

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Emalahleni Local Municipality which comprise the statement of financial performance, statement of changes in net assets, statement of financial position 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 01 to 12.

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 Standards of Generally Recognised Accounting Practices (GRAP) and Statements of Generally Accepted Municipal Accounting Practices (GAMAP) as prescribed by the Minister of Finance in terms of General Notice 991 of 2005 and General Notice 992 of 2005 and in the manner required by the Local Government: 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 Municipal Finance Management Act, 2003 (Act No. 25 of 2003) (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 and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on 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. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Emalaheni Local Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

9. The municipality's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 to the financial statements.

Basis for adverse opinion

Corresponding figures

10. Sufficient appropriate evidence relating to the existence, occurrence, classification, completeness and accuracy of the following opening balances could not be obtained as result of non submission of information during the prior year audit:
- Accumulated surplus/deficit of R25.6 million (Rateable revenue of R1.7 million; Economic services revenue of R4.3 million; Trading services revenue of R4.5 million; Unspent trust funds of R14.2 million; other debtors of R 854 380)
 - Other debtors of R854 380.
11. No alternative procedures could be performed to verify these balances as reported in the audit report for the year ended 30 June 2007. Consequently it was not possible to quantify the effect of the misstatement in the revenue, accumulated surplus and corresponding figures in the current financial year.

Management comment:

The abovementioned audit finding relates to the financial year ending 30 June 2007 and the amounts mentioned reflects the opening balances for the 0708 financial statements. Although the audit finding states that it was not possible to verify the amounts in the 0607 financial year, there is no reason to suspect that the amounts are not a true reflection of the transactions for the year. A company called PSU was appointed by CHDM to perform a datacleansing exercise on ELM's debtor system and is currently assisting the municipality to collect outstanding revenue.

Action:

Management seeks condonation from Council for these amounts to avoid the amounts being mentioned in the 0809 audit report as not verifiable.

Recommendation to Council:

That Council condones the abovementioned amounts to be a true reflection of the financial performance and position of the municipality at that time.

Date of completion:

Council resolution obtained 7 August 09.

Responsible person:

CFO

Consumer deposits

12. A register/schedule of consumer deposits was not maintained during the year. Furthermore, the municipal officials did not ensure that adequate consumer deposits were obtained before services were supplied to consumers. There were no alternative procedures that could be performed to verify this balance. As a result it was not possible to obtain sufficient appropriate evidence relating to the completeness, existence and accuracy of consumer deposits of R86 922 as disclosed in note 4 to the financial statements.

Management comments:

A deposit register do exist on the financial system Sebata and will be presented to the audit team for the 0809 audit.

Action:

Management will reconcile the deposit register with the general ledger and ensure that all debtors have paid a deposit fee.

Date of completion

The deposit register was reconciled to the ledger by 31 August 09.

Responsible person:

Accountant Income

Provisions

13. 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 or contingent liability in respect of the obligation for restoring/rehabilitating these landfill sites or for any penalties that may be imposed by regulatory authorities in terms of section 29 of this Act is disclosed in the financial statements.
14. In the absence of managements assessment in this regard, it was not possible to determine the effect of this non compliance on the provisions, expenditure and contingent liabilities disclosed in the financial statements.

Management comments:

Management is aware of this problem. No permit is available for the site in Lady Frere. A licensed refuse site is available in Dordrecht.

Action:

To start utilising the licensed refuse site in Dordrecht by collecting the refuse from the two collection points in Lady Frere and Indwe and dump it at the refuse site in Dordrecht by September 2009. The municipality is in the process of purchasing 4ton trucks for the transport of the refuse. A provision for the

rehabilitation of the landfill site will be provided for in the 0809 financial statements by Deloitte.

Date of completion:

Provision for rehabilitation is included in the financial statements submitted on 31 August 09.

Responsible person:

CFO and Technical services manager

Value added tax

15. VAT payable of R944 833 is disclosed in note 8 to the annual financial statements. Included incorrectly in this VAT payable of R944 833 is an amount of R199 401 relating to a receivable from South African Revenue Services for PAYE and UIF. This amount has also been off-set against the vat payable and not disclosed separately. Taxes as disclosed under current liabilities in the statement of financial position is understated by this amount.
16. Value added tax was not charged for all taxable supplies for services rendered and not claimed on all taxable supplies. As a result, the taxes of R944 833 as disclosed in the statement of financial position and in note 8 is overstated by R887 206 whilst revenue is understated by R1.2 million and expenditure is overstated by R2.1 million.
17. Based on a reconciliation of the value added tax returns submitted during the year as well as the general ledger control account, the balance of VAT payable is estimated to be R3.1 million and not R944 833 as disclosed in note 8 to the annual financial statements. The unreconciled difference of R2.2 million could not be explained. Taxes as disclosed in the statement of financial position and expenditure as disclosed in the statement of financial performance are overstated by this amount.

Management comments:

Management do not agree with this audit finding. The detail of the different general ledger accounts that amounts to the R944 833 was provided to the audit team. The amount of R3 million relates to the provision of output vat on the outstanding debtors on 30 June 2008 which is payable to SARS only when payments from the debtors are received. The amount of R944 833 also includes an amount of R199 401 payable to SARS for PAYE and UIF.

Action:

Management will ensure that all amounts in the general ledger relating to SARS payments are disclosed in the notes to the financial statements separately as credits and debits for the 0809 financial statements.

Date of completion:

Amounts shown in the 0809 AFS payable to/refundable by SARS was reconciled to the returns submitted.

Responsible person:

CFO and Accountant: Expenditure

Expenditure and payables

18. Although attendance registers were used to ensure that all leave taken was recorded, the leave records of employees are generally inaccurate and leave was incorrectly accumulated by the SEBATA system. Leave capping and the forfeiture of leave was also not correctly applied. Based on audit testing performed, the staff leave liability of R859 930 as disclosed in note 6 to the financial statements and staff leave of R702 727 as disclosed in note 24 to the financial statements are likely to be understated by R306 089. Although the full extent of the misstatement is not known, it is likely to be material.

Management comments:

A leave audit was done by the system administrator and corrections processed.

Action:

A leave audit was done by the internal auditor and the system administrator and corrections done. Management will ensure that the provision of leave in the 0809 financial statement is correct.

Date of completion:

Leave provision included in AFS 0809 was done according to recon done on 100% of staff member's leave commitments. HR requested that they be given the opportunity to re-assess the leave commitments and adjust the provision as per the submitted AFS for 0809 before completion of the audit.(31 October 2009)

Responsible person:

Corporate services manager

19. Trade payables of R2 million as disclosed in the statement of financial position and in note 6 to the financial statements includes creditors with debit balances of R792 503. Trade payables and trade receivables from exchange transactions are therefore understated by this amount.

Management comments:

Management do not agree with the audit finding. The amount of R1 984 580 reflected in note 6 as Trade payables only reflects credit balances as per the trial balance.

Action:

Management will ensure that the amounts reflected as trade payables in the 0809 financial statements are correct.

Date of completion:

31 August 2009

Responsible person:

CFO

20. Included in trade payables are suspense accounts totalling R379 433 as disclosed in note 6 to the financial statements. These suspense accounts have not been cleared at year end and are incorrectly classified in the financial statements. Furthermore the information recorded in the general ledger was not sufficient to identify the nature of the transactions recorded in these accounts. There were no alternative procedures that could be performed to verify these balances. As a result, sufficient appropriate evidence relating to the existence, classification, completeness and accuracy of the

creditors and debtors and the occurrence, accuracy, classification and completeness of revenue and expenditure could not be obtained.

Management comments:

The amount of R379 433 represents deposits paid directly to the bank accounts of the municipality and which could not be identified by the finance department before year end. These amounts are shown as creditors under trade payables until identified and receipted in the correct account.

Action:

These amounts were reallocated to the accumulated surplus and will be treated correctly in the 0809 financial statements.

Date of completion;

31 August 2009

Responsible person:

CFO

21. As a result of non submission of information, trade payables of R2 million as disclosed in the statement of financial position and in note 6 to the financial statements is overstated by R12.6 million and revenue and expenditure as disclosed in the statement of financial performance are overstated by R17.3 million and R30 million respectively.

Management comments:

It was not possible for management to submit all the information required by the audit team before the deadlines as some staff members responsible for the different functions left the municipality before the audit was performed and some of the information was misplaced. Management has no reason to believe that the amounts mentioned above was misstated in the financial statements and that the necessary internal controls was not in place to ensure that the financial statements is a true reflection of the performance and position of the municipality.

Action:

Management will ensure that all relevant supporting information is available and submitted to the audit team on time and that a register is maintained to monitor the information submitted to the audit team.

Date of completion:

31 August 2009

Responsible person:

CFO and finance staff

22. Journals to the value of R12.2 million have been processed without adequate supporting documentation. The net effect of these journals resulted in an overstatement of expenditure by R12.2 million, overstatement of payables of R11.6 million and overstatement of value added tax by R628 324.

Management comments:

Management always strives to attach all supporting documents to a journal, but in some instances it is impossible to attach all the documents relating to a journal, because of the number of transactions reflected on the journal. Included in the amount of R12.2 million was a journal for a reallocation of R9 million which relates to the housing transactions reallocated from the capital budget to the operating budget and includes the housing payments for the financial year. It was not possible to attach all the invoices for the year to the journal, but the invoices was available for audit purposes.

Action:

Management will ensure that all supporting documents are filed properly and made available for audit purposes.

Date of completion:

31 August 2009

Responsible person:

CFO and finance staff

23. Costs of fuel amounting to R842 846 and repairs and maintenance of R802 784 are included in general expenditure of R7.2 million as disclosed in the statement of financial performance and note 28 to the financial statements. I am unable to determine what portion of the fuel costs incurred during the year relate to official municipal duties versus private use due to non submission of documentation for audit purposes. Logbooks, trip authorisations and records of maintenance for all municipal vehicles were not adequately maintained for the year under review. As a result I could not obtain sufficient appropriate evidence about the classification and occurrence of expenditure 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.

Management comments:

Logbooks are placed in every municipal vehicle and vehicles are used for official trips only. The expenditure for fuel and repair and maintenance only reflects costs for official trips, therefore management is confident that the amounts reflected for fuel and maintenance of vehicles are correct.

Action:

Management will ensure that all logbooks are kept properly and that vehicles are used for official trips only. A tracking system was installed in all vehicles after completion of the audit to ensure efficient fleet management.

Date of completion:

Tracking system; July 09

Log books; 31 August 09

Responsible person:

Corporate services manager and fleet manager

25. Telephone expenditure of R805 740 is included in general expenditure of R7.2 million as disclosed in the statement of financial performance and note 28 to the financial statements. The municipality does not have a system in place to monitor the private use of telephone calls made and to recover this amount from the relevant employees.

As a result I was unable to determine the extent of the overstatement of telephone expenditure.

Management comments:

The municipality has a telephone policy that allows staff a certain amount of private calls per day. The municipal manager scrutinize the telephone bills every month for excessive use of extensions.

Action:

A new telephone system was installed after completion of the audit. This system enables management to monitor all calls per extension number and a telephone logbook must be completed by the staff for every call made. These logbooks are checked by the corporate manager and amounts due to the municipality are collected from staff members.

Date of completion:

New telephone system: June 09 to 31 October 2009

Responsible person:

Corporate services manager

26. As a result of non submission of tender related information, I am unable to conclude over the completeness, accuracy, occurrence, classification, cut off, and compliance to the relevant government prescripts and legislation that govern the supply chain management process. I am also unable to determine the full extent of irregular expenditure which should have been disclosed in a note to the financial statements.

Management comments:

During the 2007/2008 financial year the municipality implemented the supply chain management Act, regulations and policy as required by legislation. As this was the first year of implementation all relevant staff were trained, the prescribed committees were established, a supply chain management unit was established and the SCM policy developed and adopted by Council. The municipality did comply with the tender processes to be followed for purchases as per the policy and Act. The supply chain management officer left the service of the municipality before the audit was performed and management experienced difficulty to present all the necessary documentation to the audit team. Information that was submitted to the audit team were not audited because of the deadlines facing the audit team. Management did not reflect the expenditure as irregular expenditure as the correct procedures were followed when the expenditure was incurred.

Action:

Management will ensure that all tender related information is submitted to the audit team for the 0809 audit on time and that a register for submission of information is maintained. Management will recommend to Council to condone the expenditure reflected in the 0708 financial statements as being correct and valid expenditure.

Recommendation to Council:

That Council condone the expenditure reflected in the 0708 financial statements as being correct and valid.

Date of completion:

Council resolution 7 August 09

Responsible person:

CFO

Property, plant and equipment

27. Property, plant and equipment was disclosed in note 6 to the prior year financial statements at an amount of R103.1 million. The opening balance as per note 10 to the current year financial statements is reflected as R106.8 million. Reasons for the difference of R3.7 million could not be provided. As a result, fixed assets are overstated by this amount.

Management comments:

The amount reflected in the 0607 statement as the closing balance for fixed assets was disclosed according to the IMFO standards of accounting. This amount had to be restated to be disclosed according to the GAMAP/GRAP accounting standards as the opening balance for the 0708 financial year, because of revaluations and depreciation calculations required by the new accounting standards. The restatement was disclosed per note 10 to the 0708 financial statements. Management are confident that the amount reflected in note 10 of the 0708 financial statements are correct.

Action:

Management will recommend to Council to condone the amount of R106 837 034 as being correct.

Recommendation to Council:

That Council condone the amount of R106 837 034 as disclosed per note 10 of the 0708 financial statements as correct.

Date of completion:

Council decision 7 August 09

Responsible person:

CFO

28. A deeds search did not reveal all land registered in the name of the municipality or of its former constituent transitional local councils. As a result, it was not possible to verify the rights and obligations and completeness of land and buildings amounting to R17.2 million as disclosed in note 10 to the financial statements.

Management comments:

Management do not agree with this audit finding. After completion of the audit, a consultant was appointed to do a deed search at the Registrar's office and the deed search revealed the properties belonging to the municipality.

Action:

Management will ensure that supporting documentation for all land registered in the name of the municipality are available.

Date of completion:

31 August 09

Responsible person:

CFO and service provider conducting deed search

29. Property, plant and equipment as presented in the analysis of property, plant and equipment as at 30 June 2008 (Appendix B) is R82.3 million and the cost of assets per the trial balance and general ledger is R84.7 million. The difference of R2.4 million could not be explained. As a result, fixed assets are overstated by this amount.

Management comments:

The abovementioned difference occurred as a result of an incorrect amount reflected on the journal that was passed to allocate the total amount of assets to the general ledger after the asset count was done and was explained to the audit team. The amount for the total fixed assets reflected in the financial statements are correct as per the asset register and it was only the amount reflected in the general ledger of the municipality that was incorrect.

Action:

A journal was passed to correct the closing balance of the assets in the general ledger to correspond with the closing balance reflected in the financial statements and asset register. This difference will also be addressed through the asset count that will be performed for the 0809 financial statements.

Date of completion:

31 August 09

Responsible person

CFO

30. The fixed asset register does not contain adequate information relating to the fixed assets recorded therein. Assets are not properly marked with unique identification numbers and are not appropriately referenced to the asset register. As a result fixed assets could not be reliably verified. There were no alternative procedures that could be performed.

Management comments:

A full asset count will be performed for the 0809 financial year and management will ensure that all assets are barcoded and reflected in the assets register as required.

Action:

A service provider was appointed to perform a asset count for the 0809 financial year and to barcode and record all assets in the asset register. The organigram was adjusted to make provision for a purchasing/asset clerk to administrate assets in the future.

Date of completion:

31 August 09

Responsible person

CFO

31. Consequently, sufficient appropriate evidence relating to the existence, completeness, classification, and accuracy of property, plant and equipment to the value of R50.3 million as disclosed in the statement of financial position and note 10 to the financial statements and the completeness, accuracy and occurrence of the related expenditure disclosed in the statement of financial performance could not be obtained.

Management comments:

A service provider was appointed in 0708 to perform a full asset count and to revalue the assets. Because of the timelapse between the end of the financial year end and the time of the audit it could be possible that the audit team selected assets that was purchased in the 0809 financial year and therefore were not able to find the assets in the 0708 asset register.

Action:

Management again appointed a service provider to do a full asset count for 0809 and barcode the assets to comply with accounting standards and legislation.

Date of completion:

31 August 09

Responsible person:

CFO

Receivables and revenue

32. Bad debts totaling R6.7 million, relating to debtors balances at the end of the 2001 financial year, were written off by the council during the year. This amount is included in the amount of R19.3 million reflected as bad debts in the statement of financial performance. No supporting documentation could be provided for audit purposes and I was therefore unable to obtain sufficient appropriate evidence as to the accuracy and completeness of the amount written off. No alternate procedures could be performed in these circumstances.

Management comments:

A list of the outstanding debts up to 2001 was tabled before Council and was approved by Council. This list was available for audit purposes but was not requested by the audit team from the CFO.

Action:

The list will be submitted to the audit team in the 0809 financial year. Management will recommend to Council to condone the correctness of the amount as Council approved the list previously.

Recommendation to Council:

That Council condones the amount disclosed in the general ledger as bad debts written off as valid and correct.

Date of completion:

Council resolution 7 August 09

Responsible person:

CFO

33. The accounts receivable control account did not reconcile to the age analysis and is overstated by R836 800. Reasons for this difference could not be provided. As a result, it was not possible to obtain sufficient appropriate evidence relating to the existence, valuation, classification, accuracy, cut off, rights and completeness of the trade receivables from exchange transactions of R6.2 million as disclosed in the statement of financial position and note 17 to the financial statements and completeness, classification, cut off, accuracy and occurrence of property rates and service charges as disclosed in notes 20 and 21 respectively to the financial statements.

Management comments:

A debtors reconciliation was performed between the general ledger and the debtors subsystem and differences explained. Management also explained to the audit team that the total amount per the age analysis differs from the amount as per the general ledger, because of the fact that the age analysis reflect all debit balances as per the debtors subsystem and do not include debit accounts that are in credit and the general ledger reflects the nett of all debit and credit balances as per the debtors subsystem.

Action:

Management will ensure that proper debtor reconciliations for the 0809 financial year are performed and proper supporting documentation are submitted to the auditors.

Date of completion:

31 August 09

Responsible person:

CFO and Accountant: Revenue

34. As a result of non submission of invoices and receipts, I was unable to obtain sufficient appropriate evidence over the cut off of revenue. Consequently, I am unable to conclude whether transactions included in property rates of R2.2 million and service charges of R9.6 million, as disclosed in the statement of financial performance and notes 20 and 21 respectively, were recorded in the correct financial period.

Management comments:

Internal controls are in place to ensure that all transactions are recorded in the general ledger in the correct period and against the correct amount.

Action:

Management will ensure that staff capture all transactions correctly.

Date of completion

31 August 09

Responsible person

CFO and finance staff

35. The property rates revenue of R2.2 million as disclosed in the statement of financial performance and note 20 to the financial statements, could not be confirmed. Not all the information required from the valuation roll was submitted for audit purposes. Furthermore, the valuation roll has not been reconciled on a regular basis. As a result, I am unable to conclude on the accuracy, occurrence, completeness and existence of the revenue relating to property rates and trade receivables from exchange transactions.

Management comments:

Management is aware that no reconciliation was performed between the old valuation roll and the debtor subsystem and will ensure that the reconciliation is performed for the 0809 financial year.

Action:

A reconciliation is currently performed to ensure that the valuation roll balances to the debtors system for the 0809 financial year.

Date of completion:

31 August 09

Responsible person

Accountant: Revenue and debtors clerks

36. Interest charged on outstanding consumer debtors as disclosed in the statement of financial performance is R4.3 million. The municipality did not apply the basis for charging interest consistently. It is estimated that interest earned – outstanding debtors as per the statement of financial performance and consumer debtors as per the statement of financial position are understated by R4 million as a result of this below prime interest charge.

Management comments:

For the financial year under scope there was no prescribed interest rate in a policy or legislation for interest payable by a debtor. Management reviewed the credit control policy to include a prescribed interest rate and the policy was adopted in May 09.

Action:

Management will ensure that a market related interest rate is charged on all outstanding debtor accounts.

Date of completion:

Credit control policy revised to specify interest rate : 31 May 09

Responsible person:

CFO

37. Revenue journals to the value of R17.2 million, processed against the revenue and trade receivables from exchange transactions accounts, were not appropriately approved by the relevant officials. As a result I was unable to obtain assurance relating to the existence, valuation, classification, accuracy, cut off, rights and completeness of trade receivables from exchange transactions of R40.4 million as disclosed in note 17 to the financial statements and completeness, classification, cut

off, accuracy and occurrence of revenue as disclosed in the statement of financial performance.

Management comments:

The abovementioned journals relate to the monthly journals processed to allocate the transactions on the debtor subsystem to the general ledger as our system was not integrated in the 0708 financial year. The amounts on the journals are correct as reconciliations was performed between the debtors subsystem and the general ledger. The non-authorization of the journals was an oversight.

Action:

The debtor system is now used as an integrated system and manual journals are no longer necessary.

Date of completion:

May 08

Responsible person:

CFO and Sebata

38. The amount of revenue generated from the rental of municipal facilities could not be confirmed as the municipality does not enter into agreements. Therefore I am unable to conclude on the completeness of revenue for rental of facilities and equipment as disclosed in the statement of financial performance of R419 656. Value added tax amounting to R58 751 on these amounts has not been accrued for.

Management comments:

Some of the rental agreements were signed years ago and could not be found. Management is aware of this problem and are currently trying to update the rental agreement register with new agreements.

Action:

Copies of rental agreements are filed and where no agreements exist, management will enter into new agreements with the relevant parties. Management will ensure that Vat are treated correctly.

Date of completion:

Vat: 31 August 09

Agreements:

31 October 2009

Responsible person:

Corporate services manager

CFO

39. Revenue from the sale of prepaid electricity amounting to R2.5 million is disclosed in note 21 to the financial statements. As a result of the non submission of information, sufficient appropriate evidence could not be obtained relating to the existence, valuation, classification, accuracy, cut off, rights and completeness of the consumer receivables and completeness, classification, cut off, accuracy and occurrence of revenue. The municipality has not, in accordance GAMAP 19, raised a provision for

the cost of unused units of electricity sold. I am unable to quantify the extent of misstatement of the provision as a result of the non submission of information.

Management comments:

It is not practical to determine the provision for the cost of unused electricity, as the municipality will have to read every pre-paid meter in every household in the municipal area on 30 June 2009.

40. The municipality did not maintain a listing or other records of indigent debtors. Consequently, I am unable to conclude if all debtors who received free basic services are indigent. I was unable to verify the completeness of revenue for service charges of R9.6 million as disclosed in the statement of financial performance and note 21 to the financial statements.

Management comments:

Management do not agree with this audit finding as a register for indigent households is maintained since March 2007.

Action:

The indigent register was updated in March 2008 and the municipality is currently updating the register for the 0910 financial year.

Date of completion:

May 08

Responsible person:

FBS officer, MM

41. Receipts in support of transactions included in revenue of R21.6 million as disclosed in the statement of financial performance did not have sufficient appropriate audit evidence to support the transactions. As a result, revenue and trade receivables from exchange transactions as disclosed in the statement of financial position are overstated by R7.2 million.

Management comments:

Receipts are issued when cash are received or according to direct deposits on our bankstatements. No other supporting documentation except for the DORA and debtor accounts are available to management to present to auditors.

Cash and cash equivalents

42. Unallocated deposits at year end of R2.1 million were included in the cash and cash equivalents balance of R43.8 million as disclosed in the statement of financial position and note 19 to the financial statements. These amounts have not been reallocated to the correct accounts. As a result it was not possible to obtain sufficient appropriate evidence relating to the completeness, classification, existence and accuracy of the amounts recorded on the statement of financial position and the completeness, accuracy, occurrence and classification of revenue and expenditure disclosed in the statement of financial performance.

Management comments:

Management do not agree with this audit finding. The amount relating to unallocated deposits amounts to R379 433 and not R2.1 million.

Employee Costs

43. Certain section 57 employees were not paid in terms of their contracts. The effect of such overpayments amounted to R132 959. The mayor and one other councillor were paid R73 862 and R5 706 more than the remuneration as calculated per circular 13/2007 respectively.

Management comments:

Management do not agree with this audit finding. The remuneration packages for the CFO, Municipal Manager, Mayor and other Councillor were recalculated and the difference for the CFO amounts to R4 325.11 and for the Municipal Manager to R497.30 and for the Mayor to R71 000. The overpayments was deducted from their salaries starting from April/May 09.

Action:

Management has instructed the system administrator to perform an audit on the payroll system to verify all salary packages as being correct.

Date of completion:

July 09

Responsible person:

CFO, Sebata

44. Certain members of council received travel allowances amounting to R557 872. These councillors did not have valid drivers licenses.

Management comments:

Management tabled a report before Council to inform Councillors that no travel allowances can be structured on their salaries unless they have valid drivers licenses and own a vehicle. Councillors were advised to submit their licences to the HR department to avoid their travel allowances being included in their basic salaries.

Action:

The HR department will once again revisit this issue.

Date of completion:

31 October 2009

Responsible person:

Corporate services manager

45. Councillors remuneration of R5.1 million is not disclosed as required in terms of section 66 of the Municipal Finance and Management Act, 2003 (Act No. 56 of 2003) and is not included in the amounts disclosed in note 25 to the financial statements.

Action:

Management will ensure that councillor remuneration is disclosed according to Section 66 of the MFMA in the 0809 financial statements.

Date of completion:

31 August 09

Responsible person

CFO

Contingent Liabilities

46. Contingent liabilities of R1.6 million are disclosed in note 37 to the financial statements. As a result of third party confirmations not being received, I could not obtain sufficient appropriate evidence regarding the completeness of contingent liabilities. Alternative procedures could not be performed under these circumstances.

Management comments:

Confirmation was requested from Kirshmanns, but was not received by the auditors.

Action:

Management will ensure that our attorneys do submit the requested information on time.

Date of completion:

31 August 09

Responsible person:

CFO

Irregular expenditure

47. Management did not monitor the implementation of the requirements of the Municipal Supply Chain Management Regulations issued in terms of the Municipal Finance and Management Act, 2003 (Act No. 56 of 2003). As a result expenditure transactions with a value of R6.4 million were not procured in accordance with these regulations. This irregular expenditure is not disclosed in the financial statements.

Management comment:

Management did not consider any expenditure as being irregular, because the supply chain procedures were followed when procurement of services of goods where incurred.

Action:

Management will ensure that all the necessary documentation are submitted in time to the auditors for the 0809 financial year.

Date of completion:

31 October 09

Responsible person:

CFO and supply chain unit

Water and sewerage assets

48. The functions of water and sewerage were transferred in 2003 to the district municipality by provincial proclamation. In terms of an agreement, the municipality continues to deliver the services to the community. Disclosed in note 30.3 to the financial statements are assets relating to the water and sewerage function totalling R9 million, stated at cost less accumulated depreciation. The service level agreement has not been concluded and a confirmation of the assets transferred has

not been received. Also, the substance over form of the draft agreement implies that the municipality is to bear the significant risks of ownership of the assets. As a result, sufficient appropriate evidence relating to the existence, completeness, classification and accuracy of these assets could not be obtained.

Management comments:

To ensure correct treatment of assets relating to the water service management will obtain a copy of the SLA between CHDM and ELM.

Action:

All transactions relating to the water services will be ring-fenced and allocated to an agency account in the balance sheet for 0809.

Date of completion:

Agency accounts:

31 August 09

SLA

Council resolution 7 august 09

Responsible person

CFO and Technical services manager

49. Revenue from water services of R2.2 million is disclosed in note 21 to the financial statements. These revenues collected on behalf of the district municipality have not been paid over. Therefore, revenue is overstated and provisions are understated by this amount.

Management comments:

Revenue collected for water and sanitation services cannot be paid over to CHDM as the operating and capital expenditure for the services are financed out of the income received. The nett movement for the year areshown as a creditor or debtor.

Action:

The income and expenditure transactions for the year will be ring-fenced and the nett movement will be allocated to an agency account at the end of the financial year 0809.

Date of completion

31 August 09

Responsible person;

CFO

Related parties

50. Certain councillors did not disclose their interests as required in terms of schedule 1 part 5 of the MSA. We were therefore unable to confirm the completeness of related parties and related party transactions as disclosed in note 41 to the financial statements.

Management comments:

Management do not agree with this finding. A register to disclose councillor's interests is available for audit purposes at the Corporate services department.

Responsible person:

Corporate services manager

Adverse opinion

51. In my opinion, because of the significance of the matters described in the basis for adverse opinion paragraphs, the financial statements do not present fairly, in all material respects, the financial position of the Emalahleni Local Municipality as at 30 June 2008 and its financial performance and cash flows for the year then ended, in accordance with GRAP/GAMAP basis of accounting and in the manner required by the MFMA.

Emphasis of matter

I draw attention to the following matters:

Highlighting critically important matters presented or disclosed in the financial statements

Going concern

54. Note 1.3 to the financial statements states that the municipality will continue as a going concern for the foreseeable future. The entity is reliant on the continued funding received from national and provincial government.

Staff debt

55. Councillors arrears relating to service charges of R13 344 disclosed in note 35.4 to the financial statements is included in the trade receivables from exchange transactions amount of R6.2 million disclosed in note 17 to the financial statements. Of this amount, R13 057 (97.8%) is in arrears of over 90 days. The municipality has not implemented processes to collect this arrear staff debt.

Management comments:

The relevant councillor was contacted by the Finance department to sign a debit order against his salary.

Action:

Management will ensure that the Councillor make arrangements to deduct the amount from his salary.

Date of completion:

30 September 09

Responsible person

Accountant: Revenue

56. Furthermore, vehicle loans to previous employees of R20 897 were still outstanding at year-end. The recoverability of these loans appears to be doubtful.

Management comments:

The amount captured on the payroll system to be deducted did not include the interest payable on the loan. Therefore only the capital amount was deducted.

The two managers left the service of the municipality before the mistake was discovered.

Action:

To try and collect these amounts from the relevant managers and by failure to do so, table the amounts before council as unrecoverable debt.

Date of completion:

31 October 09

Responsible person:

Corporate services manager

57. A loan of R130 000 was afforded to the municipal manager. The loan agreement was not submitted for audit purposes and consequently, I am unable to conclude on the valuation and compliance in terms of the loan.

Management comments:

The car loan of R130 000 for the municipal manager relates to the 2003/2004 financial year and the agreement could not be found on his personell file.

Action:

The loan was redeemed during the 0809 financial year and the balance on 30 June 2009 is zero.

Date of completion:

30 June 09

Responsible person

CFO

OTHER MATTERS

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

Internal controls

58. Section 62(1)(c)(i) of the Municipal Finance and Management Act, 2003 (Act No. 56 of 2003) 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
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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

59. A number of instances of non compliance with applicable laws and regulations surfaced during the course of my audit:

- Municipal Finance Management Act, 2003: Sections 9(a), 9(b), 11(4), 124(1), 125(1)(c), 125(2)(a), 125(d), 125(e), 52(d), 54(1), 56(1), 64(2)(d), 64(2)(f), 64(3), 65(1), 65(2)(a), 66, 71(1), 74(1), 79, 82, 93(4)(a), 95, 110, 112 – 119, 121, 122(1), 126(1)(a), 127(1), 127(2), 127(3), 129(1), 131, 133(1)
- Municipal Systems Act, 2000: Sections 5(1)(d), 5(1)(b), 21A, 55(1)(b), 55(1)(n), 57(2), 75(1)(2), 95, 96, 97, 98, 99, 16, 17, 96, 29, 55(1)(d), 68, 70(2)(b), 75(A)(3)
- Division of Revenue Act, 2005: Sections 22(1)(b), 22(4) and 27.
- GNR.868 of 30 May 2005: Municipal Supply Chain Management Regulations
- Preferential Procurement Policy Framework Act, 2000: Section 21

- Broad-Based Black Economic Empowerment Act, 2003
- Construction Industry Development Board Act, 2000
- Treasury guidelines on supply chain management issued by the Minister in terms of section 168 of the MFMA, competitive bidding process referred to in regulation 12(1)(d); and National Industrial Participation Program.
- Housing Act, 1997: Section 10(4)(d) and (f)
- Property Rates Act, 2004: Section 3(1)

Matters of governance

60. The Municipal Finance and Management Act, 2003 (Act No. 56 of 2003) 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:

No.	Matters of governance	Yes	No
	Audit committee		
1(a)	The municipality had an audit committee in operation throughout the financial year.		X
1(b)	The audit committee operates in accordance with approved written terms of reference.		X
1(c)	The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the Municipal Finance and Management Act (56 of 2003).		X
	Internal audit		
2(a)	The municipality had an internal audit function in operation throughout the financial year.		X
2(b)	The internal audit function operates in terms of an approved internal audit plan.		X
2(c)	The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the Municipal Finance and Management Act (56 of 2003).		X
	Other matters of governance		
3	The annual financial statements were submitted to audit as per the legislated deadlines in Section 126 of the Municipal Finance and Management Act (56 of 2003).		X
4	The annual report was submitted for the auditor for consideration prior to the date of the auditor's report.		X
5	The financial statements submitted for audit were not subject to any material amendments resulting from the audit.	X	
6	No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.		X
7	The prior year's external audit recommendations have been substantially implemented.		X
9	There are documented policies and procedures and control systems to ensure the reliability of financial reporting.		X
10	There are documented policies and procedures and control systems to ensure compliance with applicable laws and regulations.		X
11	The information systems were appropriate to facilitate the preparation of financial statements that are free from material		X

No.	Matters of governance	Yes	No
	misstatement.		
12	Delegations of responsibilities are in place.		X
13	Supply chain management policies and procedures were appropriately applied.		X
14	There is a functioning performance management system.		X
	Implementation of Standards of Generally Recognised Accounting Practice (GRAP)		
15	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	
16	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.	X	
17	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	

Management comments:

Item 58 to 60: Management take note.

Material inconsistencies in published information

61. As per Appendix B: Analysis of property, plant and equipment as at 30 June 2008, the total cost of additions is disclosed as R1.2 million while the accumulated depreciation for these additions is disclosed as R2.5 million. The accumulated depreciation for the current year is therefore greater than the cost of the assets being depreciated.

Management comments:

Management does not agree with this audit finding. The amount of R2.5 million relates to the depreciation for all the assets and not only the additions for the year and is therefore correct.

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

62. I was engaged to review the performance information.

Responsibility of the accounting officer for the performance information

63. In terms of section 121(3)(c) of the Municipal Finance and Management Act, 2003 (Act No. 56 of 2003), 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).
64. 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.
65. 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.
66. 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)

Performance information not received

67. 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 municipality did not submit its performance report as part of its financial statement submission, as required by section 46 of the MSA.

Key Performance Indicators

68. No performance management system was in place as required in terms of the MSA and GNR. 796 of 24 August 2001: Local Government: Municipal Planning and Performance Management Regulations, 2001.
69. According to section 41 and regulation 13 of the MSA, a process of regular reporting to council, at least twice a year, and other political structures, political office bearers, staff, the public and appropriate organs of state must be in place. For the year under review, only one performance assessment report for the section 57 employees was performed.

Development priorities and objectives

70. Section 6 of the MSA requires the municipality to establish, develop and monitor its performance management systems. The municipality did not collect, record and process information or monitor and report on development priorities and objectives for the performance management systems. As a result key performance indicators had not been set for each of the development priorities and objectives as set out in the integrated development plan. Development priorities and objectives of the municipality's integrated development plan are neither consistent with the budget nor clear and concise. Furthermore these development priorities and objectives are not measurable.

Integrated Development Plan and budget

71. The municipality did not comply with the following sections of the following legislation relating to performance information:
- Section 13(2) of the Regulations to the MSA provides that the municipality must, after consultation with the local community, develop and implement mechanisms, systems and processes for the monitoring, measurement and

review of performance in respect of the key performance indicators and performance targets set by it. Furthermore, the mechanisms, systems and processes for monitoring in terms of sub regulation (1) were not provided for reporting to the municipal council.

- Section 32(1) of the MSA requires a copy of the integrated development plan as adopted by the council of the municipality, and any subsequent amendment to the plan, to be submitted to the MEC for local government in the province within 10 days of the adoption or amendment of the plan.
- Section 53 of MFMA, requires that the mayor should approve the municipality's service delivery and budget implementation plan within 28 days after the approval of the budget. The municipality did not submit the state of budget to the parent municipality.
- According to section 25 of the MSA, which relates to the adoption of integrated development plans, each municipal council must, within a prescribed period after the start of its elected term, adopt a single, inclusive and strategic plan for the development of the municipality.

Management comments: Performane audit

Management take note of these items and undertake to prepare a performance report for the municipality for the 0809 year based on the KPA's in the SDBIP's

Date of completion:

31 October 09

Responsible person

Municipal Manager

APPRECIATION

72. The assistance rendered by the staff of the Emalahleni Local Municipality during the audit is sincerely appreciated.

EAST LONDON

30 April 2009



<p>REPORT TO THE MAYOR ON AUDIT OUTCOMES FOR FINANCIAL YEARS 2006/7 TO 2008/9</p>
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11 March 2010

REPORT FROM THE MANAGER: FINANCIAL SERVICES

PURPOSE OF THE REPORT

The purpose of the report is to present to the Mayor a summary of the issues per the audit reports 2006/7 to 2008/9 causing a disclaimer opinion on our Annual Financial Statements issued by the Auditor general's office.

BACKGROUND

The following items lead to a disclaimer in the 2006/2007 financial year: (IMFO)

- The balance for outstanding debtors amounting to R43.8 million could not be verified as correct.
- The provision for bad debts amounting to R27.2million regarded as too low as 94% of the outstanding debts are older than 90 days
- Fixed assets to the amount of R36.3million were added to the asset register. This amount reflects assets that was not recorded in the asset register in prior years. The AG regards this amount as unverifiable as the municipality had to use estimated amounts to value these assets, because of the age of the assets.
- The municipality could not present title deeds for all municipal properties as some of these properties are registered under previous names relating to the three towns of Dordrecht, Lady Frere and Indwe before 2001.
- No register for funds and reserves were maintained. Therefore the AG questioned the correctness of the total amount of funds and reserves disclosed in the Annual Financial statements of R14million.
- No formal inventory system for administration of stock on hand exist. The AG regarded the amount of R82 180 disclosed for stock on hand as unverifiable.
- No restoration plan for landfill sites exists.
- The valuation roll regarded as incomplete and not reconciled to the ledger.
- No approved tariff policy.
- Debtor reconciliations not performed monthly.
- Water and electricity losses could not be established.
- No register of installed meters exists.
- No rental contracts for rental properties belonging to the municipality could be supplied to the AG

- All supporting documentation to verify correctness of income and expenditure transactions could not be supplied to AG
- Number of instances of non-compliance to applicable laws and regulations were found.
- Internal controls regarded as weak.
- No performance review policies and procedures in place
- Performance not monitored by performance agreements
- No formal performance management system
- No performance report submitted to be audited.

The following issues caused an adverse opinion for the 2007/2008 year.(GAMAP/GRAP)

- The closing balances for June 07 differs from the opening balance for June 08 and is regarded as unverifiable.(The difference occurred due to the restatement between IMFO closing balances and GAMAP/GRAP opening balances)
- A Deed search did not reveal all land registered in the name of the municipality. AG regards amount of R17,2 disclosed as municipal properties as unverifiable.
- The fixed asset register does not contain adequate information. Not all assets are numbered.
- An amount of R6,7 for bad debts to be written off, was approved by Council. Supporting documentation was not submitted to AG.(CFO did not receive a request for this information, it was available)
- Cut off of revenue on 30 June 2008 could not be verified.
- Rates income of R2,2 m could not be verified because of incompleteness of valuation roll and reconciliations not performed regularly.
- Correct interest rate not used on outstanding debtors.
- Revenue journals to allocate monthly billing of debtors to ledger not approved.
- No rental agreements for municipal properties.
- Provision for unused electricity on 30 June 2008 not disclosed.
- No supporting documentation for electricity sold for year.
- List of indigent debtors could not be verified.(This list is updated every year)
- Receipts for revenue transaction did not have sufficient audit evidence to verify correctness of monies received.
- Some councillors who do not have valid drivers licenses show a travel allowance as part of their salary packages.
- Contingent liabilities of R1,6million could not be verified, as supporting documentation was not received from attorneys.
- The supply chain regulations were not followed in all purchasing transactions, therefore the amount of R6,4million are regarded as irregular expenditure.
- Incorrect disclosure of water and sanitation assets due to lack of SLA with CHDM

- Internal controls regarded as weak.
- Non-compliance with applicable legislation.
- No performance system in place.
- No performance report submitted.

The following issues caused a disclaimer in the 2008/2009 year(GAMAP/GRAP)

- Comparative figures for 0708 not resolved adequately.
- Valuation roll could not be obtained
- Basis of interest charged on outstanding debtors not applied consistently
- No rental agreements for municipal properties
- Outstanding debtors of R30.7million could not be verified as a deed search failed to provide evidence on all debtors
- Revenue could not be verified because of break in sequence in receipt numbers
- Provision for bad debts could not be verified as correct
- Water and sanitation assets could not be verified as correct as SLA does not exist
- The correctness of output vat charged and input vat claimed could not be verified
- Supporting documentation could not be produced to AG therefore the correctness of expenditure could not be verified
- The leave balances could not be verified as correct
- Title deeds for municipal properties could not be obtained
- Roads and capital work in progress are not registered on a GIS system
- Not all assets are recorded in the asset register
- The SCM regulations were not followed in all instances, therefore expenditure disclosed in the AFS are regarded as irregular.
- Landfill sites are not licensed and are a health risk to the community
- Internal controls regarded as weak
- Instances of non-compliance to legislation exist
- No performance management system
- No performance report submitted.
- Audit committee did not fulfil its responsibilities
- Internal audit did not fulfil its responsibilities

**PREPARED BY:
CHIEF FINANCIAL OFFICER**