



# REPORT OF THE AUDITOR-GENERAL

## ON THE FINANCIAL STATEMENTS TO THE COUNCIL OF THE BUFFALO CITY MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2004

### 1. AUDIT ASSIGNMENT

The financial statements, as set out on pages 46 to 80 for the financial year ended 30 June 2004 have been audited in terms of section 188 (1)(b) of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 3 and 5 of the Auditor-General Act, 1995 (Act No. 12 of 1995) and section 10G(2)(d)(ii) of the Local Government Transition Act, 1993 (Act No. 209 of 1993). The financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the Accounting Officer. My responsibility is to express an opinion on the financial statements and compliance with relevant laws and regulations, applicable to financial matters, based on the audit.

### 2. NATURE AND SCOPE

The audit was conducted in accordance with Statements of South African Auditing Standards. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining on a test basis, evidence supporting the amounts and disclosures included in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations, which came to my attention and are applicable to financial matters.

I believe that the audit provides a reasonable basis for my opinion.

### 3. UNQUALIFIED AUDIT OPINION

In my opinion, the financial statements fairly present, in all material respects, the financial position of Buffalo City Municipality as at 30 June 2004 and the results of its operations and cash flows for the year ended, in accordance with the prescribed accounting practice.

### 4. EMPHASIS OF MATTER

Without qualifying the audit opinion expressed above, attention is drawn to the following matters:

#### 4.1 Matters affecting the financial statements

##### 4.1.1 Outstanding debt on land sales

Approximately R2.4 million of land sales included in the land sales debtors balance of R3 654 257 at year-end are recorded as greater than 120 days outstanding as at September 2004.

##### 4.1.2 Unallocated receipts

It has not been possible to obtain a detailed listing to confirm the validity of the amount of R1 187 328 included in sundry creditors as unallocated receipts.

#### 4.2 Matters not affecting the financial statements

##### 4.2.1 Significant unaccounted for water losses

Water lost in distribution for the year equates to 44%. Normal background losses, inherent in all systems, are expected to approximate 25%. Hence, the value of water losses above the expected norm equates to approximately R16 million.



#### 4.2.2 Significant unaccounted for electricity losses

Electricity lost in distribution for the year equates to 12% on units purchased. Normal losses are expected to approximate 8%. Hence, the value of electricity losses above the expected norm equates to approximately R17 million.

#### 4.2.3 Internal control

##### a) Reconciliations

- i. Creditor reconciliations for sundry creditors have not been adequately reconciled to sundry creditor statements.
- ii. No reconciliation was prepared between the valuation roll (BP 182) and the valuation control book during the course of the year under review.
- iii. During the course of the current financial year, no reconciliation was prepared between the rental listing and the rental income vote.
- iv. The reconciliation of land sales votes was not performed correctly at year-end.
- v. No reconciliation was performed between the traffic cashbook and the vote in respect of traffic income.

##### b) Supervisory and monitoring controls

Supervisory controls are not performed over the capturing and uploading of data from the building control department listing to the Venus system.

##### c) Bank Reconciliation

Only differences between physical cash banked and receipting totals per the Venus system should be processed to the underbanking suspense vote. These differences should be investigated daily and cleared out on a monthly basis.

##### d) Personnel records

Leave records were not properly maintained. It was found that authorised leave forms had not always been captured timeously on the personnel PAYDAY system. Captured leave forms and documentation relating to employees, whose services have been terminated, were not filed.

#### 4.2.5 Internal audit

As reported in the prior year audit report, the internal audit component has not functioned optimally in terms of its internal audit charter. Internal audit personnel continue to perform, as allocated by management, unrelated non-audit tasks. Consequently, the organisational control environment and the follow up of recommendations from this component are limited.

#### 4.2.6 Audit committee

As reported in the prior year audit report, the audit committee has not met as required by its charter. As a result of this, the audit committee is non-operational and has not fulfilled the mandate required of it.

#### 4.2.7 Unauthorised expenditure

The office conducted a forensic audit into Phase 2 of the Dimbaza Housing Project and a final report was issued during July 2004. As disclosed in note 10 to the Annual Financial Statements, unauthorised expenditure, in terms of Section 10G(2)(j)(ii) of the Local Government Transition Act, amounting to R24 348 037 was incurred on the project.





4.2.8 Computer environment and systems

- a) Disaster recovery plan The Municipality has not developed and implemented a comprehensive disaster recovery plan. This plan should outline procedures for reducing the risk of business disruption in the event of a disaster. No documentation or policies exist to govern these plans. The backup policies are inadequate and there are no contingency plans for a disaster recovery.
- b) Security policy  
Although the Municipality has an information technology security policy, which includes aspects normally addressed in such a plan, the policy has not been approved, nor communicated to all users. There is inadequate control over the use of administrative accounts. The security parameter settings were not optimally utilised and password controls are not enforced.
- c) Backups  
Backups of the computerised data are not regularly deposited at the remote facility. In addition, the backups are not tested regularly to ensure the effective restoration of the data. Control to the physical access was not controlled. No operating procedures, systems, application software, or system documentation is kept with the backup tapes in the vault at the offsite location.
- d) Access of consultants to the production environment  
Consultants had direct full system access to the production environment via a dial-up facility. A dial-back system, to reduce the risk of unauthorised access, was not used.
- e) Segregation of duties  
Inadequate segregation of duties existed as users were assigned privileges that did not correspond to their job descriptions.

## 6. APPRECIATION

The assistance rendered by the management and staff during the audit of the Buffalo City Municipality is sincerely appreciated.

**S.M. NGQWALA,**  
for Auditor-General

East London  
30 November 2004