controls over statutory disclosures. The completeness of statutory disclosures is understated in the financial statements, as an amount of R3,6 million for expenditure incurred and the balance outstanding of R333 545 have not been disclosed in the note to the financial statements for taxes, levies, duties and pension and medical aid contributions.

29. The municipality did not disclose in the notes to the financial statements its municipal entity, the Kareedouw Economic Development Company (KEDC) – Qhubekeka Charcoal, a section 21 company, as required by section 125(1)(a) of the MFMA. No financial statements were prepared for the entity and could thus not be attached as an annexure, as required by paragraph 3(2)(d) of *Government Notice No. 522 of 29 June 2007*. There is inadequate managerial control over municipal entities. The completeness of statutory disclosures is understated in the financial statements.

Cash and bank

30. Cash and bank is disclosed on the face of the balance sheet at an amount of R1,7 million. Journals or supporting documentation for transactions passed to account for cash and bank transactions throughout the period to the net amount of R1,8 million could not be provided for audit purposes. No alternative procedures could be performed due to the non-functioning accounting system. I am therefore unable to conclude on the completeness and valuation of cash and bank.

31. An amount of R116 445 in outstanding deposits for the receipt of revenue on the bank reconciliation could not be traced to the bank statements. As a result, the existence of cash and bank and the occurrence of revenue are overstated in the

financial statements. There are inadequate controls over the cash-up of receipts at cash points.

Related party relationships

32. The municipality did not disclose all related party relationships involving management, councillors and municipal entities. Management had not fulfilled its reporting responsibilities to ensure the completeness of the disclosure of related party relationships. Management members and councillors of the municipality have entities under their control, which have not been disclosed as related party relationships in the notes to the financial statements. As a result of the non-disclosure, the completeness of related party relationships in the financial statements is understated.

Going concern

33. The financial statements indicate that the municipality incurred a net deficit of R828 802 for the year ended 30 June 2008 (2006/07: the net deficit was R4.4 Million) and, as at that date, the entity's total liabilities exceeded its total assets by R14,5 million, after taking into account the above adjustments. The accounting officer has not indicated that there are conditions, along with other matters, that point to the existence of a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern. The municipality does not generate sufficient cash from its own operations to cover salaries. Per the cash flow statement the cash shortage from operations was R22.1million (2006/7: R20.9 million) The municipality's cash flow situation, along with other matters in this report, point to the existence of a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern.

34. In addition to the above, the preceding audit findings mentioned in this audit report, indicates that Koukamma Municipality does have serious financial problems which will require Provincial intervention. Section 138 of the MFMA lists the criteria for serious financial problems. The Koukamma municipality has met the requirement for serious financial problems in that :

- (a) The municipality has failed to make payments as and when due to various creditors including the audit fees due to the Auditor-General,
- (b) the municipality was more than 60 days late in submitting its 2007/8 annual financial statements to the Auditor-General,
- (c) the Auditor-General has withheld an opinion or issued a disclaimer due to inadequacies in the financial statements or records of the municipality in the prior years.

NB! The MEC responsible for Local Government and Traditional affairs in the Eastern Cape issued on the 9th April 2009 a Notice to assume responsibility in terms of section 139(1)(b) of the Constitution of the Republic of South Africa, (Act no 108 of 1996). The intervention would be for an initial period of three(3) months subject to review. The MEC will designate a person to act as an Administrator.

Representation letter

35. Various attempts had been made for the signing of the representation letter by the municipal manager since 11 March 2009. At the date of the audit report the representation letter was still not signed.

Disclaimer of opinion

36. Because of the significance of the matters described in the Basis for disclaimer of opinion 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 Kou-kamma Municipality. Accordingly, I do not express an opinion on the financial statements.

OTHER MATTERS

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

Internal controls

37. 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 that gave rise to the inefficiencies in the system of internal controls, which led to the disclaimer of opinion. The root causes are categorised according to the five components of an effective system 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
Fixed assets			✓		✓
Accumulated surplus	✓				✓
Customer deposits				✓	✓
Income and debtors	✓	✓	✓	✓	✓
Creditors and expenditure	✓	✓	✓	✓	✓
Provisions				✓	✓
Trust funds	✓				✓
Employee costs	✓				✓
Disclosure notes	✓		✓		✓
Cash and	✓		✓	✓	✓

Reporting item	Control environment	Assessment of risks	Control activities	Information and communication	Monitoring
bank					
Related party relationships	✓	✓			✓
Going concern	✓				✓

Control environment: establishes the foundation for the internal control system by providing fundamental discipline and structure for financial reporting.

Risk assessment: involves the identification and analysis by management of relevant financial reporting risks to achieve predetermined financial reporting objectives.

Control activities: policies, procedures and practices that ensure management's financial reporting objectives are achieved and financial reporting risk mitigation strategies are carried out.

Information and communication: supports all other control components by communicating control responsibilities for financial reporting to employees and by providing financial reporting information in a form and time frame that allow people to carry out their financial reporting duties.

Monitoring: covers external oversight of internal controls over financial reporting by management or other parties outside the process; or the application of independent methodologies, like customised procedures or standard checklists, by employees within a process.

Non-compliance with applicable legislation

Municipal Finance Management Act

38. The accounting officer had not created the necessary capacity for contract management at the municipality in terms of section 116(2)(c).
39. In terms of section 65, payments for goods and services should be done within 30 days of receiving the relevant invoice or statement. The average payment period for creditors during the financial year was 312 days. This included the non payment of audit fees, of which a long outstanding amount of R418 796 was eventually settled by means of Provincial assistance during January 2009.
40. In terms of section 79(2), the accounting officer may not delegate any political structure or political office-bearer of the municipality any of the powers or duties assigned to accounting officer. The municipal manager is empowered in terms of section 60(a) to enter into agreements with suppliers and service providers. It was found that the mayor of the municipality had entered into service level agreements with service providers for camera fines.
41. In terms of section 9(1), the accounting officer of a municipality must submit to the relevant provincial treasury and the Auditor-General annually, before the start of a financial year, the name of each bank where the municipality holds a bank account, and the type and number of each account. The mayor and certain municipal officials have credit cards linked to the municipal main bank account, in the name of the municipality, which were not reported to the Auditor-General.

42. In terms of section 32(6), the accounting officer must report to the South African Police Service (SAPS) all cases of alleged irregular expenditure that constitutes a criminal offence, theft and fraud that occurred at the municipality. A forensic report was tabled before the council in September 2007 by an independent private audit firm commissioned by the council with regard to tax evasion, procurement irregularities and cash shortages. No cases of fraud were opened against the relevant officials at the SAPS as a result of the forensic report. A case of fraud was reported to management with regard to unauthorised salary deductions and the payment of these deductions into another official's bank account. Management has taken no action against this official and no confirmation could be provided for audit purposes that these cases have been reported to the SAPS.
43. In terms of section 165, the municipality must have an internal audit function that advises the municipal manager and reports to the audit committee. The internal audit function did not function through the 2007-08 financial year, due to the strike action by employees and the non-payment of outstanding fees.
44. Section 64(2)(a) requires the accounting officer to implement an effective revenue collection system. The average collection period of debtors (in days) which has increased from 388 days in 2006-07 to 540 days in 2007-08 indicates that the revenue collection system is ineffective. Management has indicated that there were cases where Council has delayed certain long-outstanding debtors from being handed over for collection and to prevent the termination of service for continued non-payment of debtors accounts. Furthermore, the municipality does not have adequate information on debtors.

Value-Added Tax Act, 1991 (Act No. 89 of 1991)

45. In terms of section 17(2)(a), a vendor shall not be entitled to deduct from the sum of the amounts of output tax any amount of input tax in respect of goods or services acquired by such vendor to the extent that such goods or services are acquired for the purpose of entertainment. However, input tax was claimed from the acquisition of goods or services for the purpose of entertainment.
46. In terms of section 28(1)(a), a vendor shall within the period ending on the twenty-fifth day of the first month commencing after the end of a tax period relating to such vendor, furnish the commissioner with a return reflecting such information as may be required for the purpose of the calculation of tax in terms of section 16. The municipality had not submitted its VAT 201 within the required period for the months July 2007 to June 2008. Furthermore, returns were not completed properly as required by section 16.

Municipal Supply Chain Management Regulations (GN 868 in Government Gazette 27636 of 30 May 2005)

47. In terms of regulation 16, three written quotations are required as determined by the municipality's supply chain management policy. For expenditure that was incurred above R20 000, no quotations were obtained for the procurement of goods and services.

Basic Conditions of Employment Act, 1997 (Act No. 75 of 1997)

48. In terms of section 34(1)(a), an employer may not make any deduction from an employee's remuneration unless the employee, in writing, agrees to the deduction in respect of a debt specified in the agreement, or the deduction is required by law. Deductions are made from the payroll without proper authorisation letters having been signed by staff.
49. In terms of section 10(1)(b), overtime should not constitute more than 10 hours per week and overtime paid to staff should not exceed 30% of the monthly basis salary. The overtime paid to employees was more than 30% of their basic salaries.

Public Office-Bearers Act, 1998 (Act No. 20 of 1998)

50. In terms of sections 8(5) and 9(5), the amount of the pension fund and medical aid contributions of councillors, after taking into account the upper limits set in the *Government Gazette*, should be approved by the municipal council by resolution of a supporting vote of a majority of its members, after consultation with the medical aid scheme and pension fund concerned. The necessary Council resolution could not be provided for audit purposes. .

Matters of governance

51. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

Matter of governance	Yes	No
Audit committee		
• The municipality had an audit committee in operation throughout the financial year.	✓*	
• The audit committee operates in accordance with approved, written terms of reference.	✓	
• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.	✓*	
Internal audit		
• The municipality had an internal audit function in operation throughout the financial year.	✓*	
• The internal audit function operates in terms of an approved internal audit plan.	✓	
• The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.	✓*	
Other matters of governance		
• The annual financial statements were submitted for audit as per the legislated deadlines in section 126 of the MFMA.		✓
• The annual report was submitted to the auditor for consideration prior to the date of the auditor's report.		✓
• The financial statements submitted for audit were not subject to any material amendments resulting from the audit.	✓	
• No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.		✓
• The prior year's external audit recommendations in the management		✓

Matter of governance	Yes	No
report have been substantially implemented.		
Implementation of Standards of Generally Recognised Accounting Practice (GRAP)		
<ul style="list-style-type: none"> The municipality submitted an implementation plan, detailing progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 30 October 2007. 		✓
<ul style="list-style-type: none"> The municipality substantially complied with the implementation plan it submitted to the National Treasury and the relevant provincial treasury before 30 October 2007, detailing its progress towards full compliance with GRAP. 		✓
<ul style="list-style-type: none"> The municipality submitted an implementation plan, detailing further progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 31 March 2008. 		✓

✓* - To be read with the paragraph: "Audit findings (performance information)"

Unaudited supplementary schedules

52. The following supplementary schedules included in the financial statements at 30 June 2008 were not audited:

- Appendix A: Statutory funds, trust funds and reserves
- Appendix B: External loans and internal advances
- Appendix C: Analysis of fixed assets
- Appendix D: Analysis of operating income and expenditure
- Appendix E: Detailed income and expenditure statement
- Appendix F: Statistical information

OTHER REPORTING RESPONSIBILITIES

REPORT ON PERFORMANCE INFORMATION

53. I have reviewed the performance information as set out in the Annual report 2007/2008 (draft), chapter 5 on pages 1 to 8.

Responsibility of the accounting officer for the performance information

54. 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 MSA.

Responsibility of the Auditor-General

55. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.

56. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
57. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the findings reported below.

Audit findings (performance information)

Non-compliance with regulatory requirements

58. The integrated development plan (IDP) of the municipality did not include all the key performance indicators and performance targets as required by section 26(i) of the MSA.
59. A properly developed and implemented performance management system and IDP (as indicated above) and a service delivery and budget implementation plan were not in place during the 2007-08 financial year, in order to allow for the alignment of the performance contracts/plans of municipal officials.
60. Performance reviews were only performed for the chief financial officer and accounting officer. The other section 57 municipal officials were not evaluated in terms of their performance contracts/plans, as required by section 57(4)(b) of the MSA.
61. The impact of the municipality not having a properly developed and implemented performance management system (as indicated above) was that neither the Internal auditors nor the audit committee could perform their duties as envisaged in section 45(a) of the MSA. read with regulation 14 of the Municipal Planning and Management Regulations, 2001.
62. In the absence of the necessary management information, the internal auditors were prevented from performing procedures to assess the extent to which the municipality's performance measurements were reliable in measuring the performance of the municipality on key as well as general performance indicators, as required in terms of section 45(a) of the MSA.
63. As a result of the above-mentioned reasons, the internal auditors of the municipality did not audit the performance measurements on a continuous basis and did not submit quarterly reports on their audits to the municipal manager and the performance audit committee, as required in terms of regulation 14(1)(c) of the Municipal Planning and Management Regulations, 2001.
64. The municipality did not have a properly functioning performance audit committee during the 2007-08 financial year as the Council did not manage to appoint an additional member with the necessary expertise, as requested by the audit committee. As a result of the above-mentioned, the existing audit committee was not utilised as the performance audit committee, as was intended, as required in terms of regulation 14(2)(a) of the Municipal Planning and Management Regulations, 2001.

OTHER REPORTS

Special investigations in progress or completed

65. An investigation was initiated during February 2009 by the council based on the allegation of possible cash shortages at certain cash points at the municipality. The investigation was still ongoing at the reporting date.
66. An investigation was initiated during January 2009 by the council based on the allegation of possible non-compliance with the Constitution and the MFMA by the municipal manager and a municipal official in senior management. The investigation was still ongoing at the reporting date.
67. An internal remuneration audit was conducted during January 2009 by management. The audit was initiated based on the allegation of possible unauthorised, and the overpayment of, allowances during January 2009. It was found that the allowances paid to employees were overpaid and not in accordance with the approved municipal policy. No action has been taken to date by management as a result of the findings of this remuneration audit.

APPRECIATION

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

Auditor - General

Port Elizabeth

21 April 2009

Auditing to build public confidence



AUDITOR - GENERAL
SOUTH AFRICA