

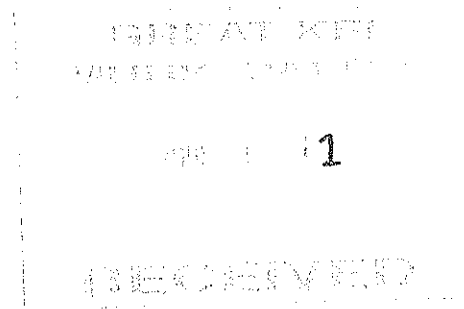


AUDITOR - GENERAL

REFERENCE: 21298REG07/08
ENQUIRIES: N MINNAAR
DATE: 30 JUNE 2008

F5/17

The Municipal Manager
Great Kei Municipality
P O Box 21
KOMGA
4950



Dear Sir

GREAT KEI MUNICIPALITY: AUDIT REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

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

Yours faithfully

N Minnaar

for **AUDITOR-GENERAL**
East London

Copies - Speaker
- MM
- CFO



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

REFERENCE: 21298REG07/08
ENQUIRIES: N MINNAAR
DATE: 30 JUNE 2008

The Honourable Mayor
GREAT KEI MUNICIPALITY
P O Box 21
KOMGA
4550

Honourable Mayor

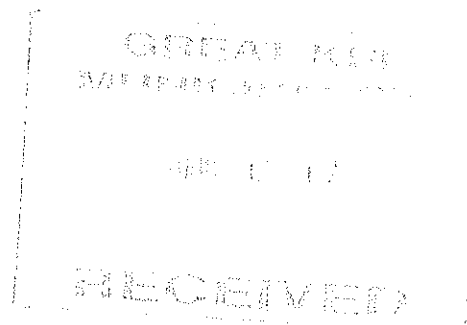
GREAT KEI MUNICIPALITY: AUDIT REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

1. The attached report on the audit of the accounts of the Council for the financial year ended 30 JUNE 2008, together with the Financial Statements, is hereby submitted.
2. As is required by section 4(3)(c) of the Auditor-General Act, (No. 12 of 1995), and section 10(G)(2)(e)(ii) of the Local Government Transition Act, No. 209 of 1993, the report should be laid before the Council not later than the second ordinary meeting after receipt thereof, for consideration and to decide what corrective steps are to be taken in order to resolve any unsatisfactory matter or irregularity raised therein. The date, time and place of the meeting must please be conveyed to this Office beforehand so that a representative from this Office can be present at such meeting, should this be deemed necessary. In this regard, attention is also invited to the same section of the latter Act as mentioned above.
3. As Chairperson, you must ensure that the notice of such meeting and the fact that the Council will be considering the report of the Auditor-General, is published in a newspaper circulating in the area of the Council, at least 7 days before such meeting takes place, so as to comply with the requirements of section 10(G)(2)(e)(ii) of the Local Government Transition Act.
4. In terms of section 10(G)(2)(e)(iii) of the afore-mentioned Act, please furnish this Office within 30 days after the date of the meeting referred to in paragraph 2 above, with copies of the minutes containing the comments of the Council, indicating, where necessary, what steps were taken or are contemplated in connection with any matter revealed in the report.
5. Kindly acknowledge receipt of the report.

Yours faithfully

N Minnaar

for AUDITOR-GENERAL
East London



REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL OF THE GREAT KEI MUNICIPALITY ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF GREAT KEI LOCAL 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 Great Kei Municipality which comprise 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, 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 as set out in accounting policy note 1 and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) 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 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 *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, 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

Consumer deposits

5. A register/schedule of consumer deposits that reconciled to the amount of R100 239 disclosed as consumer deposits in the balance sheet was not maintained. As a result the planned audit procedures relating to this balance could not be carried out. A trend analysis performed on this balance revealed that consumer deposits and debtors were understated by R400 000, whilst the corresponding figures for these accounts were understated by R312 000.

Fixed assets

6. The fixed assets of R4.04 million, disclosed in the balance sheet and in note 6 to the financial statements are stated at cost less loans redeemed and other capital receipts. The cost of fixed assets recorded in the fixed asset register that was provided for audit purposes exceeds the cost of assets reflected in note 6 to the financial statements by R21.2 million. This resulted in it not being possible to place reliance on the asset register for audit purposes. Furthermore assets with a cost of R9 million selected from the asset register could not be physically verified whilst numerous additions and other assets selected for testing were not recorded thereon.

Consequently, sufficient appropriate evidence relating to the existence, completeness, classification, and accuracy of fixed assets to the value of R4.04 million disclosed in the balance sheet and related expenditure disclosed in the income statement could not be obtained.

Inventory

7. The inventory on hand of R223 165 disclosed in the financial statements is not supported by adequate working papers detailing the quantity, unit price and value of the inventory on hand. The municipality's records did not permit the application of alternative procedures on this inventory.

As a result it was not possible to obtain sufficient appropriate evidence relating to the existence, completeness accuracy, classification, cut off and rights relating to the inventory balance at 30 June 2008 and the completeness, accuracy, cut off and occurrence of the related expenditure disclosed in the income statement..

Debtors

8. The records of consumer debtors supporting the amount of R4.3 million disclosed in note 10 are inaccurate. This amount is stated after deducting unallocated receipts of R5 million and accounts containing credit balances totalling R838 136. The unallocated receipts comprise revenue, consumer deposits and debtor receipts whilst the credit balances were created by journal entries that were not supported by calculations or workings. In addition not all residents who were registered in terms of the indigent policy received an allocation of equitable share against their accounts.

As a result the individual debtors contacted during the audit could not confirm the amount owing by them. Alternative procedures performed were also not successful. Consequently sufficient appropriate evidence relating to the rights, existence, accuracy, valuation, completeness and classification of the consumer debtors and the accumulated loss and the completeness, occurrence and accuracy of revenue was not obtained.

9. The value added tax asset (VAT) of R3.86 million included in the debtors amount of R5.8 million disclosed in note 10 to the financial statements does not reconcile to its supporting workings and documentation. As a result debtors are overstated by R363 000 whilst expenditure and the accumulated loss are understated by this amount.

Bank and cash

10. Cash receipts of R117 575 relating to motor vehicle licences and other revenue were misappropriated. As a result bank and cash and revenue are understated by this amount. This matter has been reported to the police for further investigation.

Provisions

11. The municipality does not have permits or a restoration plan for its landfill sites and as such is in breach of sections 20 and 28 of the National Environmental Management Act 1998 (Act. No 107 of 1998). No provision is included or contingent liability is disclosed the financial statements for

the future restoration costs of these landfill sites or for the penalties that may be imposed by the regulatory authorities in terms of section 29 of this act.

Due to the specialist nature of the calculations required and the lack of available specialists together with the limited nature of the available information it was not possible to determine the effect of this non-compliance on the provisions, expenditure and contingent liabilities disclosed in the financial statements.

Revenue

12. The assessment rates of R3.6 million, which is included in the rates and general service revenue of R24.46 million disclosed in the income statement does not reconcile to the valuation registers. As a result rates and general service revenue is understated by R479 865 whilst debtors are also understated by this amount.
13. The electricity tariff applied to consumers in Khomga was not approved by the National Electricity Regulator of South Africa. As a result rates and general service revenue and debtors are overstated by R1.03 million.
14. The units of electricity sold to consumers did not reconcile to the units purchased and as a result revenue and debtors are understated by R1.3 million.
15. No electricity revenue was raised for the period between the last meter reading and the year end. As a result revenue and debtors is understated by R293 960.

Expenditure

16. Supporting documentation for payments of R141 294, included in the rates and general service expenditure of R19.9 million in the income statement, were not supported by adequate documentation. It was not possible, even after the application of alternative procedures, to obtain sufficient appropriate evidence relating to the occurrence and accuracy of this expenditure and the completeness of the related bank balances disclosed in the financial statements.
17. Logbooks, trip authorisations and records of maintenance for all municipal vehicles could not be produced for the year under review. As a result I could not obtain sufficient appropriate evidence about the classification and occurrence of expenditure of R229 400 incurred on fuel and maintenance of the municipal vehicles and the classification and completeness of the related staff debt that should have been disclosed in the financial statements.

Irregular expenditure

18. Management did not implement the requirements of the Municipal Supply Chain Management Regulations issued in terms of the MFMA. Expenditure transactions with a value of R1.37 million were not procured in accordance with these regulations. This irregular expenditure is not included in the amount of R48.34 million disclosed in note 31 to the financial statements.

Corresponding figures

19. Numerous errors in the prior period financial statements that were reported in the audit report for the year ended 30 June 2007 were corrected by adjusting the accumulated surplus and the relevant account balance in the current period without restating the corresponding figures.

Disclaimer of opinion

20. 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 Great Kei Municipality. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matter

I draw attention to the following matters:

Going Concern

21. The municipality has disclosed in note 33 to its financial statements that it is facing a number of risks to its ability to continue as a going concern. The most significant being:
- The municipality has net current liabilities of R11.4 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 R161 777;
 - Supplier accounts were/are not settled within the prescribed periods;
 - The operating costs exceed own revenue collections and the current level of grant funding by R5.1 million per annum

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.

Highlighting critically important matters presented or disclosed in the financial statements

Irregular expenditure

22. Irregular expenditure of R48.35 million is disclosed in note 31 to the financial statements.
23. The prior year irregular expenditure, resulting from an R878 631 over-payment to members of council, has been raised as debts and included in the debtors amount of R5.8 million disclosed in note 10 to the financial statements, in accordance with section 167(2)(b) of the MFMA. However, the debt has not yet been recovered from members of council.

Fruitless and wasteful expenditure

24. Fruitless and wasteful expenditure of R3.4 million is disclosed in note 32 to the financial statements.

Doubtful Debts

25. The municipality did not implement its credit control and debt collection policies during the year under review. As a result the calculation of the provision for doubtful debts of R3.5 million included in note 10 to the financial statements was not calculated based on these policies. Furthermore, the basis of calculating this impairment is not disclosed in the accounting policies.

Revolving fund

26. As disclosed, in note 1 to the financial statements, the revolving fund investments was used to finance operating costs in the prior financial years and as a result the revolving fund of R4.5 million is only supported by investments of R1.84 million.

OTHER MATTERS

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

Internal controls

27. 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 control, 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	Risk assessment	Control activities	Information and communication	Monitoring
Consumer deposits	X				
Fixed assets	X				
Inventory	X				
Debtors	X				
Provisions	X				
Revenue	X				
Expenditure	X				
Irregular expenditure	X				

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 that 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 allows 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, 2003 (Act No. 56 of 2003) (MFMA)

28. The municipality did not comply with any of the reporting requirements contained in sections 54(1), 66, 70(1), 71(1-5) and section 74 of the MFMA that deal with the 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.
29. No interest was raised on outstanding accounts as required by section 64(2)(g) of the MFMA in the year under audit.

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

30. 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 contravention of section 57 of the MSA and is likely to impact negatively on the municipality's performance.

Matters of governance

31. 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.		X
• The audit committee operates in accordance with approved, written terms of reference.		X
• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.		X
Internal audit		
• The municipality had an internal audit function in operation throughout the financial year.		X
• The internal audit function operates in terms of an approved internal audit plan.		X
• The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.		X
Other matters of governance		
• The annual financial statements were submitted for audit as per the legislated deadlines (section 126 of the MFMA).	X	
• The annual report was submitted to the auditor for consideration prior to the date of the auditor's report.		X
• The financial statements submitted for audit were not subject to any material amendments resulting from the audit.		X
• No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.	X	
• The prior year's external audit recommendations have been substantially implemented.		X
Implementation of Standards of Generally Recognised Accounting Practice (GRAP)		
• 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.		X
• 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. ⁴		X
• 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.		X

Unaudited supplementary schedules

The schedules set out on pages xxx to xxx have not been audited. Accordingly no opinion is expressed thereon.

OTHER REPORTING RESPONSIBILITIES

REPORT ON PERFORMANCE INFORMATION

32. I was engaged to review the performance information.

Responsibility of the accounting officer for the performance information

33. 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

34. 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].
35. 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.
36. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit findings (performance information)

Non compliance with regularity requirements

37. The municipality did not implement a performance management system during the year under review as required by section 38 of the MFMA. As a result, no performance information was submitted for audit purposes and no reporting thereon will be included in annual report.
38. The organogram included in the 2007-08 Integrated Development Plan (IDP) was a final draft and not an approved copy. Furthermore the financial plan attached to the IDP does not include a financial strategy that defines sound financial management and expenditure control, as well as ways and means of increasing revenues and external funding for the municipality and its developmental priorities and objectives as required by paragraph 2(a) of the MSA.
39. The municipality did not always sign service delivery agreements with its service providers as required by section 76(b) of the MSA.

Measurable objectives and/or indicators and/or targets not consistent

40. The performance targets documented in the IDP are not measurable, vague, not practical, not realistic and not consistent with municipality's development priorities as required by regulation 12(2) to the MSA.

OTHER REPORTS

Investigations

41. The misappropriation of cash receipts by certain municipal officials reported in paragraph 10 is under investigation by the South African Police Services.

APPRECIATION

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

Auditor - General

EAST LONDON

30 November 2008



AUDITOR - GENERAL