

THE MSUNDUZI MUNICIPALITY

APPENDIX G

CONDITIONAL GRANTS AND RECEIPTS AT 30 JUNE 2006

	UNSPENT BALANCE 1-Jul-2005	CURRENT YEARS RECEIPTS	INTEREST ALLOCATED	TRANSFER TO REVENUE OPERATING EXPENDITURE	TRANSFER TO REVENUE CAPITAL EXPENDITURE	TRANSFERS	UNSPENT BALANCE 30-Jun-2006
NATIONAL GOVERNMENT							
Various as per attached schedule	(79,007,360)	(195,460,563)	-	-	-	185,814,819	(88,653,104)
PROVINCIAL GOVERNMENT							
Various as per attached schedule	(1,443,326)	(18,919,721)	-	-	-	13,284,482	(7,078,565)
	(80,450,686)	(214,380,284)	-	-	-	199,099,302	(95,731,668)
OTHER GRANTS							
Various as per attached schedule	(5,320,614)	(369,591)	-	-	-	476,403	(5,213,801)
	(85,771,300)	(214,749,875)	-	-	-	199,575,705	(100,945,469)



THE MSUNDUZI MUNICIPALITY
APPENDIX G1

Account No:	Account Description	Unspent Balance @ 1 July 2005	Transfers	Current Year Receipts	Unspent balance @ 30 June 2006	Grant Type	Source Code
PMB5488980001	DEVELOPMENT CAPACITY BUILDING PROJECT		146,903.20	(282,281.49)	-135,378.29	CAPAC	NT
PMB0108960001	GRANT COMMUNITY DEVELOPMENT WORKERS		-	(131,014.89)	-131,014.89	COMM	NT
PMB5118960018	UNSPENT CONDITIONAL GRANT - EDN CORRIDOR		983,364.26	(984,861.42)	-1,497.16	EDN	NT
PMB0358980801	FMG-GRANT INCOME	(2,110,429.24)	2,500,559.77	(2,709,360.68)	-2,319,230.15	FMG	NT
PMB2858960001	GEDI - GIJIMA FUNDS		349,512.85	(573,512.85)	-224,000.00	GEDI	NT
PMB0118960002	GRANT DPLG AMENDMENT IDP		-	(50,000.00)	-50,000.00	IDP	NT
PMB2408970003	AQUISITIONS OF PTY LAND - EDN	(21,672,036.98)	2,353,532.98	(1,620,525.75)	-20,939,029.75	LAND	NT
PMB0608960012	MIG	-	46,869,497.74	(73,611,824.35)	-26,742,326.61	MIG	NT
PMB5268960001	ICT INTERDEPT MONITORING GRANT		105,992.62	(140,000.00)	-34,007.38	MON	NT
PMB7138960015	TIME HOUSING EDENDALE EXT A A/DOWN		5,025,802.24	(5,328,843.24)	-303,041.00	NER	NT
PMB5018960001	GRANT DPLG PERFORMANCE MGT SYSTEM		50,000.00	(100,000.00)	-50,000.00	PFM	NT
PMB5608960010	PHB	-	22,509,974.76	(41,181,702.16)	-18,671,727.40	PHB	NT
PMB0608850363	RDP IRC CLAIMS FROM CED	(4,208,592.14)	54,975,091.99	(57,804,817.07)	-7,038,317.22	RDP	NT
PMB0358980803	RE - STRUCTURING PROJECT PLAN	(42,963,175.51)	41,928,366.00	-	-1,034,809.51	RSG	NT
PMB0358980804	RSG - INVESTMENT ACCOUNT - INTEREST REC.	(7,327,466.96)	594,676.15	(2,875,731.44)	-9,608,522.25	RSG	NT
PMB5308960001	SETA DISCRETIONERY GRANT	(406,769.12)	413,163.01	(265,686.47)	-259,292.58	SETA	NT
PMB5608960001	STORM DAMAGE - DOH FUNDING		6,684,555.40	(7,600,401.00)	-915,845.60	STORM	NT
PMB5118960003	GRANT - WARD 3 5 6		4,936.20	(200,000.00)	-195,063.80	WARD	NT
PMB3578980001	GRANT - HIV/AIDS PROGRAMME	(68,890.07)	68,890.07	-	-	ZOTH	NT
PMB5308960002	GRANT - DEV.ADMIN CAPACITY BUILDING	(250,000.00)	250,000.00	-	-	ZOTH	NT
		(79,007,360.02)	185,814,819.24	(195,460,562.81)	(88,653,103.59)		

THE MSUNDUZI MUNICIPALITY
APPENDIX G1

Account No:	Account Description	Unspent Balance @ 1 July 2005	Transfers	Current Year Receipts	Unspent balance @ 30 June 2006	Grant Type	Source Code
PMB2848970001	AWARDS RECEIVED	(36,227.66)	15,000.00	-	-21,227.66	AWARDS	OG
PMB1808980001	PRICE AWARD - CLEANEST CITY	(38,527.83)	-	-	-38,527.83	CLEAN	OG
PMB0138970002	COMMUNITY COMMUNICATION INITIATIVE	(50,000.00)	668.62	(668.62)	-50,000.00	COMM	OG
PMB2938960001	DBSA - STORM REHAB. FUND	(200,000.00)	-	-	-200,000.00	STORM	OG
PMB8328760903	CEMETERY ACCOUNT	(10,376.88)	-	(1,508.40)	-11,885.28	TRUST	OG
PMB8328760922	CEMETERY TRUST ACCOUNT	-	-	-	-	TRUST	OG
PMB8348760907	JOHN HARDY ACCOUNT	(217.45)	-	-	-217.45	TRUST	OG
PMB8428760842	PMB FLOOD DISASTER	(30,989.32)	-	-	-30,989.32	TRUST	OG
PMB8428010001	CONT:IMBALI FLOOD VICTIMS - PMB FLOOD VICTIMS	(60,858.00)	-	-	-60,858.00	TRUST	OG
PMB8358760909	PATRIOTIC LEAGUE ACCOUNT	(41,287.59)	734.16	(1,676.00)	-42,229.43	TRUST	OG
PMB8368760911	PEARSE ACCOUNT	(1,185,536.08)	18,635.75	(117,179.74)	-1,284,080.07	TRUST	OG
PMB0608750004	DISASTER RELIEF RESERVE	(103,350.54)	103,350.54	-	-	TRUST	OG
PMB8378760913	WELCH ACCOUNT	(322,809.89)	4,109.65	(15,754.40)	-334,454.64	TRUST	OG
PMB8388760916	MARIA KINSMAN ACCOUNT	(581,088.81)	33,656.71	(44,075.62)	-591,487.72	TRUST	OG
PMB8408760915	CEMETERY ACCOUNT (M/RISE)	(2,288,323.65)	-	(4,284.00)	-2,292,607.65	TRUST	OG
PMB8408760922	CEMETERY TRUST ACCOUNT (M/RISE) INTEREST	-	182,205.31	(178,913.00)	3,292.31	TRUST	OG
PMB8418760906	FLEMING TRUST ACCOUNT	(67,162.51)	1,145.42	(2,849.20)	-68,866.29	TRUST	OG
PMB8398760908	MAYORESS NECESSITY FUND	(69,620.04)	407.10	(2,681.60)	-71,894.54	TRUST	OG
PMB8398760924	MAYORESS CHARITY BALL SUSPENSE ACCOUNT	(925.20)	-	-	-925.20	TRUST	OG
PMB8438760925	REFUGEES ACCOUNT	(60,603.83)	-	-	-60,603.83	TRUST	OG
PMB3588970003	USAID AIDS EDUCATOR TRAINING	(2,090.00)	-	-	-2,090.00	USAID	OG
PMB3588970004	USAID EDUCATIONAL TECHNIQUES	(2,400.00)	-	-	-2,400.00	USAID	OG
PMB3588970005	USAID PROJECT MANAGEMENT TRAINING	(2,210.85)	-	-	-2,210.85	USAID	OG
PMB3588970006	USAID MENTORING AND SUPPORT	(8,830.40)	-	-	-8,830.40	USAID	OG
PMB3588970008	USAID PAYMENT FOR COMMUNITY TRAINING	(4,560.80)	-	-	-4,560.80	USAID	OG
PMB3588970010	USAID DROPIN CENTRES	(12,672.86)	-	-	-12,672.86	USAID	OG
PMB3588970011	USAID HOME BASED CARE TRAINING	(29,973.27)	6,500.00	-	-23,473.27	USAID	OG
PMB0358980806	GRANT - INTERDEPARTMENTAL MONITORING	(60,000.00)	60,000.00	-	-	ZOTH	OG
PMB0358980807	GRANT - MANAGEMENT AUDIT	(49,990.00)	49,990.00	-	-	ZOTH	OG
		(5,320,613.46)	476,403.26	(369,590.58)	(5,213,800.78)		



**THE MSUNDUZI MUNICIPALITY
APPENDIX G1**

Account No:	Account Description	Unspent Balance @ 1 July 2005	Transfers	Current Year Receipts	Unspent balance @ 30 June 2006	Grant Type	Source Code
PMB3578970025	WORLD AIDS DAY	(58,831.53)	69,831.53	-	11,000.00	AIDS	PG
PMB3458970006	FOOD AID PROGRAMME	(70,104.49)	-	-	-70,104.49	FOOD	PG
PMB3478970001	ENVIRONMENTAL HEALTH	(1,823.09)	-	-	-1,823.09	HEALTH	PG
PMB5278980001	I.D.P. FUND FROM DEPT. OF LG&H	(727,566.90)	48,308.06	-	-679,258.84	IDP	PG
PMB5458960001	PROV.CONDITIONAL GRANT - IDP	-	-	(50,000.00)	-50,000.00	IDP	PG
PMB0608960014	UNSPENT GRANT : LIBRARY EXTERNAL	-	-	(5,362,582.61)	-5,362,582.61	LIBR	PG
PMB0608960013	PROVINCE	-	12,807,995.89	(13,297,138.46)	-489,142.57	PROV	PG
PMB7878980801	GRANT - WATER SERVICE DELIVERY PLANNING	(200,000.00)	-	(210,000.00)	-410,000.00	WATER	PG
PMB7878980802	GRANT - ASSESSMENT OF SERVICE DELIVERY MECHANISMS	(385,000.00)	358,346.75	-	-26,653.25	WATER	PG
		(1,443,326.01)	13,284,482.23	(18,919,721.07)	(7,078,564.85)		
		(85,771,299.49)	199,575,704.73	(214,749,874.46)	(100,945,469.22)		

**SAFE CITY PIETERMARITZBURG
(ASSOCIATION INCORPORATED UNDER SECTION 21)
REGISTRATION NUMBER: 2005/007386/08**

Annual financial statements

For the year ended 30 june 2006

CONTENTS	PAGE
Report of the independent auditors	91
Chairman's report	92
- Annexure to chairman's report	93
Report of the directors	95
Income statement	97
Balance sheet	98
Cash flow statement	99
Notes to the cash flow statement	100
Accounting policies	101
Notes to the annual financial statements	102
Detailed income statement	105
List of contributors	106



APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The annual financial statements and other financial information set out in this annual report were prepared by the directors in conformity with International Financial Reporting Standards applied on a consistent basis.

The manner of presentation of the annual financial statements, the selection of accounting policies and the integrity of the financial information are the responsibility of the directors.

The directors are also responsible for the systems of internal control. These are designed to provide reasonable but not absolute, assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of assets, and to prevent and detect material misstatement and loss. The systems are implemented and monitored by suitably trained personnel with an appropriate segregation of authority and duties. Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The annual financial statements are prepared on a going concern basis. Nothing has come to the attention of the directors to indicate that the association will not remain a going concern for the foreseeable future.

The annual financial statements set out on pages 2 to 12 were approved by the Board of Directors on 29 July 2006 and are signed on its behalf by:-

.....
DIRECTOR

.....
DIRECTOR

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF SAFE CITY PIETERMARITZBURG

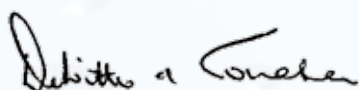
We have audited the annual financial statements of Safe City Pietermaritzburg set out on pages 7 to 12 for the year ended 30 June 2006. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we 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 financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In common with similar organisations, it is not feasible for the association to institute accounting controls over cash collections from donations prior to initial entry of the collections in the accounting records. Accordingly, it was impracticable for us to extend our examination beyond the receipts actually recorded.

In our opinion, except for the effect on the financial statements of the matter referred to in the preceding paragraph, the financial statements fairly present, in all material respects, the financial position of the association at 30 June 2006 and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Companies Act in South Africa.

The detailed income statements and list of contributors set out on pages 13 and 14 do not form part of the annual financial statements and are presented solely for the information of the members. Accordingly, we do not express an opinion on these schedules.



DELOITTE & TOUCHE
PER D MCARTHUR
PARTNER
PIETERMARITZBURG

29 JULY 2006

AUDIT . TAX . CONSULTING . FINANCIAL ADVISORY .

National Executive Partners: V Naidoo Chief Executive RMW Dunne Chief Operating Officer
TJ Brown Audit DL Kennedy Tax GG Gelink Consulting MG Crisp Financial Advisory
OS Arbee IRM Law
RK Store Chairman of the Board NT Mtoba Deputy Chairman of the Board
Regional Partner: AG Waller

A full list of partners is available on request

A member firm of
Deloitte Touche Tohmatsu



Chairman's Report

For the year ended 30 June 2006

There has been major progress by iVision in obtaining ISO 9000 quality control accreditation. We expect this milestone to be achieved within the next month or two. This achievement will ensure that the total Safe City operation adheres strictly to the operation procedures.

Phase IV of the project was completed during the year which has incorporated a complete re-wiring of the Control Centre with an upgrade in recording capacity from 14 days to 28 days. The Control Centre was also expanded to its final stage with 5 control desks each handling 12 cameras. The cameras however, will be installed during Phase V which will take place before the year-end of 2006. Phase IV brings the total number of cameras to 49. In Phase V we plan to install 2 mobile cameras as soon as we can finalise the communication method and bring the total number to 60.

Safe City was declared a Municipal Entity in terms of the Municipal Finance and Management Act. We are in the process of finalising all the requirements. In order to comply, all the Municipal Directors including the Chairman had to resign from the Board. We are awaiting the appointment of new Directors by the Municipality. In terms of the Act we have to enter into a new agreement between Safe City PMB (incorporated as a Section 21 company) and the Municipality. The agreement has been drafted and we wait for the signing of this document.

Safe City has continued to operate as a company with the existing Directors who number 7 in total. We need at least another 5 Directors to be appointed.

The performance of Safe City has been mixed with some excellent results in terms of arrests but poor response to call outs for incidents of crimes. This has had a negative effect on the overall performance. SAPS have also decided to make use of Safe City response units to attend to Loop Street Police Station complaints, which has aggravated the situation. We are hoping that SAPS will reverse their decision with regard to using our vehicles for other duties.

There has been a tendency for crime to increase in the city this year compared to last year and the Security Guard strike increased this tendency. The reluctance on behalf of the public to lay a charge remains a problem, which often leads to criminals being released to continue with their crimes.

Two new vehicles were arranged for the Safe City response crew, one was donated directly by the Umgungunglovu District Municipality, to the South African Police Force.

A lot more work needs to be done with the Courts as too many cases are withdrawn where footage proving the suspects participation in criminal activities is available.

We look forward to completing this project in the next few months.

There is no doubt that if the camera unit were to be closed, that crime would double within a few months. We expect to effect about 400 arrests this calendar year which will be an all time record. (See attached).

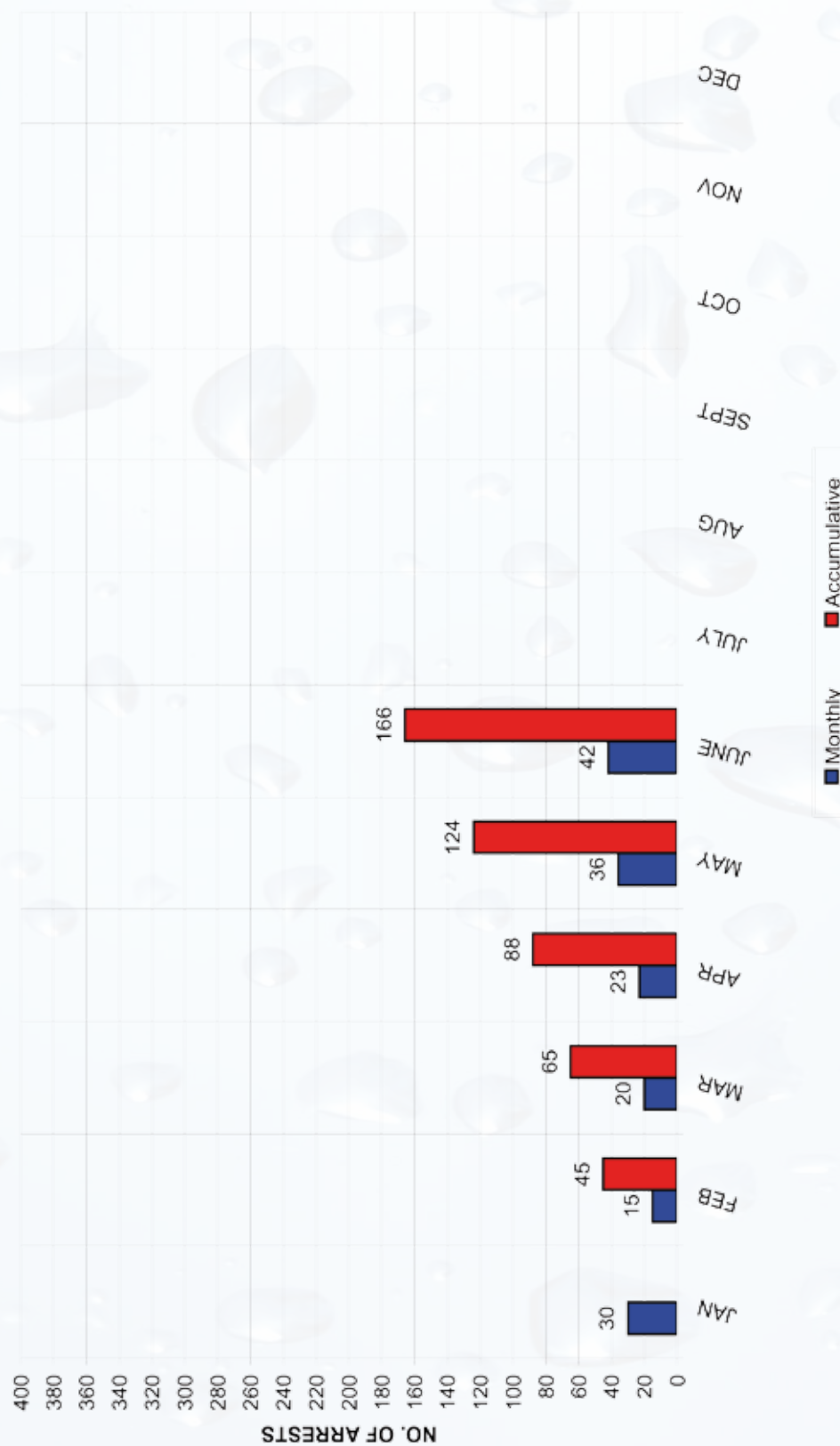
I would like to thank the Directors and staff for their dedication and effort in making the project one of the most proactive in the country.

.....
CHAIRMAN

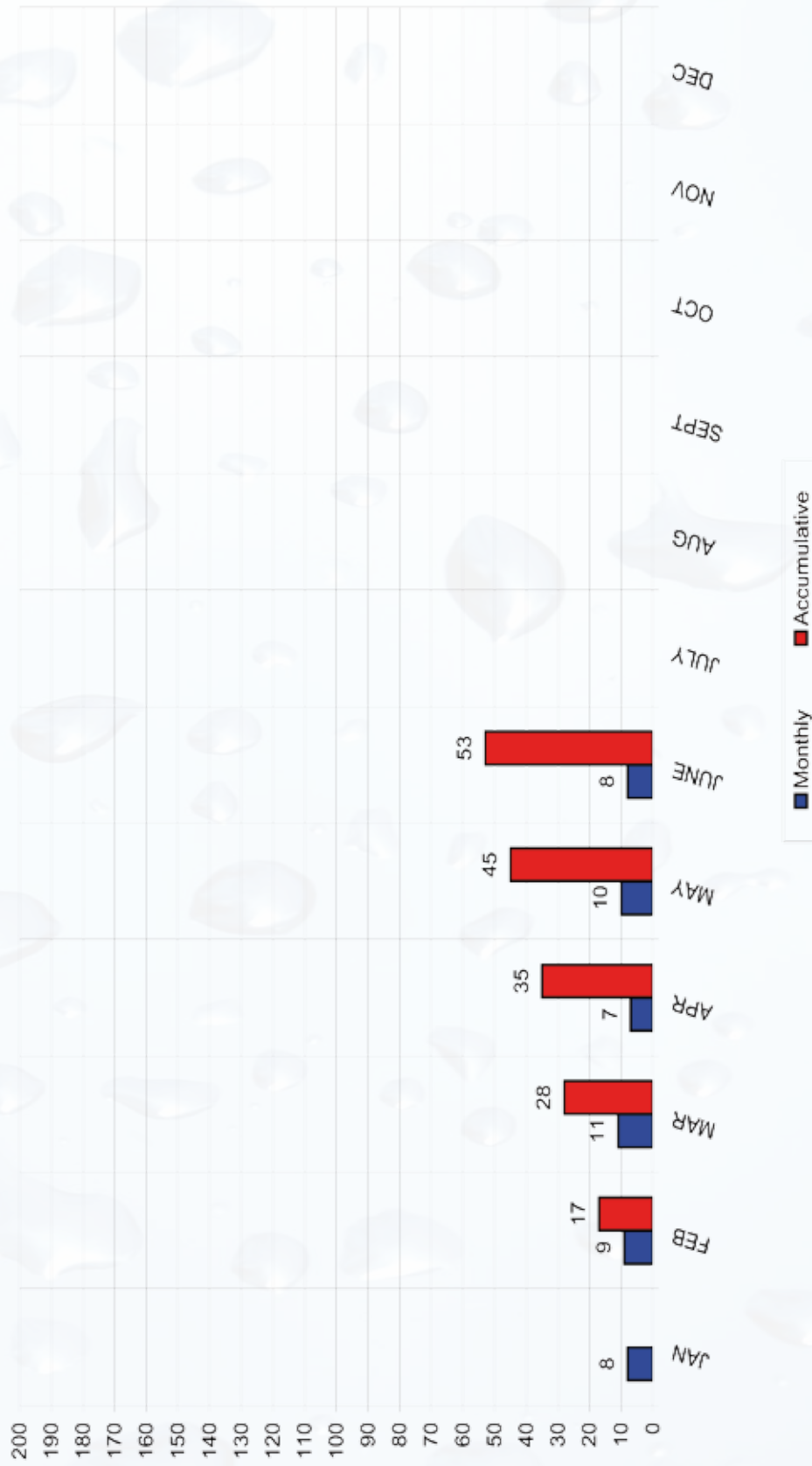
Annexure to Chairman's Report

For the year ended 30 June 2006

CAMERA UNIT - NO. OF ARRESTS - TARGET 259



**CAMERA UNIT - ARRESTS OUT OF CAMERA VIEW 2006
TARGET 167**



Report of the Directors

For the year ended 30 June 2006

The directors have pleasure in presenting their report for the year ended 30 June 2006.

REVIEW OF THE OPERATIONS FOR THE YEAR

The financial position of the association at 30 June 2006 is set out in the attached annual financial statements. The income statement reflects an operating surplus (deficit) for the year of R121 763 (2005: R14 721).

SUBSEQUENT EVENTS

No material fact or circumstances has occurred between the accounting date and the date of this report.

DIRECTORS

The following members acted as directors during the year under review:

W D Winship	
P Warmington	
G W Pascoe	(resigned 01/02/2006)
V C Biggs	
R Morar	(resigned 30/01/2005)
P Henwood	
M Ghela	
R P Stuart	
Cllr T A Zungu	(resigned 01/02/2006)
Dir P Maharaj	
Cllr H Zondi	(resigned 01/02/2006)
Cllr V Baijoo	(resigned 01/02/2006)

CHAIRMAN

No chairman appointed as yet.

PUBLIC OFFICER

W D Winship

PLACE OF BUSINESS

City Hall
Commercial Road
PIETERMARITZBURG
3201

NATURE OF BUSINESS

An Association between business, the local authority, the community, government and non-government organisations to proactively combat crime in Pietermaritzburg.

AUDITORS

Deloitte & Touche



BANKERS

First National Bank

ACKNOWLEDGEMENTS

Deloitte & Touche for their engagement in carrying out a partly honorary audit for Safe City.



Income Statement

For the year ended 30 June 2006

	Note	2006	2005
		R	R
Revenue		2 058 632	1 907 263
Interest received		53 185	57 402
Other income		161	36 246
		<hr/>	<hr/>
Total income		2 111 978	2 000 911
Operating expenses		1 990 215	2 015 632
		<hr/>	<hr/>
Operating surplus/(deficit) for the year	1	121 763	(14 721)
Transfers to reserves		121 763	14 721
- Non-distributable reserve - General	4	121 763	14 721
SURPLUS/(DEFICIT) for the year		<hr/> <hr/>	<hr/> <hr/>



Balance Sheet

As at 30 June 2006

	Notes	2006 R	2005 R
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	3	12 761	3 306
CURRENT ASSETS			
Accounts receivable		195 000	-
Cash on hand and balances with banks		996 125	1 083 295
TOTAL ASSETS		1 203 886	1 086 601
EQUITY AND LIABILITIES			
EQUITY RESERVES			
Non-distributable reserve - general	4	901 682	779 919
CURRENT LIABILITIES			
Accounts payable		291 335	306 682
Bank overdraft		10 869	-
TOTAL EQUITY AND LIABILITIES		1 203 886	1 086 601

Cash Flow Statement

For the year ended 30 June 2006

	Notes	2006 R	2005 R
OPERATING ACTIVITIES			
Cash receipts from donors		1 863 632	1 943 509
Cash paid to suppliers and employees		<u>(1 898 249)</u>	<u>(2 086 804)</u>
Cash (utilised in) operations	A	(34 617)	(143 295)
Interest received		53 185	57 402
Interest paid		<u>-</u>	<u>(5)</u>
Net cash from/(used in) operating activities		<u>18 568</u>	<u>(85 898)</u>
INVESTING ACTIVITIES			
Additions to property, plant and equipment		(116 607)	(3 500)
Disposal of property, plant and equipment		<u>-</u>	<u>-</u>
Net cash flow (used in) investing activities		<u>(116 607)</u>	<u>(3 500)</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS		(98 039)	(89 398)
Cash and cash equivalents at beginning of the year		<u>1 083 295</u>	<u>1 172 693</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	B	<u><u>985 256</u></u>	<u><u>1 083 295</u></u>



Notes to the Cash Flow Statement

For the year ended 30 June 2006

	2006 R	2005 R
A. RECONCILIATION OF OPERATING SURPLUS/(DEFICIT) FOR THE YEAR TO CASH (UTILISED IN) OPERATIONS		
Operating surplus/(deficit) for the year	121 763	(14 271)
Adjustment for:		
Interest received	(53 185)	(57 402)
Interest paid	-	5
Depreciation	4 178	194
Write-off of motor vehicle	102 974	-
	175 730	(71 924)
 Working capital changes		
(Increase)/decrease in accounts receivable		2 732
(Decrease)/increase in accounts payable	(15 347)	(74 102)
	(34 617)	

B. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand and balances with banks. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

Bank overdraft	(10 869)	-
Bank	996 125	
	985 256	
Total	985 256	-

Accounting Policies

For the year ended 30 June 2006

1. ADOPTION OF NEW AND REVISED INTERNATIONAL REPORTING STANDARDS

In the current year, the Board has adopted all the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods on 1 January 2004. There was no impact on the annual financial statements as a result of the change.

2. BASIS OF ACCOUNTING

The annual financial statements have been prepared on the historical cost basis.

2.1 Revenue

Revenue comprises cash contributions from the community and does not include contributions in specie.

2.2 Interest

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

2.3 Property, plant and equipment

Property, plant and equipment are depreciated over their useful life.

Furniture & fittings	20%
Computer equipment	33 $\frac{1}{3}$ %
Other	20%



Notes to the Annual Financial Statements

For the year ended 30 June 2006

2006
R **2005**
R

1. OPERATING SURPLUS/(DEFICIT) FOR THE YEAR

Operating surplus/(deficit) for the year is stated after:

Audit fees		
- current year	7 000	7 020
Depreciation	4 178	194
Staff costs	1 517 534	1 393 261
Bad debts written-off	-	23 170

2. TAXATION

No provision for taxation is necessary, as the income of the Association is exempt in terms of section 10(1)(cB) of the Income Tax Act, 1962, as amended.

	Cost	Depreciation	Net Book Value
	R	R	R

3. PROPERTY, PLANT AND EQUIPMENT

2006

Computer equipment	10 133	(2 720)	7 413
Furniture and fittings	-	-	-
Office equipment	7 000	(1 652)	5 348
	<u>17 133</u>	<u>(4 372)</u>	<u>12 761</u>

7 413

	Cost	Depreciation	Net Book Value
	R	R	R
2005			
5 348 Computer equipment	-	-	-
12 761 Furniture and fittings	-	-	-
Office equipment	3 500	(194)	3 306
	<u>3 500</u>	<u>(194)</u>	<u>3 306</u>

	Net Book value at beginning of year	Additions	Disposals	Depreciation	Net Book Value
	R	R	R	R	R
Reconciliation of net book value at beginning of the year to net book value at end of the year.					
Motor vehicles	-	102 974	(102 974)	-	-
Computer equipment	-	10 133	-	(2 720)	-
Furniture and fittings	-	-	-	-	-
Office equipment	3 306	3 500	-	(1 458)	
Total 2006	<u>3 306</u>	<u>116 607</u>	<u>(102 974)</u>	<u>(4 178)</u>	
Total 2005	<u>-</u>	<u>3 500</u>	<u>-</u>	<u>(194)</u>	<u>3 306</u>



4. NON-DISTRIBUTABLE RESERVE - GENERAL

The Association is registered under Section 21 of the Companies Act, 1973, as an incorporated association not for gain and, as such, no part of its income and property shall be transferred to members, directly or indirectly. All reserves of the Association are therefore non-distributable and may only be utilised towards the cost of projects and initiatives and meeting any shortfall in expenditure.

Balance at beginning of the year	779 919	794 640
Operating surplus/(deficit) for the year	121 763	(14 721)
	<u>901 682</u>	<u>779 919</u>

5. RELATED PARTY TRANSACTIONS

The following transactions were conducted at arms length between a related party:

Secretarial fees and telephone expenses received:

Business Against Crime	-	36 246
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The following amount is recovered by a related party at year end:

Business Against Crime	161	-
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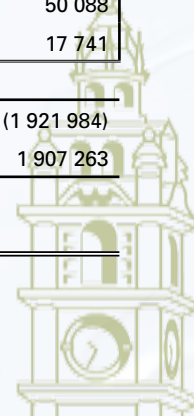
The following amount is owing by a related party at year end:

Business Against Crime	-	161
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Detailed Income Statement

For the year ended 30 June 2006

	2006	2005
	R	R
REVENUE		
Interest received	53 185	57 402
Other income	161	36 246
	<hr/>	<hr/>
TOTAL INCOME	53 346	93 648
Less: ADMINISTRATION EXPENDITURE	(1 990 215)	(2 015 632)
Accounting fees	7 221	5 858
Administration fees	214 853	311 851
Assets written off	6 670	1 629
Audit fees		
- current	7 200	6 639
- underprovision	-	381
Bad debts written off	-	23 170
Bank charges	2 170	2 005
Cleaning	5 303	4 463
Depreciation reversal of donated item	(5 149)	-
Depreciation	9 327	194
Donation of motor vehicle	102 974	-
Electricity and water	12 333	9 835
General expenses	1 768	3 587
Interest paid	-	5
Installations expense	-	9 760
Motor vehicle expenses	390	350
Staff costs	1 517 534	1 393 261
Printing and stationery	14 800	9 454
Repairs and maintenance	42 596	165 361
Telephone and fax	30 165	50 088
Training	20 060	17 741
	<hr/>	<hr/>
OPERATING DEFICIT after administration expenditure	(1 936 869)	(1 921 984)
CONTRIBUTIONS received	2 058 632	1 907 263
	<hr/>	<hr/>
OPERATING SURPLUS/(DEFICIT) FOR THE YEAR	121 763	(14 721)



List of Contributors

For the year ended 30 June 2006

	2006	2005
	R	R
Msunduzi Municipality (inclusive of VAT)	2 340 000	2 160 600
Donations - Remax	6 000	12 000



3.3 Report of the Auditor-General

1. AUDIT ASSIGNMENT

The financial statements and consolidated financial statements as set out on pages 1 to 36, for the year ended 30 June 2006, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996, read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 126(3) of the Local Government: Municipal Finance Management Act, 2003 (Act No, 56 of 2003) (MFMA). These financial statements are the responsibility of the accounting officer My responsibility is to express an opinion on these financial statements, based on the audit.

2. SCOPE

The audit was conducted in accordance with the International Standards on Auditing read with *General Notice 1512 of 2006*, issued in *Government Gazette* No, 29326 of 27 October 2006. 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 in the financial statements
- assessing the accounting principles used and significant estimates made by management
- evaluating the overall financial statement presentation. I believe that the audit provides a reasonable basis for my opinion.

3. BASIS OF ACCOUNTING

The municipality and the municipal entity are required to prepare financial statements and consolidated financial statements on the basis of accounting determined by the National Treasury, as described in the accounting policy note 1 to the financial statements.



4. QUALIFICATION

The qualifications listed below resulted from the following severe control weaknesses:

- The Standards of Generally Accepted Municipal Accounting Practice (GAMAP) and Standards of Generally Accepted Accounting Practice (GMP) were not correctly implemented.
- Inadequate monitoring and independent reviewing.
- The absence of a proper training strategy and programme to prepare staff for the changes in the accounting standards for local government.
- Failure to adhere to the financial accounting and internal control systems.
- Failure to adhere to the financial accounting standards and policies.

4.1 Property, plant and equipment

Due to the following material weaknesses in the management of fixed assets, I am not able to conclude on the completeness, existence and valuation of property, plant and equipment:

- Land (R25,5 million) and buildings (R25,4 million) were not recorded in the fixed asset register.
- Assets of R66,9 million were recorded with insufficient asset descriptions in the fixed asset register and duplicate asset numbers in certain cases;
- Certain assets were recorded with a nil cost price in the fixed asset register.
- Fixed asset additions of R191J 000 were not recorded in the fixed asset register.
- Selected assets amounting to R2 million could not be physically verified.
- Certain physical assets selected could not be traced back to its listing in the fixed asset register.
- Land disposals of R18,6 million were incorrectly reflected in the financial statements as nil. For the previous financial year the land disposal of R10,1 million was incorrectly disclosed as R10 234.
- Contracts and other supporting documentation were not submitted for certain fixed asset additions and contracts in progress.
- Possible impairment on property, plant and equipment was not considered.
- The accounting policy did not contain sufficient information regarding the subsequent measurement, impairment, periodic reviews of useful life, property, plant and equipment acquired at no cost and cost relating to dismantling/removing of property, plant and equipment.
- The municipality did not have an accounting policy for investment property as required by International Accounting Standard (IAS) 40 (AC 135) *Investment Property*. Consequently, all assets in the financial statements were recorded as property, plant and equipment.

4.2 RESERVES

In terms of the new accounting policy adopted by the council the following reserves were created:

- Capitalisation reserve
- Government grant reserve
- Donations and public contributions reserve

Transactions and amounts allocated to these reserves were based on the funding category of assets as they were accounted for in the asset register, e.g. an asset purchased via a government grant would be credited to that reserve and debited to assets and affect the asset register with the entry under the government grants category. Accordingly, the accounting values of the reserves were dependent on the proper recording and accounting of fixed asset transactions.

Due to the deficiencies noted in paragraph 4.1 above, the completeness and valuation of the capitalisation reserve, government grant reserve and donations and public contributions reserve amounting to R207,1 million, R436,3 million and P56,7 million, respectively, could not be verified at year-end.

4.3 Financial instruments

GRAP 3 requires compliance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such statements issued by the Accounting Practices Board where the recognition and measurement of any transactions did not fall within the ambit of GAMAP and CRAP.

For the year under review financial instruments on the balance sheet were not initially accounted for at fair value as required by paragraph 43 of IAS 39 (AC133) *Financial Instruments: Recognition and Measurement*. These balances were also not subsequently measured at amortised cost using the effective interest rate method as required by paragraph 46(a) of this standard. To comply with this requirement the municipality has to determine an adequate interest rate in accordance with its risk profile and the discounting period, if not known, would have to be estimated. This may have a material impact on the amounts disclosed for non-current assets, non current liabilities, current assets and current liabilities amounting to R1,1 billion, R380 million, R476 million and R432 million, respectively

The above non-compliance with the prescribed accounting standard consequently resulted in the financial statements being misstated by an unknown amount,

4.4 Provisions

4.4.1 Landfill site rehabilitation

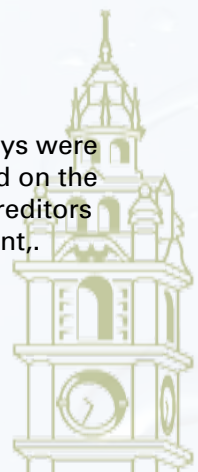
For the year under review the council did not have a policy in place to provide for the future rehabilitation of the landfill site. As a result there was no approved guidance on how to calculate the present value of the future liability to be recognised in the financial statements in accordance with GAMAP 19 *Provisions, Contingent Liabilities and Contingent Assets*.

Paragraph 7 of GAMAP 19 requires that the basis on which the provision has been recognised and the measurement basis adopted be disclosed. In addition, paragraph 44 states that the amount recognised as a provision should be the best estimate of the expenditure required to settle the present obligation at the reporting date. Paragraph 50 states that the risks and uncertainties that inevitably surround the events and circumstances should be taken into account in reaching the best estimate of a provision. Lastly, paragraph 53 states that where the effect of time value of money is material, the amount for a provision should be the present value of the expenditure expected to be required to settle the obligation.

The provision of R3 million as disclosed in note 4 to the financial statements was not computed in terms of GAIAP 19 as indicated above but was raised as a result of surpluses arising from the conversion to GAMAP. Consequently, it was not possible to verify completeness, accuracy and valuation of the provision at year-end as disclosed in the financial statements.

4.4.2 Leave pay

Audit tests performed on the leave system revealed that many employees' leave days were incorrect as not all leave taken or earned during the financial year had been updated on the leave system. The leave pay provision of R55,1 million, which is included in other creditors in note 9 to the financial statements, was therefore misstated by an unknown amount.



4.4.3 Stated benefit (post-retirement employee benefits)

At year-end the council was required to provide for the future cost of retired employees medical aid expenses. To correctly account for and disclose the above liability, management was required to comply with IAS 19 (AC 116) *Employee Benefits*. This standard requires the use of actuarial valuation to make a reliable estimate of the benefit amount. The benefit must be discounted to determine the present value of the obligation.

Council did not have a documented policy that set out how the computation of such a provision should be performed in accordance with the standard, instead, a lump sum of R45 million was allocated to the stated benefits provision, as disclosed in note 4 to the financial statements.. No supporting documentation or adequate explanation was provided by management to support this amount. It was therefore not possible to verify the validity, completeness, accuracy and valuation of the liability of R45 million.

4.4.4 Financial statement disclosure

The following were not disclosed with regard to provisions in terms of GAMAP 19 AC 130:

- A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential.
- An indication of the uncertainties about the amount or timing of those outflows.
- Disclosure of the major assumptions that were made concerning future events.
- The amount of any expected reimbursement, stating the amount of any asset that had been recognised for that expected reimbursement.

4.5 Grants

Due to lack of reconciliations being performed on grants received and spent, the following discrepancies were noted:

- There was a difference of R19,7 million between the grants actually received and what was recorded in the general ledger. Consequently, unspent grants as disclosed in notes to the financial statements were overstated by R19,7 million.
- Government grants and subsidies as disclosed in note 19 to the financial statements was understated by R1 ,5 million.

5. UNADJUSTED AUDIT DIFFERENCES

Although an opportunity was provided to council to address the issues outlined in paragraph 4 above, the municipality did not provide me with additional evidence or adjustments to the financial statements to avoid the qualifications.

6. ADVERSE AUDIT OPINION

In my opinion, because of the significance of the matters described in the preceding paragraphs and its effect on the financial statements, the financial statements do not present fairly, in all material respects, the financial position of the Msunduzi Municipality and the group at 30 June 2006 and the results of its/their operations and cash flows for the year then ended in accordance with the basis of accounting, determined by the National Treasury of South Africa, as described in the accounting policy note to the financial statements and in the manner required by the MFMA.

7. EMPHASIS OF MATTER

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

7.1 Non-compliance with laws and regulations

Management has an obligation to put in place controls to help it identify and implement the appropriate accounting framework and policies to structure and govern its financial management policies, as required by legislation. As a direct result of the lack of monitoring of compliance by management the following matters were noted:

7.1.1 Grants in aid

Before transferring municipal funds to an organisation or body outside the sphere of government the municipal manager must be satisfied that the organisation or body has the capacity; implements effective, efficient and transparent financial management and internal control systems to guard against fraud, theft and financial mismanagement; and has agreed to comply with the following requirements in terms of section 67 of the MFMA:

- Any agreement with the municipality.
- All reporting, financial management and auditing requirements as may be stipulated in the agreement.
- Report at least monthly to the accounting officer on actual expenditure against such transfer. No evidence could be provided that section 67 of the MFMA had been complied with for transfers of monies to bodies and organisations outside the sphere of government.

7.1.2 Supply chain management

For purchases greater than R2 000 but not exceeding R30 000 the municipality did not comply with its policies in terms of the Supply Chain Management Regulations, as follows:

- No report was made to the chief financial officer by designated officials in cases of procurement where it was not possible to obtain three quotations [R 17(2)].
- Reasons for the deviation from the SCM policy by the accounting officer were not recorded at council meetings [R 36.2]. In addition, tenders approved other than in the normal course of business, were not communicated to the Auditor-General, the Provincial Treasury or the National Treasury in terms of section 114 of the MFMA.

7.1.3 Performance contracts

The appraisal process followed for managers in respect of officials as defined in section 57 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA), was incomplete. I could not satisfy myself that the requirements of the act had been complied with in respect of the approval and payment of bonuses,

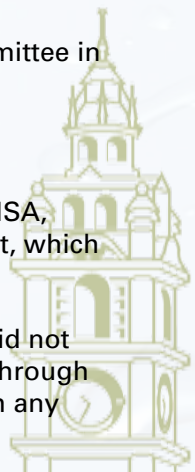
7.1.4 Audit committee

Contrary to section 166(1) of the MFMA the municipality did not have an audit committee in place for the financial year under review.

7.1.5 Declaration of financial interest by councillors (related parties)

The municipality did not comply with schedule 1, section 5, and schedule 2 of the MSA, which state that councillors and senior officials must submit a declaration of interest, which is formally included in the declaration of interest register.

In the absence of a system of control, it was not possible to verify that councillors did not contract in any way or supply any goods or services to the Msunduzi Municipality, through any business/es of which the councillors were the owner/partner/director or through any other association in terms of that act.



7.1.6 Fraud prevention plan

In terms of section 6(2)(c) of the MM, the administration of a municipality must take measures to prevent corruption.. The Msunduzi Municipality did not fully comply with the requirements as a formally approved fraud prevention policy and plan did not exist during the year under review.

7.2 Internal control weaknesses

Although financial and internal control systems were developed and documented, they were not consistently implemented and maintained throughout the year. Reconciliations and independent reviews were not always performed to enforce compliance with policies and procedures, while certain control measures did not function as intended.. The following serve as examples:

- Reconciliation for traffic income was not performed monthly or at year-end.
- With respect to commission paid on prepaid electricity, the financial loss incurred by the municipality was R286 000.
- Landfill site income reflected on the general ledger did not reconcile with income recorded on the landfill site system. There was a difference of R34 000.
- Expenses relating to employee cost to the amount of R13,8 million were incorrectly classified as general and other expenses in the statement of financial performance.

8. LATE FINALISATION OF THE AUDIT REPORT

In terms of section 126(3)(b) of the MFMA, I am required to submit my report to the accounting officer within three months of receipt of the financial statements.. In the interest of improving accountability and due to the process implemented by me to ensure consistency in the manner in which material audit findings are reported, I have delayed the finalisation of my reports to the date reflected on the audit report.

9. APPRECIATION

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



I S CELE FOR AUDITOR-GENERAL

PRETORIA

31 MARCH 2007



AUDITOR - GENERAL

3.4 Summarised response to the report of the Auditor General

BACKGROUND AND PURPOSE OF REPORT

The report of the Auditor-General dated 31 March 2007 on the Audit of the Accounts of the Council for the financial year ended 30 June 2006, has been received and is on the Council agenda.

Section 4(3) (c) and (d) of the Auditor-General Act 1995 (No. 12 of 1995) provides:

- (c) The Chairperson of the Council shall, after receipt of a report from the Auditor General, submit that report not later than at the second succeeding ordinary meeting of the Local Government, which shall not take place behind closed doors, for discussion and to decide what corrective steps (if any) are to be taken: Provided that the Auditor-General or his or her representative may address such meeting if he or she deems it to be in the public interest.
- (d) Within 30 days after the date of the meeting referred to in paragraph (c), the chairperson of the Council shall submit a copy of the minutes of that meeting containing the comments of the Local Council in regard to that report and indicating what steps were taken or are to be taken in connection with any matter revealed by the report, to the Auditor-General, and to the Provincial Director-General concerned.

The requirements of the Municipal Finance Management Act 56 of 2003 Section 126 (1) and (2) must be complied with by the Council.

A response is required in terms of the above provisions. Comments and action on matters raised in the report are set out below with the numbering corresponding to the Auditor-General's report.

ACTION TAKEN/COMMENTS REGARDING MATTERS RAISED.

1. AUDIT ASSIGNMENT

Noted

2. SCOPE

Noted



3. BASIS OF ACCOUNTING

Noted

4. QUALIFICATION

- Inadequate monitoring and independent reviewing

Noted. The financial year end planning process will address these issues, by allocating more time to the monitoring and review processes of the annual financial statements.

- The absence of a proper training strategy and programme to prepare staff for the changes in the accounting standards for local government

Staff involved in the preparation of the financial statements have attended workshops held by IMFO and Deloitte in Durban. Internal workshops presented by Deloitte were held with the relevant staff members with regards to accounting standards – GAMAP/GRAP, budgets, assets, housing and conditional grants. We had also afforded opportunity to the staff of the office of the auditor-general to attend these internal workshops.

4.1 Property, plant and equipment

It should be noted that an external service provider, Combined Systems, a subsidiary of Price Waterhouse Coopers, was contracted from December 2003 to provide an Asset Management Service to Council.

The National Treasury Guidelines in respect of implementation of accounting standards, specifically relating to Property, Plant and Equipment, with regard to the preparation of a detailed fixed asset register reads, inter alia, as follows :-

“Most municipal Fixed Assets Registers in respect of infrastructure assets are inadequate. This is due to historical factors and the use of the fund accounting system... Unfortunately, only globular amounts are currently recorded in the current Fixed Assets Register. Acquisition dates and historical cost prices for each infrastructure asset will need to be recorded to enable the calculation of depreciation...”

... Unfortunately, this will result in audit qualification until this information is provided. However, it will be paramount to prepare a process map to obtain this information over a number of years. Internationally, it has taken municipalities up to 8 years to prepare this detailed asset information... Realistic timeframes must be set to obtain this information but cognisance should be taken of the transitional provisions of GAMAP 17 that require the recognition of property, plant and equipment for reporting periods beginning on a date within three years following the date of first adoption of this standard...”

AUDITOR GENERAL'S FINDINGS

- Land (R25.5 million) and buildings(R25.4 million) respectively were not recorded in the fixed asset register.

A reconciliation between the valuation roll and the asset register has revealed that the valuation roll contained more records of Council owned property than the current asset register. The valuation roll has been completed with respect to the present status of Council owned land and buildings in preparation for the implementation of the Municipal Property Rates Act. Current values of land and buildings will replace historical values in the asset register by 30 June 2007.

- Assets of R66.9 million were recorded with insufficient asset descriptions in the fixed assets register and duplicate asset numbers in certain cases.

The items with vague descriptions were a result of take on detail (historical records) where no detail was available. Under no circumstances are there duplicate numbers. An asset number for any reference should always be read with a sub reference. The combination of asset number and the sub represents an asset.

As per National Treasury guidelines, *"if further information is not available on vague asset descriptions then such items should be written off. Municipalities should maintain proper information on such write offs obtain council approval and provide suitable evidence to the Auditor General."*

An analysis of all vague descriptions has been completed. A report together with the financial implications will be submitted to Council before 30 June 2007, for approval of the write-offs.

- Certain assets were recorded with a nil cost in the fixed assets register .

The way the data was constructed in the Asset Register is by creating a 'parent' asset for each category (group) of assets and added additions as sub assets for optimizing system use and codes assigning, will result in parent assets carrying zero values. There may be some confusion with the Auditor General's office regarding the category of assets. Discussions will be held with the Auditor General.

- Fixed asset additions of R190 000 were not recorded in the fixed asset register

When brought to the attention of the Asset Control Unit that certain assets were not recorded in the Asset Register, it was found that Combined Systems (the External Service Provider) did not update the Asset Register with the non-capitalised assets. This was immediately rectified by the External Service Provider and an updated and complete Asset Register was provided to the Auditor General on 14 November 2006.

- Selected assets amounting to R2 million could not be physically verified

The assets being referred to in the audit report were:

- Computers – these could not be verified because the sample computers refers to a take on figures (historical record going back several years) and as no detail was available from historical records, the transaction was taken onto the asset register as a single entry.

An analysis of all vague descriptions and globular amounts has been completed by the asset control unit.

As per National Treasury guidelines, *"if further information is not available on vague asset descriptions then such items should be written off. Municipalities should maintain proper information on such write offs obtain council approval and provide suitable evidence to the Auditor General."*

A report together with the financial implications will be submitted to Council for approval of the write-offs.

- Knife of life – this asset was verified however at the time of the audit query this item was out on the field.
- Mobile Gym – this asset was incorrectly classified as a capital asset and will be written off as it is made up of sporting equipment like bats and balls which are non capital assets

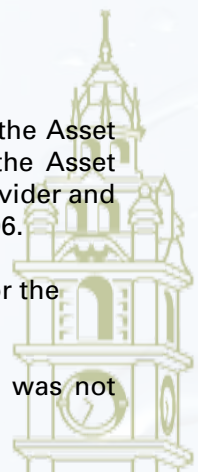
In view of the above, this information will be removed from the Asset Register and a report together with the financial implications will be submitted to Council by 30 June 2007, for approval of the write-offs.

- Certain physical assets selected could not be traced back to its listing in the asset register.

When brought to the attention of the Asset Control Unit that certain assets were not recorded in the Asset Register, it was found that Combined Systems (the External Service Provider) did not update the Asset Register with the non-capitalised assets. This was immediately rectified by the External Service Provider and an updated and complete Asset Register was provided to the Auditor General on 14 November 2006.

- Land disposals of R18.6 million were incorrectly reflected in the financial statements as nil. For the previous financial year the land disposal R10.1 million was incorrectly disclosed as R19 234.

All land disposals were recorded in the Public Improvement Register, however this information was not updated in the asset register.



The asset control unit is being updated with all land disposals by the valuations department on a regular basis and the asset register is being updated with this information. The disposals will be updated as soon as the land and building values as per the Valuation Roll has been included in the Asset Register by 30 June 2007.

- Contracts and other supporting documentation were not submitted for certain fixed asset additions and contracts in progress.

It was not the practice of the Asset Control Unit to file supporting documents as this was filed by the unit purchasing the asset.

However, in compliance with the audit query raised, supporting documentation i.e. orders; sundry payment and invoices are being attached to all official asset purchases as of 1 July 2006.

- **Possible impairment on property, plant and equipment was not considered.**
- The accounting policy did not contain sufficient information regarding the subsequent measurement, impairment, periodic reviews of useful life, property plant and equipment acquired at no cost and cost relating to dismantling /removing of property, plant and equipment.
- **The municipality did not have an accounting policy for investment property as required By International Accounting Standard (IAS) 40 (AC 135) Investment Property. Consequently, all assets in the financial statements were recorded as property plant and equipment.**

The Asset Control Unit is currently amending the Asset Management Policy to be GAMAP and GRAP compliant, which will address the above issues.

It is envisaged that the new Policy will be ready for adoption by Council by 30 June 2007.

In response to the above queries, the following action has been taken :-

- An analysis of all globular amounts and vague descriptions has been completed. A report for write off together with the financial implications thereof will be submitted to Council for approval by 30 June 2007.
- Current values of Land and Buildings will replace historical values in the asset register as well as any disposals by 30 June 2007.
- A GAMAP / GRAP compliant asset management policy is currently being compiled and will be submitted to Council for adoption by 30 June 2007.
- In consultation with the National Treasury Advisor either a GAMAP specialist or an external accounting service provider will be appointed within the next two weeks to prepare a process road map for inclusion of all fixed assets to begin the process of a GAMAP compliant asset register within three years, as per National Treasury Guidelines.

4.2 Reserves

- Capitalisation reserve
- Government grant reserve
- Donations and public contributions reserve

The GAMAP/GRAP conversion process resulted in the creation of the above reserves. These reserves represents the carry value of assets previously funded by statutory funds namely, Consolidated Capital Development Fund (CCDF), Public Improvement Fund (PIF), government grants, donations and public contributions. The purpose of these reserves is to avoid double taxation to the consumers when depreciation charges are processed through the statement of financial performance.

The addressing of the fixed asset issues raised in 4.1 will result in the completeness and correct valuation of the reserves. Correcting journals will then be passed to reflect changes on the reserves.

4.3 Financial Instruments

The applicable standard is IAS 39,43 and 46(a) and AC 133 – Financial Instruments : Recognition and Measurement

Measurement of debtors and creditors at fair value were not calculated and valued according to this standard as there was not enough time to get all the information necessary and to do the calculations. This will be done in phase 2 of the implementation process.

However subsequent to this, the calculations have been done and will be used as a comparative for the 2006/2007 financial year.

4.4 Provisions

4.4.1 Rehabilitation Provision

The applicable standard is GAMAP 19 - Provisions, contingent liabilities and contingent assets.

Provisions were not calculated and valued according to this standard as there was not enough time to get all the information necessary and to do the calculations. Actuarial studies need to be done before this standard can be fully implemented. Bylaws and statutory requirements must be determined to find all obligations that the municipality must provide for. This will be done in phase 2 of the implementation process.

However the GAMAP/GRAP conversion process resulted in surpluses being realised and this presented the opportunity to create this provision without having to have it cash backed at this stage of the process. If this provision is to be created in the future then Council would then have to cash back it to the sum of R 3m.

4.4.2 Leave Pay Provision

Council resolved on the 14 December 2006, to payout accumulated ring fenced leave as at December 2003 that is due to employees, in two instalments, the first in January 2007 and the second in April 2007. These two payments will reduce Council's liability considerably.

This process will result in Pay Office updating the leave records and all ring fenced leave as December 2003 being paid out by June 2007.

4.4.3 Stated Benefit Provision (post-retirement benefits)

At this stage there is no GAMAP/GRAP applicable
The applicable standard is IAS 19 – Employee Benefits

This standard was not applied on defined benefit plans. To execute a defined benefit plan actuarial studies need to be in place in determining the obligation of the municipality. Due to lack of such a study a provisional amount was provided for in anticipating the study. Actuarial studies will be commissioned as part of phase 2 of the implementation project.

However the GAMAP/GRAP conversion process resulted in surpluses being realised and this presented the opportunity to create this provision without having to have it cash backed at this stage of the process. If this provision is to be created in the future the Council would then have to cash back it to the sum of R 45m.



4.4.4 Financial statement disclosure

- A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential
- An indication of the uncertainties about the amount or timing of those outflows
- Disclosure of the major assumptions that were made concerning future events
- The amount of any expected reimbursement, stating the amount of any asset that had been recognised for that expected reimbursement.

The provisions of GAMAP 19 and AC 130 have been noted. The required disclosure will be implemented in 2006/2007 annual financial statements.

4.5. Grants

In determining the opening balance of the MIG – unspent grant vote as at 1 July 2006, there was a miscommunication between the Project Management Unit and Financial Services. The budgeted rollover of MIG projects for the 2005/2006 financial year was incorrectly represented as the unspent balance of the Municipal Infrastructure Grant.

Correcting entries have been processed in 2006/2007 financial year to rectify the opening balance as at 01 July 2007.

The provision of the unspent balance of the Municipal Infrastructure Grant will be communicated specifically in writing in future.

5. UNADJUSTED AUDIT DIFFERENCES

On the 9th January 2007 senior management met with the Auditor-General, Mr H van Zyl to discuss the first draft audit report for 2005/2006 dated 22 December 2006. During the discussion process it emerged that although we were in a position to effect changes on the financial statement, these changes would not alter the audit opinion given.

With specific reference made to financial instruments, we advised the auditor-general that these calculations with regards to financial instruments would be performed by the consultants, Deloitte Consulting.

However we were told that if we went ahead and performed the calculations it would be considered as wasteful and fruitless expenditure by the auditor-general's office.

6. ADVERSE AUDIT OPINION

Noted

7. EMPHASIS OF MATTER

7.1 Non-compliance with laws and regulations

7.1.1 Grant In Aid

Recommendation noted and policies and procedures to be drawn up and implemented by the Grant-in-aid committee

Compliance Officer has recommended to implement section 67 of MFMA, act no 56 of 2003 with effect from 2007/08 financial year at Pay Office, To ensure that outside organizations, has the capacity and has agreed -

- (i) to comply with any agreement with the Municipality,
- (ii) for the period of the agreement to comply with all reporting, financial management and auditing requirement as may be stipulated in the agreement,
- (iii) to report at least monthly to the accounting officer on actual expenditure against such transfer, and
- (iv) to submit it audit financial statements for its financial year to the accounting officer promptly,

The following conditions as stipulated in section 67(1) of the MFMA be included in the agreement with all organizations with a grant exceeding R15 000.

- (a) (i) commitment by the organization to comply with agreement with the Municipality,
- (ii) commitment to comply with all reporting, financial management and auditing requirement as may be stipulated in the agreement,
- (iii) to report at least monthly to the accounting officer on actual expenditure against such transfer, and
- (iv) to submit it audit financial statements for its financial year to the accounting officer promptly, where appropriate

7.1.2 Supply Chain Management

The Bid Evaluation Committee is now fully functional and all awards of tenders are undertaken through the committee. All Supply Chain Management will be requested to sign declaration of interest, code of practice and ethics declarations

7.1.3 Performance Contracts

Audit findings noted. In future all the SEM's performance will be thoroughly examined for any discrepancies. All SEM's to be advised at next MANCO meeting of the issues raised by the Auditor -General .



7.1.4 Audit Committee

- We acknowledge that for 2005/06 there was no audit committee in place however the audit committee was formed during the financial year 2006/07.
- On the 7/04/05, advertisements were placed for suitably qualified individuals to serve on the Municipality's Audit Committee. Of the eleven applications that were received, two were municipal officials at other municipalities and as such were to be excluded from the adjudication process. The Executive committee, on the 14 December 2006 confirmed appointments to the Audit Committee.
- Appointment letters were sent out during the month of January 2006. The last acceptance letter was received in April 2006.
- It was also noted at this point that the two individuals excluded in the original adjudication, were in effect not currently in the employ of municipalities and one of the individuals possessed the performance management criteria required to serve on the Audit Committee, as per supply chain management policy. At the Executive committee meeting held on the 06 June 2006, it was resolved to appoint Mr Myakayaka and Mr Ndwandwe as members to the audit committee. On the 10 June 2006, letters of appointments were sent out to Mr Myakayaka and Mr Ndwandwe. Responses from them were received at the end of June 06.
- The first Audit Committee meeting with the newly appointed members took place on the 8 August 2006. The delays in the appointments were a result of time and transition delays. In addition, the municipality had a newly appointed council in March 06 which had to be briefed on the adjudication and appointment process.

7.1.5 Declaration of financial interest by Councillors (Related Parties)

The Municipal Systems Act 32 of 2000(schedule 1)(7) is applicable

A Declaration of Interest by Councillors Form has been distributed, with a June 30 deadline for submissions.

7.1.6 Fraud prevention plan

Noted.

7.2 Internal control weaknesses

- Traffic

This issue was discussed with Office of the Auditor-General and it was established that the vote PMB 327 418 8194 : Fines-Camera for R 3m was not taken into consideration when the audit was performed.

- Prepaid Electricity

Accounting treatment of commissions

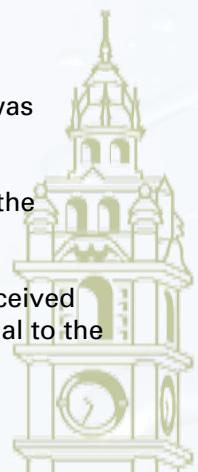
- a) Commission is paid on the initial deposit paid by the vendors. This initial deposit by the vendors is used to purchase credit in order to sell electricity. Example, if a new vendor has an initial R5000 deposit, then he would buy R5000 worth of electricity which he could sell on behalf on the municipality. So, in other words, the initial deposit is deemed the initial sale, for commission purposes, and commission is paid based on this upfront deposit. Vendors then sell electricity which gets recorded as sales on the Contour System and then deposits these takings. These subsequent deposits are then used to purchase more credit in order to sell electricity. It is also the industry standard that commission is paid in this way. The main reason for this is that it protects the municipality against paying for something that it had not received. We only compensate for what we receive.

- b) The two prepaid vendors operating in Phaiphini and Sweetwaters do take their commission from their daily takings. This is their own practice and not one endorsed by the municipality. These vendors are aware that they are not allowed to take any commission out of any daily takings but do so of their own accord. We are aware of this practice and have held back any commission due in light of this. Records are being kept of amounts owing to the municipality as well as commissions due to the vendors.
- c) As mentioned in (b) above, commission for the two vending stations are withheld due to the fact that they owe the municipality money. This is currently being dealt with by the legal division. There were only three vendors who were entitled to commission for the 2005/2006 financial year. Of the three, Sweetwaters and Phaiphini were the defaulters who did not abide by the rules.
- d) During the audit, the auditors had not requested any documentation relating to policies and procedures for commission. There are agreements highlighting policies and procedures relating to commission for vendors. Ron Fraser has such an agreement which details this as well as his rate of commission. The other two vending stations had verbal agreements and were informed of their rate of commission as well as procedures which needed to be followed. This has been minuted.
- e) A formal agreement exists between Ron Fraser and the municipality. Sweetwaters and Phaiphini had verbal agreements. All the new vendors as at 01 July 2006 have formal written agreements.

No vendor is allowed to deduct any commission from their daily sales. Controls are in place to monitor this and as discussed above, is now being dealt with by the legal division. It is unfortunate that these two vendors had defaulted in the manner in which they did, but they are the exception rather than the rule. Monthly reconciliations are done which highlighted the fact that these discrepancies existed between what had been deposited and what was actually sold. This is used as a tool to check on deposits received in order to ensure that commissions can be correctly paid and also rightfully paid to those vendors who do not default.

Accounting treatment – prepaid electricity

1. The sales recorded on the Promis system are the actual deposits received. Reconciliations have been done to identify the differences. Measures have also been taken to ensure that sales are properly recorded in the new financial year.
2. Debtor accounts have been set up for each individual vendor and deposits are now receipted in those accounts.
3. Weekly journals are being done to record sales and highlight outstanding debtors.
4. Reconciliations are also being done on a monthly basis which has been forwarded to the auditors.
5. The old system had crashed in the 2004/2005 financial year.
6. However, the old system continued to operate in the 2005/2006 financial year and was finally phased out in that year.
7. During this time, readings could still be made from the old system. It was only for the month of July 2005 where figures from two vending sites could not be read.
8. Deposits were received during this period, and it was assumed that the deposits received would equal the sales. The difference would be negligible and therefore not material to the financial statements nor would it be misleading in any way.



9. The old system, as was previously mentioned, was phased out in the 2005/2006 financial year and no longer is in use.

- Landfill Site – income

The landfill site challenges as reflected in the Auditor Generals report dated 31 March 2007 have been noted. We accordingly respond as follows :

- These are mainly IT related issues which have recently been discussed with staff of the ICT sub-unit with a view of doing a complete overhaul of the entire weigh bridge system which will address these and many other concerns.
- Employee Costs

The re-alignment of the budget according to the GAMAP/GRAP standards will eliminate these misclassification between employee costs and general expenses

8 LATE FINALISATION OF THE AUDIT REPORT

Noted

9 APPRECIATION

Noted

10. CONCLUSIONS AND COMMITMENTS

Notwithstanding firstly, that neither the Chief Accounting Officer nor the Chief Financial Officer in place during the 05/06 financial year are still in our municipality's employ, secondly, that similar to all other municipalities, we are in the throes of converting to GAMAP and GAAP, and, thirdly, that no major incidences of fraud or corruption are pointed to, this is a very sobering audit report.

Clearly, senior management, in particular, have to commit themselves to addressing the identified shortcomings, and we do so today. Each and every qualification and emphasis of matter, will be seriously and systematically attended to, with a view to eliminating most, if not all of them, in the short period of time available before the next audit commences. I believe that our response to this Audit Report, indicates that we have already commenced with that task.

11. RECOMMENDATION

It is recommended:

- a) That the report dated 31st March 2007 by the Auditor-General to the members of the Council on the financial statements of The Msunduzi Municipality for the year ended 30th June 2006 be noted with concern, but also appreciation of its thoroughness and constructive nature of the recommendations.
- b) That the report dated 31 March 2007 by the Acting Municipal Manager, in reply to the Auditor-General's report, be noted and accepted with appreciation of the positive action being taken to rectify past errors and to implement the recommendations of the Auditor General.

Submitted for consideration as per Legislation

ACTING MUNICIPAL MANAGER
R. HASWELL

Annexure A

GAMAP/GRAP ACCOUNTING STANDARDS APPLIED AT THE MSUNDUZI MUNICIPALITY DURING THE CONVERSION PROCESS

STANDARDS APPLIED IN THE MUNICIPALITIES CONVERSION TO GRAP/GAMAP.

1. DEFINITION OF ACCOUNTING POLICIES AND STANDARDS

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

When a Standard of Generally Recognised Accounting Practice (GRAP) specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the Standard.

Standards of Generally Recognised Accounting Practice set out accounting policies that the Accounting Standard Board (ASB) has concluded result in financial statements containing relevant and reliable information about the transactions, other events and conditions to which they apply.

2. BACKGROUND TO ACCOUNTING STANDARDS FOR MUNICIPALITIES.

The Constitution requires the National Treasury to introduce standards of Generally Recognised Accounting Practice (GRAP) for all spheres of government.

The Accounting Standards Board (ASB) has been established to make recommendations on standards of GRAP to the Minister of Finance. The ASB has also approved local government accounting standards as interim GAMAP applicable to municipalities and municipal entities only. Over time, the local government accounting standards that have been approved by the ASB will be replaced by standards of GRAP. Although old local government standards have been in the public domain since 1998, the ASB has updated the standards to take into account developments that have occurred in accounting nationally and internationally since 1998. The purpose of updating the old standards is to ensure that there will not be significant differences between the standards and subsequent GRAP standards that will be issued in the next few years. This will ensure that there is no high risk of change should municipalities adopt the new standards.

The ASB is responsible for developing and issuing accounting standards.

The National Treasury is responsible for developing uniform budget formats and accounting standards implementation guidelines and for issuing specimen financial statements in accordance with the accounting standards issued by the ASB. The conversion from the current fund accounting framework to new standards involves a number of implementation processes

3. STANDARDS APPLICABLE TO THE 2005/06 FINANCIAL STATEMENTS

According to National Treasury circular No.18 issued on 23 June 2005 the Accounting Standards Board (ASB) had as at 31 December 2004 approved 3 GRAP (Generally Recognised Accounting Practice) and 8 GAMAP (Generally Accepted Municipal Accounting Practice) standards which municipalities that would in future compile GRAP annual financial statements would have to comply with. The GRAP standards are set out as follows:-

Preface to Standards of Generally Recognised Accounting Practice	
GRAP 1	Presentation of financial statements
GRAP 2	Cash Flow statements
GRAP 3	Accounting policies, changes in accounting estimates and errors

The GAMAP standards which are numbered in accordance with the relevant numbering of the equivalent International Public Sector Accounting Standard (IPSAS) are set out as follows:



GAMAP 4	Effects of changes in foreign exchange rates
GAMAP 6	Consolidated financial statements and accounting for controlled entities
GAMAP 7	Accounting for investments in associates
GAMAP 8	Financial reporting of interests in joint ventures
GAMAP 9	Revenue
GAMAP 12	Inventories
GAMAP 17	Properties, Plant and Equipment
GAMAP 19	Provisions, contingent liabilities and contingent assets

As the relevant standards of GRAP are issued the existing GAMAP standards listed above will be withdrawn and be superseded by the relevant GRAP standard. The GRAP standards are based on the IPSAS equivalent.

4. GUIDANCE ON TRANSACTIONS NOT COVERED BY ANY STANDARD OF GRAP/GAMAP.

4.1 GRAP 3 paragraph 7 sets the following condition:

In the absence of a particular Standard of Generally Recognised Accounting Practice that specifically applies to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in information that is:

- (a) relevant to the economic decision-making needs of users; and
- (b) reliable in that the financial statements:
 - (i) represent faithfully the financial position, financial performance and cash flows of the entity;
 - (ii) reflect the economic substance of transactions, other events and conditions, and not merely the legal form;
 - (iii) are neutral, i.e. free from bias;
 - (iv) are prudent; and
 - (v) are complete in all material respects.

4.2 Guidance offered by the Accounting Standards Board in the case where the municipality is confronted with the decision about a proposed accounting treatment of a transaction that is not covered by the GRAP and GAMAP standards listed above the municipality are contained in the following accounting standards.

IPSAS	5	Borrowing Costs
IPSAS	11	Construction Contracts
IPSAS	13	Leases
IPSAS	14	Events After the Reporting Date
IPSAS	15	Financial Instruments: Disclosure and Presentation
IPSAS	16	Investment Property
IPSAS	18	Segment Reporting
IPSAS	20	Related Parties
IAS	12	Income Taxes
IAS	19	Employee Benefits
IAS	22	Business Combinations
IAS	35	Discontinuing Operations
IAS	36	Impairment of Assets
IAS	38	Intangible Assets
IAS	39	Financial Instruments: Recognition and Measurement
IAS	41	Agriculture

4.3 In making the judgement, management may also consider the most recent pronouncements of other standard setting bodies and accepted public or private sector practices to the extent, but only to the extent, that these are consistent with the requirements in the Standards of Generally Recognised Accounting Practice, dealing with similar and related issues. For example, pronouncements of, in descending order, the International Federation of Accountants - Public Sector Committee, the International Accounting Standards Board (including the Framework for the Preparation and Presentation of Financial Statements), the South African Accounting Practices Board and the South African Institute of Chartered Accountants' Accounting Practices Committee."

5. STANDARDS SET BY NATIONAL TREASURY

In the MFMA circular 18 issued by National Treasury on 6 July 2005 the following statements were made:

These 3 GRAP and 8 GAMAP standards are the minimum standards to be complied with by municipalities (categorised as high capacity) and all municipal entities.

The specimen municipal annual financial statements and the implementation guide were developed based on these standards. As more standards are issued, the specimen and the guide will be updated to reflect the new reporting requirements.

Although, compliance with emerging accounting standards is encouraged in the specimen annual financial statements, it is **not mandatory**. Municipalities should apply their mind to transactions and events that are **not** covered by the existing GRAP and GAMAP standards.

Where municipalities have any events or transactions that are not covered by either the mandatory or encouraged accounting policies, municipalities must draft appropriate accounting policies setting out how they recognise and measure such transactions, balances and events in line with paragraphs 7, 11 and 12 of GRAP 3: Accounting policies, changes in accounting estimates and errors.

The 50 high capacity municipalities will be required to prepare their 2005/06 (and onwards) annual financial statements in accordance with the GRAP specimen financial statements.

In the process of setting up the guidelines for implementation and the specimen financial statements National Treasury had to introduce some standards of its own as there were no GRAP/GAMAP or IPSAS standards that were introduced and these standards were introduced into the "new capital model" for financing transactions of Plant, Property and Equipment.

Creating reserves as a direct result of the financing transactions is not supported by any standard but was taken as a policy adjacent to the standards. All this was done not taking SA GAAP into consideration.

6. COMMUNIQUÉ ISSUED BY NATIONAL TREASURY 10 OCTOBER 2006.

In this communiqué National Treasury confirmed the application of the GRAP/GAMAP statements and compliance with paragraphs 7, 11 and 12 to material transactions, balances or events that falls outside the ambit of the GRAP/GAMAP standards.

It further states that in applying the hierarchy as set in paragraph 12 of GRAP 3 (set out in paragraph 4.3 above) municipalities must take into consideration that the International Public Sector Accounting Standards (IPSAS) are not up to date with the International Accounting Standards (IAS) and SA GAAP and as such must not be applied. As a result municipalities seeking guidance on the standard applicable must use SA GAAP only.

7. STANDARDS APPLIED IN COMPILING THE 2005/06 FINANCIAL STATEMENTS FOR THE MSUNDUZI MUNICIPALITY

GRAP 1, 2 and 3 as these were incorporated in the specimen financial statements. Paragraph 7, 11 and 12 of GRAP 3 was not fully adhered to as disclosure of standards used were not all communicated as prescribed including the SA GAAP disclosures **which were not contended at all.**



Because of time constraints the implementation of GRAP/GAMAP was not 100% completed and outstanding issues were to be addressed in the following accounting periods.

The following table explains the rest of the standards used or that should have been used in drafting the financial statements for 2005/06.

STANDARD	SUBJECT	COMMENTS
GAMAP 4	Effects of changes in foreign exchange rates	No transaction relating to this standard.
GAMAP 6	Consolidated financial statements and accounting for controlled entities	Consolidated statements were drawn up in accordance with this standard.
GAMAP 9	Revenue	Revenue was accounted for as far as it was probable according to this standard.
GAMAP 12	Inventories	Inventories were treated according to this standard except for assets that were going to be sold as these could not be identified at yearend. The stock was valued at cost and provision was made for obsolete stock items write offs.
GAMAP 17	Property, Plant and Equipment	The assets were included in the statements as they appeared on the asset register. The identification of the infrastructural assets was inadequate and will need a re-assessment. The result is that the depreciation as well as the reserve contributions cannot be correctly calculated and the uncertainty of capitalisation can also affect funding sources for the capital program as well as future tariff determinations.
GAMAP 19	Provisions, contingent liabilities and contingent assets	Provisions were not calculated and valued according to this standard as there was not enough time to get all the information necessary and to do the calculations. Actuarial studies need to be done before this standard can be fully implemented. Bylaws and statutory requirements must be determined to find all obligations that the municipality must provide for. This will be done in phase 2 of the implementation process.
NATIONAL TREASURY	Net assets- Funds and Reserves	<p>The legal standing of the funds and reserves are as follows:</p> <p>The Housing development and COID Funds are statutory funds by separate acts and is permissible.</p> <p>The Capitalisation, Donations and Public Contributions and the Self insurance reserves have no legal standing under SA GAAP and as such will be corrected in the new financial period.</p> <p>The Government Grant reserve will be adjusted to the requirements of AC134 and be disclosed as a liability in the new financial period.</p> <p>The Revaluation reserve was created in terms of GAMAP 17 and thus deemed legal.</p>
IMFO - Should be IAS 17 (AC 105)	Leases	No standard was applied in dealing with operational leases as this was also earmarked as a phase 2 implementation project.
IMFO - Should be IAS 10 (AC 107)	Events After the Reporting Date	As there is no real difference to the standards the events known were disclosed as per standard.
IPSAS 15 According to The communiqué issued by National Treasury on 10 October 2006 this standard should be	Financial Instruments: Disclosure and Presentation	IPSAS 15 does not require the discounting of receivables and payables but a fair value determination. For example receivables at cost with adaptation for potential cash flow losses (bad debt) are deemed to be fair value.
IAS 32 (AC 125) and IAS 39 (AC 133)	Financial Instruments: Disclosure and Presentation	There are some significant differences between these standards especially in the value of receivables and payables. No discounting of the values regarding monetary assets or liabilities was done and will have to be addressed in phase 2 of the implementation process.
Should be IAS 40 (AC 135)	Investment Property	As Investment properties were not yet identified no standards were applied and this exercise was planned for phase 2 of the implementation project.
IAS 19 (AC 116)	Employee benefits	This standard was not applied on defined benefit plans. To execute a defined benefit plan actuarial studies need to be in place in determining the obligation of the municipality. Due to lack of such a study a provisional amount was provided for in anticipating the study. Actuarial studies will be commissioned as part of phase 2 of the implementation project.
IAS 20 (AC 134)	Accounting for government grants and disclosure of government assistance	This standard was not applied as National Treasuries own standard in creating reserves were applied according to the specimen financial statements. The standard will be implemented in the new financial period.

STANDARD	SUBJECT	COMMENTS
IAS 26 (AC 136) This standard compliments IAS 19 (AC 116)	Accounting and reporting by retirement benefit plans	This standard was not applied due to the lack of information. See AC116 above.
IAS 36 (AC 128)	Impairment of assets	Due to the fact that assets are not 100% identifiable no impairment testing could be done and therefore this standard could not be applied. A structured plan of determining the infrastructural and other assets as necessary will have to be implemented and completed before impairment testing can be implemented.
IAS 38 (AC 129)	Intangible assets	Intangible assets were not identified and valued on the asset register. This is due to historic reasons as intangible assets were never identified and value in the past and this standard has not yet been applied. A full investigation as to all intangible assets and the values thereof should be done to determine the disclosure in the new financial period.
IAS 41 (AC 137)	Agriculture	Historically municipalities did not register their biological and agricultural assets on their asset registers. This standard requires that both the game on the municipality land and the forestry be valued and disclosed. At the time of setting up the statements the values were not known. This is also a project that was to be undertaken in phase 2 of implementation.
IFRS 05 (AC 142)	Non-current Assets Held for Sale and Discontinued Operations	This standard goes along with GAMAP 19 in disclosing assets held for sale. This was an unknown element and this standard was not applied.

8. CONCLUSION

The transformation from the IMFO standards of reporting to the GRAP/GAMAP standards not only reflects in the financial statements but needs transforming the General ledger systems. It also has a serious effect on the way the budgets are constructed but most of all it needs a clear understanding of the functions of a municipality and how to reflect the results on to the financial statements. This is not a short term task that could be concluded in three months but will need time to sort out all that is necessary. In the bigger and more intricate municipalities this is a process that can take up to three years or more.

Although the communiqué by National Treasury was circulated long after the application thereof was required it only seriously reflected upon the measurement of financial assets and liabilities as most of the standards could not be applied as these applications were deemed to be done in the next phase of implementation.

