

# consolidated conditional grants and receipts

AT 30 JUNE 2005 – APPENDIX E

	UNSPENT BALANCE 1-Jul-2004	CURRENT YEARS RECEIPTS
	R	R
<b>NATIONAL GOVERNMENT</b>		
Transitional Grant	273,103	–
Financial Management Grant	1,592,467	2,500,000
Land Affairs	44,721,942	–
Restructuring Grant	31,087,344	20,000,000
IMEP	4,302,449	8,998,947
CMIP	441,046	80,199,856
MSIG	500,000	–
KWT:Grants Government	2,053	–
Project Consolidated–Billing System–MSIG	–	2,000,000
Equitable Share Grant	–	12,189,000
Energy Efficient Technology	–	5,561,037
Dwaf Funded Projects–Sewerage	–	1,145,301
Dwaf Funded Projects–Water	–	2,142,797
	<b>82,920,403</b>	<b>134,736,938</b>
<b>PROVINCIAL GOVERNMENT</b>		
Gompo Survey	157,672	–
Upgrade Watersupply	17,816	–
Mdantsane Upgrade – Water & Sewerage	557,049	–
Local Government Housing	18,905,066	35,782,999
Compost Waste Management	44,943	–
Disaster Relief Fund	3,703,743	1,000,000
Local Economic Development Fund	2,632,097	200,000
Map Preparation & Planning	70,693	–
Gompo & Mdantsane Art Centres	330,000	–
Environmental Project John Dube	102,669	–
Pilot Housing Project	132,444	–
Reeston Development – Land Affairs	3,264,291	–
Leiden Trust Account – Redevelop Duncan Village	162,000	–
Mdantsane Urban Renewal Project (Mnt Ruth Node)	5,000,000	–
Ikhwezi Block 1 Development	296,371	–
Mdantsane Upgrade – MD/PD:Area Planning	105,273	–
Mdantsane Upgrade – PD: Survey	4,500	–
Mdantsane Upgrade – MD Assessment Study	92,838	–
Mdantsane Upgrade – Art Centre	55,959	–
Planning and Map Preparation	324,156	–
Upgrade Kwaklifu Settlement – Phakamisa	111,430	–
Upgrade Mdantsane Buffer Strip – Phase	67,891	400,000
Potsdam Village – Plan Survey & Upgrade	226,369	–
Ilitha Informal Settlement Upgrade	80,626	–
Kwa Tshatshu Settlement Upgrade – Zwelitsh	31,897	–
Mdantsane Human Settlement Program	38,597	–
Planning Kanana Settlement	–	20,000
Kwa Tshatshu Survey	–	350,000

	INTEREST ALLOCATED	TRANSFER TO REVENUE OPERATING EXPENDITURE	TRANSFER TO REVENUE CAPITAL EXPENDITURE	TRANSFERS	UNSPENT BALANCE 30-Jun-2005
	R	R	R	R	R
	10,488	(193,342)	—	—	90,249
	155,359	(1,696,529)	—	—	2,551,297
	3,460,570	(1,814)	(332,679)	—	47,848,019
	2,394,606	(13,623,189)	(5,216,207)	—	34,642,554
	—	(9,170)	(10,845,766)	(2,446,460)	—
	—	(2,960,686)	(75,791,231)	—	1,888,985
	—	—	—	—	500,000
	—	—	—	—	2,053
	56,001	(492,487)	(51,711)	—	1,511,803
	—	(286,447)	(6,651,485)	3,878,594	9,129,662
	—	(41,076)	—	—	5,519,961
	—	(249,981)	—	—	895,320
	—	(1,451,100)	(1,059,995)	368,298	—
	<b>6,077,024</b>	<b>(21,005,821)</b>	<b>(99,949,074)</b>	<b>1,800,432</b>	<b>104,579,903</b>
	10,854	(20,143)	—	—	148,383
	1,253	—	—	—	19,069
	39,171	—	—	—	596,220
	783,463	(45,151,233)	(2,878,893)	2,558,312	9,999,714
	3,161	—	—	—	48,104
	200,364	(1,021,538)	(53,417)	—	3,829,152
	—	—	—	—	2,832,097
	4,971	—	—	—	75,664
	23,130	—	—	—	353,130
	7,220	—	—	—	109,889
	9,313	—	—	—	141,757
	231,358	—	—	—	3,495,649
	11,392	—	—	—	173,392
	336,852	—	(506,527)	—	4,830,325
	16,320	(6,156)	(214,190)	—	92,345
	7,402	—	—	—	112,675
	317	—	—	—	4,817
	6,528	—	—	—	99,366
	3,708	(6,630)	—	—	53,037
	20,903	—	(160,634)	—	184,425
	7,836	—	—	—	119,266
	10,301	—	(481,418)	3,226	—
	14,698	(4,432)	(203,229)	—	33,406
	5,670	—	—	—	86,296
	2,243	—	—	—	34,140
	2,714	—	—	—	41,311
	231	—	—	—	20,231
	4,040	—	—	—	354,040

	UNSPENT BALANCE 1-Jul-2004	CURRENT YEARS RECEIPTS
	R	R
Mahlangu Village :Panning and Survey	–	33,385
Mdantsane Infill Areas:Planning and Survey	–	194,400
Phakamisa Clifton PH2:Bongweni:Plan and Survey	–	220,500
Health Management System	–	141,359
Aids Training and Info Centre–ATIC	–	2,214,387
	<b>36,516,390</b>	<b>40,557,030</b>
<b>TOTAL NATIONAL/PROVINCIAL GOVERNMENT GRANT</b>	<b>119,436,793</b>	<b>175,293,968</b>
<b>DONATIONS AND PUBLIC CONTRIBUTIONS</b>		
ADM Funding	624	19,202,607
CIP/IDZ Funding	–	2,395,096
BCMETS Funding	884,978	4,346,424
Public Funding	940,681	757,460
DBSA	–	4,114,542
SIDA Development Trust	915,578	9,606,834
SETA Fund	1,369,458	2,636,009
Housing & Infrastructure Development Award	196,458	–
LOTTO Contribution	–	1,575,000
Sundry Funding	–	273,951
VUNA Award	2,184,602	1,000,000
Aquarium	2,903	–
Felzoo	7,569	–
Athletic Track	22,662	–
F.E.L.A.	4,993	–
Community Development	1,546,291	–
Art Gallery	36,133	–
Municipal Revenue Enhancement Programme	1,022,083	–
Climate Protection Implementation	143,597	–
ADM:Township Ext 1:Kidds Beach	50,638	–
ADM:Water Dist. Grant–Eureka	19,254	–
ADM:Special Grant–Macleantown	7,711	–
ADM:Special Grant–Ext 3:Kaysers	33,681	–
ADM:Community Hall:TRC–KWT	612	–
ADM:Income Generating Project:TRC–KWT	34,774	–
ADM:Community Hall:TRC–EL	15,444	–
ADM:Income Generating Project:TRC–EL	38,683	–
ADM:Tribal Trust:Kwelerha	8,844	–
ADM:Tribal Trust:Nxaruni	102,946	–
A.T. Taylor	45,422	–
C.H.T. Peplar	33,471	3,000
<b>TOTAL DONATIONS &amp; PUBLIC CONTRIBUTIONS</b>	<b>9,670,090</b>	<b>45,910,923</b>
<b>TOTAL CONDITIONAL GRANTS &amp; RECEIPTS</b>	<b>129,106,883</b>	<b>221,204,891</b>

INTEREST ALLOCATED	TRANSFER TO REVENUE OPERATING EXPENDITURE	TRANSFER TO REVENUE CAPITAL EXPENDITURE	TRANSFERS	UNSPENT BALANCE 30-Jun-2005
R	R	R	R	R
385	-	-	-	33,770
2,244	-	-	-	196,644
2,546	-	-	-	223,046
871	-	-	-	142,230
-	(2,021,555)	-	-	192,832
<b>1,771,459</b>	<b>(48,231,687)</b>	<b>(4,498,308)</b>	<b>2,561,538</b>	<b>28,676,422</b>
<b>7,848,483</b>	<b>(69,237,508)</b>	<b>(104,447,382)</b>	<b>4,361,970</b>	<b>133,256,325</b>
-	(8,202,654)	(17,439,654)	7,078,786	639,709
37,666	-	(1,850,088)	(582,674)	-
-	(6,121,795)	(900,000)	1,790,393	-
-	(374,398)	(32,660)	-	1,291,083
-	(3,275,834)	(241,120)	(597,588)	-
457,483	(3,207,917)	(693,176)	-	7,078,802
85,668	(1,083,221)	-	-	3,007,914
13,815	-	-	-	210,273
-	(26,674)	(67,663)	(1,480,663)	-
-	-	-	-	273,951
-	(1,171,552)	-	-	2,013,050
204	(1,142,034)	(178,885)	1,317,812	-
532	-	-	-	8,101
1,594	-	-	-	24,256
351	-	-	-	5,344
116,176	-	-	-	1,662,467
2,541	-	-	-	38,674
59,380	-	-	-	1,081,463
10,205	-	-	-	153,802
3,561	-	-	-	54,199
1,354	-	-	-	20,608
542	-	-	-	8,253
2,368	-	-	-	36,049
43	-	-	-	655
2,445	-	-	-	37,219
1,086	-	-	-	16,530
2,720	-	-	-	41,403
622	-	-	-	9,466
7,239	-	-	-	110,185
3,194	-	-	-	48,616
2,424	-	-	-	38,895
<b>813,213</b>	<b>(24,606,079)</b>	<b>(21,403,246)</b>	<b>7,526,066</b>	<b>17,910,967</b>
<b>8,661,696</b>	<b>(93,843,587)</b>	<b>(125,850,628)</b>	<b>11,888,036</b>	<b>151,167,292</b>

# disclosure of consolidated conditional grants and receipts

AT 30 JUNE 2005 – APPENDIX F

	EXECUTIVE MAYOR	CITY MANAGER	FINANCE
	R	R	R
<b>TRANSFER TO REVENUE – CAPITAL EXPENDITURE</b>			
<b>NATIONAL GOVERNMENT</b>			
Financial Management Grant	–	–	–
Land Affairs	–	–	–
Restructuring Grant	–	29,540	140,198
IMEP	–	–	–
CMIP	–	–	–
MSIG	–	–	–
Project Consolidated – Billing System – MSIG	–	–	–
Equitable Share Grant	23,855	641,357	–
Dwaf Funded Projects–Water	–	–	–
	<u>23,855</u>	<u>670,897</u>	<u>140,198</u>
<b>PROVINCIAL GOVERNMENT</b>			
Local Government Housing	–	537,391	–
Disaster Relief Fund	–	–	–
Mdantsane Urban Renewal Project (Mnt Ruth Node)	–	–	–
Ikhwezi Block 1 Development	–	–	–
Planning and Map Preparation	–	–	–
Upgrade Mdantsane Buffer Strip – Phase	–	–	–
Potsdam Village – Plan Survey & Upgrade	–	–	–
	<u>–</u>	<u>537,391</u>	<u>–</u>
<b>TOTAL NATIONAL/PROVINCIAL GOVERNMENT GRANT</b>	<u>23,855</u>	<u>1,208,288</u>	<u>140,198</u>
<b>DONATIONS AND PUBLIC CONTRIBUTIONS</b>			
ADM Funding	188,382	49,858	1,663,588
CIP/IDZ Funding	–	–	–
BCMET Funding	–	–	–
Public Funding	–	–	–
DBSA	–	6,148	18,466
SIDA Development Trust	–	112,274	–
LOTTO Contribution	–	–	–
Aquarium	–	–	–
	<u>188,382</u>	<u>168,280</u>	<u>1,682,054</u>
<b>TOTAL DONATIONS &amp; PUBLIC CONTRIBUTIONS</b>	<u>188,382</u>	<u>168,280</u>	<u>1,682,054</u>
<b>TOTAL CONDITIONAL GRANTS &amp; RECEIPTS</b>	<u>212,237</u>	<u>1,376,568</u>	<u>1,822,252</u>

	CORPORATE SERVICES	ENGINEERING SERVICES	PLANNING AND ECON. DEV	SOCIAL SERVICES	TOTAL
	R	R	R	R	R
	-	-	-	-	-
	-	-	332,679	-	332,679
	2,690,763	2,355,706	-	-	5,216,207
	-	10,845,766	-	-	10,845,766
	-	23,010,371	-	17,986,116	40,996,487
	-	34,794,744	-	-	34,794,744
	-	51,711	-	-	51,711
	-	3,908,866	1,058,831	1,018,576	6,651,485
	-	1,059,995	-	-	1,059,995
	<u>2,690,763</u>	<u>76,027,159</u>	<u>1,391,510</u>	<u>19,004,692</u>	<u>99,949,074</u>
	-	-	2,341,502	-	2,878,893
	-	-	-	53,417	53,417
	-	-	506,527	-	506,527
	-	-	214,190	-	214,190
	-	-	160,634	-	160,634
	-	-	481,418	-	481,418
	-	-	203,229	-	203,229
	-	-	<b>3,907,500</b>	<b>53,417</b>	<b>4,498,308</b>
	<u>2,690,763</u>	<u>76,027,159</u>	<u>5,299,010</u>	<u>19,058,109</u>	<u>104,447,382</u>
	-	8,454,416	120,307	6,963,103	17,439,654
	-	1,850,088	-	-	1,850,088
	-	-	900,000	-	900,000
	-	-	-	32,660	32,660
	66,516	149,990	-	-	241,120
	-	-	580,902	-	693,176
	-	-	-	67,663	67,663
	-	-	-	178,885	178,885
	<u>66,516</u>	<u>10,454,494</u>	<u>1,601,209</u>	<u>7,242,311</u>	<u>21,403,246</u>
	<u>2,757,279</u>	<u>86,481,653</u>	<u>6,900,219</u>	<u>26,300,420</u>	<u>125,850,628</u>

	EXECUTIVE MAYOR	CITY MANAGER	FINANCE
	R	R	R
<b>TRANSFER TO REVENUE – OPERATING EXPENDITURE</b>			
<b>NATIONAL GOVERNMENT</b>			
Transitional Grant	–	–	176,152
Financial Management Grant	–	–	1,693,127
Land Affairs	–	–	–
Restructuring Grant	–	417,268	3,389,308
IMEP	–	–	–
CMIP	–	–	–
MSIG	–	–	–
Equitable Share Grant	23,182	13,405	–
Energy Efficient Technology	–	–	–
DWAF Funded Projects – Sewerage	–	–	–
DWAF Funded Projects – Water	–	–	–
	<b>23,182</b>	<b>430,673</b>	<b>5,258,587</b>
<b>PROVINCIAL GOVERNMENT</b>			
Gompo Survey	–	–	–
Local Government Housing	–	1,738,686	–
Disaster Relief Fund	–	–	–
Ikhwezi Block 1 Development	–	–	–
Mdantsane Upgrade – Art Centre	–	–	–
Potsdam Village – Plan Survey & Upgrade	–	–	–
Aids Training and Info Centre – ATIC	–	–	–
	–	<b>1,738,686</b>	–
<b>TOTAL NATIONAL/PROVINCIAL GOVERNMENT GRANT</b>	<b>23,182</b>	<b>2,169,359</b>	<b>5,258,587</b>
<b>DONATIONS AND PUBLIC CONTRIBUTIONS</b>			
ADM Funding	507,933	2,572,029	391,044
BCMETS Funding	–	–	–
Public Funding	–	–	–
DBSA	–	121,749	158,543
SIDA Development Trust	–	2,161,008	–
SETA Fund	–	–	1,083,221
LOTTO Contribution	–	–	–
VUNA Award	45,880	–	–
Aquarium	–	–	–
	<b>553,813</b>	<b>4,854,786</b>	<b>1,632,808</b>
<b>TOTAL DONATIONS &amp; PUBLIC CONTRIBUTIONS</b>	<b>553,813</b>	<b>4,854,786</b>	<b>1,632,808</b>
<b>TOTAL CONDITIONAL GRANTS &amp; RECEIPTS</b>	<b>576,995</b>	<b>7,024,145</b>	<b>6,891,395</b>

CORPORATE SERVICES	ENGINEERING SERVICES	PLANNING AND ECON. DEV	SOCIAL SERVICES	TOTAL
R	R	R	R	R
17,190	—	—	—	193,342
3,402	—	—	—	1,696,529
—	—	1,814	—	1,814
845,157	8,851,471	119,985	—	13,623,189
—	9,170	—	—	9,170
—	15,634	—	2,945,052	2,960,686
—	492,487	—	—	492,487
—	180,832	—	69,028	286,447
—	41,076	—	—	41,076
—	249,981	—	—	249,981
—	1,451,100	—	—	1,451,100
<b>865,749</b>	<b>11,291,751</b>	<b>121,799</b>	<b>3,014,080</b>	<b>21,005,821</b>
—	—	20,143	—	20,143
—	—	43,412,546	—	45,151,233
—	—	—	1,021,538	1,021,538
—	—	6,156	—	6,156
—	—	—	6,630	6,630
—	—	4,432	—	4,432
—	—	—	2,021,555	2,021,555
—	—	<b>43,443,277</b>	<b>3,049,723</b>	<b>48,231,687</b>
<b>865,749</b>	<b>11,291,751</b>	<b>43,565,076</b>	<b>6,063,803</b>	<b>69,237,508</b>
2,096,495	11,633	—	2,623,520	8,202,654
—	2,703,951	3,253,753	164,091	6,121,795
—	—	374,398	—	374,398
2,995,542	—	—	—	3,275,834
420,275	90,057	536,577	—	3,207,917
—	—	—	—	1,083,221
—	—	—	26,674	26,674
1,125,672	—	—	—	1,171,552
—	—	—	1,142,034	1,142,034
<b>6,637,984</b>	<b>2,805,641</b>	<b>4,164,728</b>	<b>3,956,319</b>	<b>24,606,079</b>
<b>7,503,733</b>	<b>14,097,392</b>	<b>47,729,804</b>	<b>10,020,122</b>	<b>93,843,587</b>

# report of the auditor-general

ON THE CONSOLIDATED FINANCIAL STATEMENTS  
TO THE COUNCIL OF THE BUFFALO CITY MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2005



AUDITOR - GENERAL

## 1. AUDIT ASSIGNMENT

The consolidated annual financial statements as set out on pages 123 to 183, for the year ended 30 June 2005, 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 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 126(3) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003). These annual 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 these annual financial statements, 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 annual financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the annual 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.

The audit was completed in accordance with Auditor-General Directive No. 1 of 2005.

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

Buffalo City Municipality and its municipal entity have opted for early implementation of Statements of Generally Recognised Accounting Practice (GRAP) and Generally Accepted Municipal Accounting Practice (GAMAP). Although the effective dates of application of these standards, also referred to in my opinion in paragraph 4 below, have not yet been gazetted by the Minister of Finance, they have been recommended for implementation by the Accounting Standards Board and National Treasury.

## 3. QUALIFICATION

### 3.1 Property, plant and equipment

In terms of Statement of GAMAP No 17 the municipality is required to prepare a complete and accurate fixed asset register. The fixed asset register was incomplete in respect of the following:

- A detailed description and location of assets is not included;
- There is no detail of disposals or write-offs of property, plant and equipment during the year. This hampered the ability to verify the accuracy of the depreciation calculation in the fixed asset register;
- No detail of impairment losses or gains attributable to individual items of property, plant and equipment is included;
- Operating expenditure is included in the fixed asset register incorrectly;
- Assets transferred to the municipality by the Amathole District Municipality have not been included in the fixed asset register due to the uncertainty regarding the ownership of these assets; and
- The infrastructure assets of the municipality have not been included in the fixed asset register.

Due to the historical nature of the fixed asset register, and due to the significance of the findings listed above, it was not possible to satisfy ourselves as to the completeness, valuation, ownership and existence of the opening and closing balances of property, plant and equipment disclosed in the annual financial statements at 30 June 2005.

### 3.2 Leave

Leave records were found, generally, to be in an unsatisfactory state, with leave records that have not been regularly updated, leave forms that are not always captured timeously, leave forms not timeously filed on personnel files or not filed at all, and leave forms that were not approved by management. The leave records on the personnel system have been used as the basis for the calculation of the provision for leave pay amounting to R26 732 571 separately disclosed in note 4 and note 6 in the amounts of R16 106 890 and R10 625 981 to the annual financial statements respectively. The municipality have recently appointed a consultant to audit the leave records, however, the audit has not reached the conclusion stage. In the absence of reliable leave records, it was not possible to verify the accuracy of the leave provisions that were disclosed in the above notes.

### 3.3 Inventory

The municipality has adopted statements of GAMAP, which require that all material inventories are recorded. The inventory as disclosed in note 13 to the annual financial statements does not include inventories relating to housing stock and unsold water, as required by GAMAP 12. Consequently it was not possible to verify the completeness and valuation of inventory.

### 3.4 Value Added Taxation (VAT)

During the year under review Value Added Tax (VAT) consultants identified a number of errors in the calculation of VAT resulting in a net refund of R 19 771 491. The amount has been allocated directly against unappropriated surplus in the statement of net assets, being R 5 518 185 in the current year and R 14 253 306 in the prior year as disclosed in note 36 to the annual financial statements. The affected general ledger expenditure accounts have not been adjusted. Due to the accounting treatment of the correction mentioned above, expenditure as reflected in the statement of financial performance is overstated in both the current year and the prior year by R 5 518 185 and R 14 253 306 respectively.

## 4. QUALIFIED AUDIT OPINION

In my opinion, except for the effect on the financial statements of the matters referred to in paragraph 3, the consolidated financial statements fairly present, in all material respects, the financial position of the municipality and its municipal entity at 30 June 2005 and the results of their operations and cash flows for the year then ended, in accordance with statements of Generally Recognised Accounting Practice, statements of Generally Accepted Municipal Accounting Practice and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

## 5. EMPHASIS OF MATTER

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

### 5.1 Revenue

Structural buildings were not included in the interim valuations for periods of up to two years and the capturing of assessment rates was not always completed. In addition, certain erf numbers were missing from the rates and valuations systems which resulted in these properties not being charged rates. Furthermore, certain erven were not charged for sewerage and refuse services.

### 5.2 Irregular expenditure

The procedure whereby the "mayoral house" was refurbished and furnished was irregular expenditure in terms of the definition thereof in the Municipal Finance Management Act, in that the municipality failed to follow the proper approval procedures regarding Council approval.

The Council has subsequently ratified the setting aside and the refurbishment of a designated official municipal Mayoral residence.

### 5.3 Water Distribution Losses

The rand value of the cost of units lost in distribution has increased from R36 664 524 reported for the year ended 30 June 2004 to R38 310 748 for the year ended 30 June 2005, resulting in an increase in units of water lost in distribution from 44.12% to 44.70%. Normal background losses, inherent in all systems, are expected to approximate 10%.

### 5.4 Investment in associate

An investment in an associate, the East London Industrial Development Zone (Pty) Ltd, as reflected in note 37 to the annual financial statements has not been accounted for and disclosed in terms of GAMAP 17. The net asset value of the company according to the audited financial statements of the associate as at 31 March 2005 was R 13 million, of which 24% relates to the interest held by the municipality.

### 5.5 Consolidation of municipal entity

The consolidation of the municipal entity, Buffalo City Development Agency, has been based on the draft financial statements of the municipal entity at 30 June 2005. Changes were made to these financial statements before the final audited financial statements were issued. Consequently, Government Grants and Subsidies as disclosed in note 19 to the financial statements and the statement of financial performance, is overstated by R 373 497.

### 5.6 Budget comparatives

The budgeted comparative amounts as per the statement of financial performance and Appendix E, Actual versus Budget (Income and Expenditure) are based on an adjusted budget and not the original budget as approved by Council. Furthermore, no explanation is provided in Appendix E for any material variances between actual and budgeted income and expenditure.

### 5.7 Annual financial statements

In terms of section 126(1)(a) of the Municipal Finance Management Act (no. 56 of 2003) the accounting officer of the municipality must within two months after the end of the financial year submit the annual financial statements to the Auditor General for auditing. Material changes had to be made to the financial statements submitted on 31 August 2005 and the financial statements of the municipality were subsequently re-signed and dated on 30 November 2005.

The financial statements of the Buffalo City Development Agency were not submitted to the Office of the Auditor General within two months of the financial year end. The financial statements were received on 14 September 2005. In addition, material changes had to be made to the financial statements submitted and the financial statements were subsequently withdrawn and re-submitted on 9 January 2006.

In terms of section 126(1)(b) of the Municipal Finance Management Act (no. 56 of 2003) the accounting officer of the municipality must within three months after the end of the financial year submit the consolidated annual financial statements to the Auditor General for auditing. Guidance on the preparation of consolidated annual financial statements was requested by Buffalo City Municipality from National Treasury to which no response has yet been obtained. The consolidated annual financial statements were only received on 13 December 2005, more than five months after the end of the financial year.

### 5.8 Internal audit

The internal audit function has not been afforded sufficient independence and authority to enable it to meet its required obligations in terms of the internal audit charter and the approved internal audit plan. This is evidenced by the fact that internal audit personnel are performing certain supervisory functions which should be addressed by management.

Furthermore, the head of internal audit does not currently report directly to the audit committee as required by Section 165(2) of the Municipal Finance Management Act.

### 5.9 Establishment of the Buffalo City Development Agency

National and Provincial Treasury, the national and provincial departments responsible for local government were not consulted for their views and recommendations regarding the establishment of the Buffalo City Development Agency in terms of Section 84(2) of the Municipal Finance Management Act.

#### 5.10 Directors of municipal entity

Section 93F of the Municipal Systems Act, 2000 (Act No. 32 of 2000 as amended) states, inter alia, that a person is not eligible to be a director of a municipal entity if he or she holds office as a councillor of any municipality; or is an official of the parent municipality of that municipal entity. From documentation and correspondence reviewed, we have determined that the Board of Directors of the Buffalo City Development Agency during the period ended 30 June 2005 was comprised of the Buffalo City Municipality Executive Mayor and City Manager. This appears to be contrary to the requirements of the abovementioned act. The above officials have been replaced on the board of directors subsequent to year end.

#### 5.11 Service delivery agreement

No service delivery agreement could be obtained between the Buffalo City Development Agency, being a municipal entity and its parent municipality, the Buffalo City Municipality.

This constitutes non-compliance with section 76(b)(i) of the Municipal Systems Act.

#### 5.12 Financial support for the Buffalo City Development Agency

The ability of the Buffalo City Development Agency to continue as a going concern is dependent on the continued financial support of its funders.

The budget allocation from the Buffalo City Municipality for the 2005/2006 financial year of R 1 million was only received by Buffalo City Development Agency on 22 November 2005. This has resulted in the agency experiencing cash flow deficiencies in the first five months of the new financial year. Unutilised conditional grant funding from the Buffalo City Municipality and the Industrial Development Corporation has been utilised subsequent to year end to fund operational expenditure. These funds have not been spent in accordance with the purposes for which they were intended.

#### 5.13 Special investigations

Officials of the Buffalo City Municipality approached the Special Investigating Unit regarding the tender for the re-evaluation of erven. No investigation has commenced regarding this matter.

Five matters were referred to the Special Investigating Unit at the end of October 2005. These matters are currently subject to preinvestigation to determine whether a Presidential proclamation should be requested.

#### 5.14 Municipal officials suspended

On 6 October 2005, three officials were suspended, two of which are employed directly by Council in terms of section 56 and 57 of the Municipal Systems Act (Act No. 32 of 2000). Furthermore, the Municipal Manager was suspended on 7 October 2005.

The Executive Mayor, on 10 November 2005, reported to Council, his decision, as appeal authority, to revoke the suspensions of the three officials with immediate effect.

At the time of finalising this report, the Municipal Manager was still on suspension and legal action is in progress.

## 6. APPRECIATION

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



S M Ngqwala for Auditor-General • EAST LONDON 14 March 2006

# REPORT OF THE ACTING CITY MANAGER.

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF  
THE BUFFALO CITY MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2005.

## INTRODUCTION

The Auditor General has completed the audit for the financial year ended 30 June 2005. A copy of the report is attached hereto as Annexure "A".

The numbering in this report corresponds with the numbering used in the report of the Auditor General.

## COMMENTS

Management comments received from the respective Directorates are set out hereunder. The response of the Audit Committee after considering the management comments is set out in Annexure "B".

## 3 QUALIFICATION

### Property Plant and Equipment

Previously under the IMFO basis of presenting financial statements and recording transactions, expenditure within capital votes was capitalised at year end with the description of the particular capital vote. As no depreciation was required under IMFO, the asset register did not include details of specific assets but was capitalised and recorded as indicated on the capital votes.

A conscious decision was taken by management and council to introduce a GRAP compliant asset register into the municipality on a phased approach, owing to resource constraints. The municipality decided to identify record and value all assets in the following order:-

- Movable assets e.g. furniture and fittings, computers, vehicles etc.
- Land and buildings
- Infrastructure assets e.g. water, electricity and roads.

Management and Council acknowledged that a practical approach would need to be adopted in the compilation of this register as information, in some cases dating back more than twenty years, would not be available. Solid building blocks have been put in place that will ensure GRAP compliance of the asset register. Asset data is being sourced and recorded in line with the GRAP framework.

Due to the enormity and complexity of this task management needs to deal with several challenges, including:-

- Two former local government administrations were merged to form BCM.
- Each former administration operated its own recording system.
- Multiple locations are involved.
- Information required for GRAP compliance was never recorded before and needed to be sourced for the first time.
- Asset operating, accounting and reporting systems needed fundamental changes to ensure GRAP compliance.

However, an asset register has been compiled that complies with GRAP, which caters for all descriptive fields and further fields to improve management control, and is in the process of being loaded onto the financial system. The information recorded also links to asset funding sources and other vital GRAP requirements.

As part of the Unbundling process, the old asset register was discontinued at 30 June 2003 and a new register was constructed.

A plan is being developed to identify and record existing Infrastructural assets as well as additions and disposals to align with the change in accounting standards from IMFO to GRAP.

Movable assets purchased are bar-coded and recorded on the BAUD movable asset tracking system. These bar-coded movable assets are matched to the expenditure and recorded in the asset register. Movable assets, as far as possible using available information, have been split into individual items on the register. Movable assets still grouped on the register will be investigated and the expenditure split accordingly to represent individual assets.

The capital budget in future will need to be properly aligned to GRAP and will need to include specific details of all assets to be purchased in order for all assets to be separately identifiable and recorded as such.

#### Leave

KPMG have been appointed to review our current policies, procedures and control methods relating to leave.

We have since implemented a new procedure in that all leave encashments are to be authorised only by the Principal Personnel Practitioner and he checks on ARMS to ensure that the correct leave has been deducted from the employee's balance before submitting to Finance for processing.

We have restructured the Personnel Department to ensure that there are only two Practitioners responsible for Payroll issues and we will implement the necessary control procedures. We have further emphasised the importance of accuracy to our Personnel Officers

We have instructed officials to not capture any leave form that has not been properly signed by either the employee or the Head of Department. We will further be reviewing our leave forms and procedures so that we have a specimen signature of each Head of Department in order for us to verify that the leave has been authorised.

There is already a system in place whereby the leave transactions for the month are submitted electronically to the various departments. We aim to incorporate into our new policy that it will be the responsibility of each attendance controller to check and verify the accuracy of such transactions each month.

Our employees are currently being capacitated and are being given in-depth training on the personnel duties that they are required to perform. We will therefore only have trained employees who have the capacity to capture leave doing so in future.

We have further emphasised the importance of accuracy to our Personnel Officers and of the filing of records.

#### Inventory

Buffalo City Municipality is currently not in a position to ensure that inventory such as unsold water is correctly recorded to enable the necessary disclosure within the annual financial statements.

As acknowledged in the audit finding, municipalities, historically, may have excluded such an inventory item as was the case with Buffalo City Municipality.

Attempts will however be made in the future to try and correctly record this inventory item to enable the necessary disclosure thereof.

#### Value Added tax

As was indicated in last year's audit, the service provider (MaxProf) was appointed to review the VAT within the Municipality. The process is still underway and the final report for the period ending 30th June 2005 is awaited from them.

The post of VAT specialist has been created on the organogram reporting directly to the CFO. This VAT specialist will be responsible for all the VAT processes within the Municipality and training of relevant staff members.

The post will also advise and guide all directorates with regards to VAT issues.

## 5 EMPHASIS OF MATTER

### 5.1 Revenue

The panel of Valuers plus the new proposed general valuation will resolve this problem in the near future. Effective from 1 July 2007 for the new general valuation. The Panel of Valuers will assist from January 2006.

Senior official for the Billing Department will be reviewing the capturing of new accounts and changes on the system.

The review will be done by a senior employee of the Billing department to ensure that all properties are billed for services provided.

### 5.2 Irregular expenditure

The comments from the Auditor-General are noted.

### 5.3 Water distribution losses

The current level of metering efficiency across the Municipality, expressed in terms of the Department of Water Affairs KPI for metering efficiency, i.e. metered volume divided by un-metered volume cannot be reliably estimated due to the absence of universal metering, to the extent that approximately 20 000 known consumer households are billed on a basis of a deemed monthly consumption, believed to be substantially below the probable actual monthly volume consumed.

A recent study of a sample comprising approximately 548 even, currently billed on the basis of a deemed consumption of 17kl/month yielded an average actual consumption of 85 kl/m per erf, allowing for 15kl/month/Erf as a proxy of pipe network losses equating to  $15/3.3 = 4.54$  times the expected upper bound loss intensity as per SABS: Code of Practice: The Management of Potable Water in Distribution Systems, the water loss due to the assumption of a 17kl/m/Erf assumption would be  $85-17= 68\text{kl}/\text{Erf}/\text{month}$ .

The Water Service Planning Section has successfully obtained 27000 DWAF sponsored meters, 12500 of which have already been pre-assembled into Meter Boxes using the available funds in the 2004/2005 financial year.

Funds for installation became available in September 2005 and installation has commenced in flat rated areas, in October 2005.

Planning is underway to allow extension of the scope of the work to other areas. Available funds will allow for approximately 6000 meters to be installed in the balance of the 2005/2006 financial year.

The implications for water loss reduction and revenue loss reduction are patently obvious and can be assessed per 1000 meters installed as being:

1000 erven @ 68kl/m = 68 000 kl pm, 816 000kl/annum, or a possible reduction in units of water loss of  $816\ 000/ 24\ 969\ 801 \times 100 = 3.267\%$  per 1000 meters installed.

Even if this benefit were halved for the sake of being ultra conservative, 5000 meters installed could result in a sustained annual reduction in Units lost by roughly 8.2%.

In practice the actual benefit achieved will of course vary according to the severity of the profligate use/wastage of water by consumers.

A Pilot study to obtain more reliable information in this regards is currently underway as it has been established that it appears that there is considerable reluctance in acknowledging the key role of universal metering in achieving measurable progress in reducing non-revenue water.

The Pilot study recommendations, if approved by Council, will inter alia specifically address the issues around domestic leaks and the exact quantification of such as a fundamental outcome of the meter installation programme. The potential exists, that if the desired level of understanding is achieved, adequate funds provided and if successful project outcomes are achieved, a major water loss reduction is possible in a relatively short space of time, obtained at an extremely favourable cost benefit ratio.

A strong case will have to be made to provide for adequate funding to incorporate a substantial public awareness and community project facilitation programme to be rolled out ahead of any initiative, the success of which will be mirrored in the overall project outcomes. This was identified as a pre-requisite to the Soweto meter installation programme and is believed to have materially influenced the success achieved.

Further funding applications will continue to be lodged and it is believed that the Pilot Study findings will facilitate the obtaining thereof.

#### 5.4 Investment in associate

The comments from Auditor-General are noted

#### 5.5 Budget comparatives

It should however be noted that the budget was prepared in accordance with IMFO whereas the financial statements were prepared in accordance with section 122(3) of the MFMA (Act No 56 of 2003) so as to conform to the standards of GAMAP and GRAP issued by the Accounting Standards Board which are fundamentally different to the accounting policies adopted in previous financial years. Therefore, if the original budget were to have been used as a comparative this would have resulted in distorted and confusing variances between the actual and budgeted figures reflected in the annual financial statements.

Cognisance should also be taken of the fact that the specimen annual financial statements issued by National Treasury are written as a guide as acknowledged by themselves.

### ANNUAL FINANCIAL STATEMENTS

We confirm that in terms of section 126(1)(a) of the Municipal Finance Management Act (no. 56 of 2003) the accounting officer of the municipality within two months after the end of the financial year submit the annual financial statements to the Auditor-General for auditing.

We further wish to point out that when the original signed set of Annual Financial Statements were submitted to the Office of the Auditor-General on 31 August 2005, did not include consolidated Annual Financial Statements.

It should therefore be noted that, inter alia, the specimen financial statements, issued by National Treasury in terms of MFMA circular no.18, which were used in the compilation of the 2004/2005 Annual Financial Statements, do not include guidance on the compilation of consolidated financial statements.

At a pre-audit meeting held on 18 August 2005 between Finance Officials of Buffalo City and Officials from the Office of the Auditor-General, it was agreed that a note be included in BCM's Annual Financial Statements, relating to municipal entities and that a copy of the entities Annual Financial Statements be attached to BCM's Annual Financial Statements.

Subsequent to that the Office of the Auditor-General requested that the BCM Annual Financial Statements be revised to include entities.

In view of the above these revised consolidated Annual Financial Statements were replacing original Annual Financial Statements, which were submitted on 31 August 2005 as per the confirmation of receipt, of which a copy is attached hereto.

The BCM Annual Financial Statements for 2004/2005 were therefore submitted on time to the Office of the Auditor-General in terms of section 126(1) (a) of the MFMA

#### 5.7 Internal audit

It is agreed that a desirable level of independence has not been achieved.

However, both the General Manager and the Audit Committee have made some in-roads on this matter, namely the newly appointed internal audit staff work solely and only on matters included in the annual Internal Audit Plan. The tasks previously performed by the unit have now been transferred to user Directorates. The hand over of the few remaining management tasks will take place shortly. The hand over of tasks (mainly advisory services) which compromise the independence of the Unit will be handled during the current financial year.

The Internal audit unit does now report to the Audit Committee on all its operational activities. This relationship is being gradually expanded.

## SPECIAL INVESTIGATIONS

The comments of the Auditor-General are noted and management awaits the outcome of these investigations.

### 5.9 Municipal officials suspended

The comments of the Auditor-General are noted

## IT IS RECOMMENDED

that the comments of Management as set out in the report of the Acting City Manager to the Council meeting of 31 January 2006 be noted, accepted as the Council's comments on the Auditor General's report and be forwarded to the Auditor General and the MEC for Finance and the MEC for Local Government for the record.



A P MAGWENTSHU • ACTING CITY MANAGER.

# REPORT OF THE AUDITOR-GENERAL

TO THE COUNCIL OF BUFFALO CITY MUNICIPALITY ON PERFORMANCE MEASUREMENT  
FOR THE YEAR ENDED 30 JUNE 2005



AUDITOR - GENERAL

## 1. ASSIGNMENT

The compilation, presentation and publishing of performance measurements as included on pages 206 to 245 of this annual report and the implementation, management and internal control of supporting systems, are the responsibility of the accounting officer.

My responsibility is to provide an assessment of the controls implemented by the accounting officer to develop and manage the municipality's performance management system as required by section 45(b) of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000). My role is not to assess or comment on the municipality's actual performance, but rather to assess the processes followed during the implementation of the performance management system.

## 2. NATURE AND SCOPE

I have performed the procedures agreed with management and described below regarding the performance management system of Buffalo City Municipality. The assignment was undertaken in accordance with the Statements of South African Auditing Standards applicable to agreed upon procedures engagements.

The responsibility of determining the adequacy or otherwise of the procedures agreed to be performed is that of Buffalo City Municipality. My procedures were performed solely to evaluate the controls implemented by the accounting officer regarding the municipality's performance management system against the criteria set out in:

- Chapter 6 of the Municipal Systems Act, 2000;
- the Local Government: Municipal Planning and Performance Management Regulations, 2001 (No. R. 796); and
- international good practices,

so as to report on the applicable compliance with legislation and to assist in identifying possible areas for improvement.

The procedures performed during our assignment were based on the feedback received from the completion of the high-level overview checklist by the accounting officer and included a review of the following aspects:

- Development of an integrated development plan
- Development of a performance management system
- Development and implementation of key performance indicators
- Setting of targets for key performance indicators
- Actual service delivery process
- Internal monitoring of performance measurements
- Internal control of the performance management system
- Performance measurement and reporting
- Revision of strategies and objectives

## 3. FINDINGS

I report my findings below:

### 3.1 Development of an integrated development plan

The integrated development plan review of 2005/06 is not considered to include all the essential characteristics as required by the relevant laws and regulations.

Although the municipality has reviewed its objectives and strategies for the 2005/2006 financial year, there is no indication that the key performance indicators and performance targets were reviewed as they had not been incorporated in the published Integrated Development Review 2005/2006.

### 3.2 Development and implementation of a performance management system

The framework for the performance management system which is utilised to guide and assist the municipality with the preparation and implementation of an Institutional and Individual Performance Management System for 2003/04, together with the performance management system was developed in the 2003/04 financial year.

The municipality has not reviewed the framework nor the performance management system during the 2004/05 financial year. The adopted framework for the development, adoption and implementation of the performance management system was not fully implemented during the 2004/2005 financial year. In terms of the Performance Management Process Plan, the performance management system should focus on institutional, individual, councillors and service providers performance, and cater for all other employees, councillors and service providers during the 2004/05 financial year. The cascading of the system to cover a broad base of other employees, councillors, municipal entities and service providers, as required by the process plan has not been accomplished.

### 3.3 Development and implementation of key performance indicators & setting targets for key performance indicators

The municipality developed institutional key performance indicators as part of the integrated development plan review process for 2004/05 financial year. The developed key performance indicators focused on institutional targets, general managers and directors, whom have scorecards which are linked to the institutional scorecard. In terms of performance measurement process plan all other employees, councillors and service providers should have been catered for during the 2004/05 financial year. The municipality has not reviewed its key performance indicators to cater for other levels of the municipality which consist of other employees, service providers, municipal entities and councillors.

The municipality has failed to include a performance report reflecting performance targets set by the municipality for the following financial year (2004/05) in the annual report.

### 3.4 Actual service delivery

The municipality has a performance management framework for Section 57 employees and general managers, which details how the institutional performance links with employee performance and the process of tracking individual employees.

The service contracts for the section 57 employees and general managers specify the methods for tracking their performance and the intervals for reporting. However, this framework for the tracking of performance does not clarify the breakdown of the performance targets for all levels in the organisation, nor the service providers and municipal entities. There is a lack of adequate controls by management to ensure effective and efficient service delivery as the key performance indicators and performance targets at these levels have not been adopted by council.

There was no evidence obtained of community involvement nor council approval for the process that was followed to develop the service delivery institutional scorecard. This institutional scorecard was also not incorporated into the published Integrated Development Review 2005/2006.

### 3.5 Internal monitoring

The municipality has not monitored the municipality's performance with regard to each of the development priorities and objectives, key performance indicators and performance targets. There is no indication that the actual and planned results were compared and reasons for deviation(s) were investigated in order for remedial actions to be implemented. Accordingly we are unable to confirm that the municipality utilised their available resources in the most economical, efficient and effective manner in monitoring their performance.

### 3.6 Internal control

The municipality's internal auditors have not audited the performance measurement on a continuous basis, and have not submitted quarterly audit reports to the city manager and the performance audit committee. Internal audit have performed one review for the entire period from 01 July 2004 to 30 June 2005. This review was to determine the level of compliance with the legislation, and did not include a review of the functionality and reliability of the performance management system.

Although an audit committee was appointed and the audit committee charter was amended to enable the committee to perform the function of a performance audit committee, we did not obtain evidence that the performance audit committee has performed their duties as required.

### 3.7 Performance measurement and reporting

The municipality has adopted the performance management framework which will guide and assist the municipality with the preparation and implementation of a institutional performance management system. The performance management framework adopted by the council expresses what should be done and the role and responsibilities for developing and implementing performance management. It also outlines the annual process of managing of performance of the municipality which involves the following components:

- performance planning
- measurement and analysis
- reporting and reviews
- auditing and quality control

It was noted that the performance management framework has not been fully implemented as planned due to the following reasons:

- indicators and targets have not been implemented
- measurements of indicators; and analyses and reporting on the reviews have not been performed
- the annual process of reporting and review has not been followed
- there is no record of work done by the audit committee

A cycle and process of performance reporting according to the performance measurement framework has been developed. However, the performance of the municipality has not been adequately reported in the annual report of the municipality.

### 3.8 Revision of strategies and objectives

The municipality has adopted the South African Excellence Model (SAEM) as a review framework for the basis to benchmark the municipality against other municipalities and provide mechanisms for customer surveys or community feedback. However the municipality has not submitted a South African Excellence Foundation Award application for the 2004/05 financial year.

## 4. CONCLUSION

Because the above procedures do not constitute either an audit or a review made in accordance with Statements of South African Auditing Standards, I do not express any assurance on any performance measurement as at 30 June 2005.

An audit of the financial statements in accordance with statements of South African Auditing Standards was concluded and a report to this effect will be included in the annual report.

This report relates only to the specific phases of the performance management system as specified above, and does not extend to any financial statements of Buffalo City Municipality, taken as a whole.

## 5. APPRECIATION

The assistance rendered by the staff of Buffalo City Municipality during the assignment is sincerely appreciated.



S.M. Ngqwala for Auditor-General • EAST LONDON • 30 November 2005

# REPORT BY BUFFALO CITY MUNICIPALITY

ON RESULTS OF PERFORMANCE MEASUREMENT FOR THE YEAR ENDED 30 JUNE 2005

## INTRODUCTION

The Auditor General has completed the examination of the Municipality's performance management system for the year ended 30 June 2005.

The numbering in this report corresponds with the numbering used in the report of the Auditor General.

## COMMENTS

Management comments received from the respective Directorates are set out hereunder. The response of the Audit Committee after considering the management comments is set out in Annexure "D".

## 3 FINDINGS

Development of an integrated development plan

As per IDP Review, Cluster workshops are currently reviewing the KPI's.

Development and implementation of a performance management system

In terms of Council Resolution BCC104/05 a Governance Structure has been adopted by Council to ensure an integrated approach to the resolution, which includes the Institutional, Individual, Audit, Service Provider and Councillor Task Teams will be reviewed.

The roll out of Individual Performance Management System is being done in a planned and systematic manner. It was agreed to roll it out in phases. Employees in levels 3-9 during 05/06 and the balance in 06/07.

Development and implementation of key performance indicators and setting of targets for performance indicators

As per IDP Review, Cluster workshops are currently reviewing the KPI's.

## ACTUAL SERVICE DELIVERY

In terms of Council Resolution BCC104/05 a Governance Structure has been adopted by Council to ensure an integrated approach to the resolution, which includes the Institutional, Individual, Audit, Service Provider and Councillor Task Teams will be reviewed.

The roll out of Individual Performance Management System is being done in a planned and systematic manner. It was agreed to roll it out in phases.

## INTERNAL MONITORING

Once the Institutional Scorecard is approved, Management will actively measure performance against the set indicators.

## INTERNAL CONTROL

The finding correctly points out that while an internal audit was conducted it was limited to legislative compliance only. The reduction in the scope of work was requested by Management and was recorded. The report was completed at the end of the financial year and has been tabled at the Audit Committee. The Audit Committee has requested additional input from management.

Performance measurement and reporting

As per IDP Review, Cluster workshops are currently reviewing the KPI's.

Revision of strategies and objectives

As per IDP Review, Cluster workshops are currently reviewing the KPI's.

IT IS RECOMMENDED

that the comments of Management as set out in the report of the Acting City Manager to the Council meeting of 31 January 2006 be noted, accepted as the Council's comments on the Auditor General's report and be forwarded to the Auditor General and the MEC for Finance and the MEC for Local Government for the record.

A handwritten signature in black ink, appearing to read 'Magwentshu', written in a cursive style.

A P MAGWENTSHU • ACTING CITY MANAGER.

# report of the audit committee.

REPORT OF THE AUDITOR - GENERAL  
ON THE FINANCIAL STATEMENTS OF THE BUFFALO CITY MUNICIPALITY  
FOR THE YEAR ENDED 30 JUNE 2005.

## INTRODUCTION.

The Auditor - General has completed the audit of the financial position of the Municipality for the financial year ended 30 June 2005.

The Audit Committee considered the attached report of the Auditor - General together with the comments of Buffalo City management and presents its report as follows:

(The numbering in this report corresponds with the numbering used in the report of the Auditor - General.)

## 3. QUALIFICATION

### 3.1 Property Plant and Equipment

The Audit Committee notes the Auditor - General's statements and accepts and supports the comments of management as reasonable in the circumstances. The Audit Committee, however, requests that management provide timeframes for the completion of the exercise and that the implementation of the plan in this regard be communicated to both the Audit Committee and Council.

### 3.2 Leave

The Audit Committee notes the Auditor - General's statements and accepts and supports the comments of management as reasonable in the circumstances. The Audit Committee, however, requests that management provide timeframes for the completion of the exercise and that the implementation of the plan in this regard be communicated to both the Audit Committee and Council.

### 3.3 Inventory

The Audit Committee notes the Auditor - General's statement and accepts and supports the comments of management as reasonable in the circumstances. The Audit Committee however requests that management actively investigate possible methods to determine a reasonable estimate for the quantification and valuation of unsold water as well as prepaid electricity.

### 3.4 Value Added tax

The Audit Committee notes the Auditor - General's statement and accepts and supports the comments of management as reasonable in the circumstances. The Audit Committee, however, requests that management expedite the filling of the proposed position of a VAT specialist as a matter of urgency.

## 5 EMPHASIS OF MATTER

### 5.1 Revenue

The Audit Committee notes the Auditor - General's statement and, whilst accepting and supporting the comments of management as reasonable in the circumstances, believes that stringent procedures require to be put in place to ensure that the "missing" erf numbers are traced so that they may be included in the revenue base. The Audit Committee requests that management set time frames for the completion of the exercise and that the implementation of the plan in this regard be communicated to both the Audit Committee and Council.

### 5.2 Irregular expenditure

The Audit Committee notes the Auditor - General's statement and believes that no further comment is required.

### 5.3 Water distribution losses

The Audit Committee notes the Auditor - General's comments and, whilst accepting and supporting the comments of management as reasonable in the circumstances, believes that room exists for improved co-operation between the technical and financial units in facilitating the way forward.

### 5.4 Investment in associate

The Audit Committee notes the Auditor - General's statement and accepts and supports the comments of management. The Audit Committee further emphasises that, once the guidelines for consolidated financial statements are approved, the legislated requirements should be fully complied with.

### 5.5 Budget comparatives

The Audit Committee notes the Auditor - General's statements and accepts and supports the comments of management.

### 5.6 Annual financial Statements

The Audit Committee notes the Auditor - General's statements and accepts and supports the comments of management.

### 5.7 Internal audit

The Audit Committee notes the Auditor - General's statements and accepts and supports the comments of management. A separate submission in this regard has been addressed to the Speaker for tabling with Council.

### 5.8 Special investigations

The Audit Committee notes the Auditor - General's statements and believes no further comment is necessary at this time.

### 5.9 Municipal officials suspended

The Audit Committee notes the Auditor - General's statements and believes no further comment is necessary at this time.

## CONCLUSION

The Audit Committee is of the opinion that the issues raised by the Auditor – General, and particularly those which resulted in the qualification of the report, require an urgent and concerted response from management in accordance with rigorously monitored timeframes.

Having regard to the foregoing comments, the Audit Committee therefore

## RECOMMENDS

that the comments of Management as set out in the attached report of the Acting City Manager be noted and accepted by Council.



C.R. GUEST • CHAIRPERSON: BUFFALO CITY AUDIT COMMITTEE.

# REPORT OF THE AUDIT COMMITTEE.

REPORT OF THE AUDITOR - GENERAL

ON PERFORMANCE MEASUREMENT FOR THE YEAR ENDED 30 JUNE 2005.

## INTRODUCTION

The Auditor - General has completed the audit of the financial position of the Municipality for the financial year ended 30 June 2005.

The Audit Committee considered the attached report of the Auditor -General together with the comments of Buffalo City management and presents its report as follows:

(The numbering in this report corresponds with the numbering used in the report of the Auditor General.)

### 3.1 Development of an integrated development plan

The Audit Committee notes the Auditor - General's statement and accepts and supports the comments of management as reasonable in the circumstances. The Audit Committee, however, requests that management determine a plan and set timeframes for the establishment and adoption of the key performance indicators and performance targets.

### 3.2 Development and implementation of a performance management system

The Audit Committee notes the Auditor - General's statement and accepts and supports the comments of management as reasonable in the circumstances. The Audit Committee, however, requests that management continuously monitor and adheres to the plan and ensure compliance with the agreed timeframes for the completion of the exercise.

### 3.3 Development and implementation of key performance indicators and setting of targets for performance indicators

Refer to comments under paragraph 3.1

### 3.4 Actual service delivery

Refer to comments under paragraph 3.1

### 3.5 Internal monitoring

Refer to comments under paragraph 3.1

### 3.6 Internal control

The Audit Committee notes the Auditor - General's statement and supports the comments of management. The Audit Committee reports that it has considered the report prepared (which draws similar conclusions to those of the Auditor - General) and has requested additional input from management which information currently remains outstanding.

3.7 Performance measurement and reporting

Refer to comments under paragraph 3.1

3.8 Revision of strategies and objectives

Refer to comments under paragraph 3.1

Having regard to the foregoing comments, the Audit Committee therefore

**RECOMMENDS**

that the comments of Management as set out in the attached report of the Acting City Manager be noted and accepted by Council.

A handwritten signature in black ink, appearing to read "C.R. Guest". The signature is stylized with a large, sweeping loop at the bottom.

C.R. GUEST • CHAIRPERSON: BUFFALO CITY AUDIT COMMITTEE.

# REPORT OF THE AUDITOR-GENERAL ON THE CONSOLIDATED FINANCIAL STATEMENTS

TO THE COUNCIL OF THE BUFFALO CITY MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2005

The Auditor General has issued a final Audit Report on the Consolidated Financial statements of Buffalo City Municipality for the period ended 30 June 2005.

The Committee will recall that the Audit Report for Buffalo City [unconsolidated] was considered by the Audit Committee during January 2006.

The report has now been received from the Auditor General. The following clauses are the clauses which now need to be considered by the Audit Committee:

## 5.6 Annual financial statements

In terms of section 126(1)(a) of the Municipal Finance Management Act (no. 56 of 2003) the accounting officer of the municipality must within two months after the end of the financial year submit the annual financial statements to the Auditor General for auditing. Material changes had to be made to the financial statements submitted on 31 August 2005 and the financial statements of the municipality were subsequently re-signed and dated on 30 November 2005.

The financial statements of the Buffalo City Development Agency were not submitted to the Office of the Auditor General within two months of the financial year end. The financial statements were received on 14 September 2005. In addition, material changes had to be made to the financial statements submitted and the financial statements were subsequently withdrawn and re-submitted on 9 January 2006.

In terms of section 126(1) (b) of the Municipal Finance Management Act (no. 56 of 2003) the accounting officer of the municipality must within three months after the end of the financial year submit the consolidated annual financial statements to the Auditor General for auditing. Guidance on the preparation of consolidated annual financial statements was requested by Buffalo City Municipality from National Treasury to which no response has yet been obtained. The consolidated annual financial statements were only received on 13 December 2005, more than five months after the end of the financial year."

## MANAGEMENT COMMENT

While noting the statement, the point is respectfully made that the lack of detailed guidelines on consolidations made compliance with the provisions of legislation impractical.

## 5.8 Establishment of the Buffalo City Development Agency

National and Provincial Treasury, the national and provincial departments responsible for local government were not consulted for their views and recommendations regarding the establishment of the Buffalo City Development Agency in terms of Section 84(2) of the Municipal Finance Management Act."

## MANAGEMENT COMMENT

Legal opinion will be sought relating to the legalities of the procedures followed where after any procedural irregularities will be corrected.

## 5.9 Directors of municipal entity

Section 93F of the Municipal Systems Act, 2000 (Act No. 32 of 2000 as amended) states, inter alia, that a person is not eligible to be a director of a municipal entity if he or she holds office as a councilor of any municipality; or is an official of the parent municipality of that municipal entity.

From documentation and correspondence reviewed, we have determined that the Board of Directors of the Buffalo City Development Agency during the period ended 30 June 2005 was comprised of the Buffalo City Municipality Executive Mayor and City Manager. This appears to be contrary to the requirements of the abovementioned act. The above officials have been replaced on the board of directors subsequent to year end."

## MANAGEMENT COMMENT

At the time of the financial year-end, the Board was made up of two Directors, namely Mr. S Maclean (Executive Mayor) and Mr. M Tsika (City Manager). The Local government: Municipal Systems Act, [section 93F] disqualifies these individuals from holding the position of Director in the Agency. The properly constituted Board has since been appointed on the 1st September 2005 and the first Board meeting was held on the 13th September 2005. The Agency has also made a request to the Municipality for the appointment of three additional Board members.

### 5.10 Service delivery agreement

No service delivery agreement could be obtained between the Buffalo City Development Agency, being a municipal entity and its parent municipality, the Buffalo City Municipality.

This constitutes non-compliance with section 76(b) (i) of the Municipal Systems Act.”

## MANAGEMENT COMMENT

The draft service delivery agreement was received in November 2005. Comments were factored into the document which was sent back to the Agency in December 2005. However, as the service delivery agreement is likely to be extremely involved and will require in depth consultations with various stakeholders it was agreed that a Memorandum of Agreement would be drafted referring also to a service level agreement. In the short to medium term the Memorandum of Agreement will hold in place of a formal service level agreement.

### 5.11 Financial support for the Buffalo City Development Agency

The ability of the Buffalo City Development Agency to continue as a going concern is dependent on the continued financial support of its funders. The budget allocation from the Buffalo City Municipality for the 2005/2006 financial year of R 1 million was only received by Buffalo City Development Agency on 22 November 2005. This has resulted in the agency experiencing cash flow deficiencies in the first five months of the new financial year.

Unutilised conditional grant funding from the Buffalo City Municipality and the Industrial Development Corporation has been utilised subsequent to year end to fund operational expenditure. These funds have not been spent in accordance with the purposes for which they were intended.”

## MANAGEMENT COMMENT

The comment is noted and the delay with the transfer of funds has been dealt with and is unlikely to occur again.”

## RECOMMENDATION

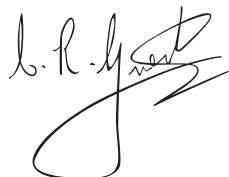
The Audit Committee therefore

### RECOMMENDS

That the comments of management as set out in the body of the report be adopted and approved by Council and that these comments be incorporated into the Annual Report.

That legal opinion relating to establishment of the Buffalo City Development Agency be sought as a matter of urgency to ensure that the correct procedures relating to establishment are complied with.

That every effort be made to ensure that in the short term the Memorandum of agreement between the Municipality and the Buffalo City Development Agency is signed and that thereafter the required Service Level agreement be compiled and signed.



C R GUEST • CHAIRPERSON: BUFFALO CITY MUNICIPALITY AUDIT COMMITTEE

# oversight report

The Annual Report was tabled at the Buffalo City Municipality Council meeting held on 28 February 2006. The Council unanimously approved the Annual Report 2004/2005.

