

Report by the Chairman of the Audit Committee Ndlambe Municipality - 13th January 2010

This has been a difficult year for the Municipality as the Municipality operated without a Municipal Manager for most of the year.

The the Auditor General has again expressed a “qualified opinion” on the 2009 Annual Financial Statements. A qualified opinion is by its very nature unsatisfactory and the disturbing fact is that there has been no progress made in fields identified as unsatisfactory in last years report.

Last year the Municipality instituted an “Audit Action Plan” wherein all the activities/operations were identified and their shortcomings noted. Unfortunately this action plan has “stumbled” in the year, mainly due to there being no Municipal Manager.

Problems that persist are:

1. The control of indigent debtors. This item was reported upon last year but the identification and control as to who is indigent or not, continues to be a logistical problem. A lot of good work has been done re prepaid electricity meters and attempts to control the use of water. Both of which deserve praise; however the indigent debtors continue to be charged for services that they will never pay and which end up in the provision for doubtful debts. We noted last year that the Municipality needs to develop a system of equating the Government grant to the cost of services to indigents. This has not been done and the Government grant continues to be taken to revenue as well as the billing of indigents. The correct position should be for the grant to be treated as revenue and a reconciliation made between of the cost of providing the services to indigents and the grant. Only if this is done can the Municipality assess whether the grant is sufficient to cover the costs.
2. The A.G. reports that the provision for doubtful debts is short by R12.9 million. Though progress has been made in writing bad debts out of the accounts, a policy needs to be developed to write off bad debts (mainly indigents). Debts over three years most definitely need to be written off.
3. Government and Provincial departments continue to be amongst the worst payers for services despite the “State Policy” clearly stating that payment by such entities must be at the end of the month following. It was suggested last year that an official visit these operations to establish if there are any problems re payment, sort them out and then physically visit at month end to collect the cheque. This appears to either not being done or ignored by the Government and Provincial departments. The amounts are so material that this is directly affecting the solvency of the Municipality and thus its ability to provide the services demanded by the ratepayers.
4. The Audit Committee has raised the necessity for a “Long Term Strategic Plan”. This is a plan that stretches for a minimum of five years, but preferably for ten years. Without it the Municipality cannot prepare an effective Budget; nor can it cost for major capital projects. What is actually happening is that emergency repairs are being made to roads, sewerage reticulation, water reticulation/purification and plant/vehicle maintenance. These emergency repairs are cost inefficient and the state of affairs gets worse not better. In addition the Municipality's obligations re the operation and restoration of landfill sites, which was identified last year, remains an outstanding issue
5. The A.G. has identified R8.3 million of funds reserved for specific capital projects being used to pay for running costs of the Municipality. This is a serious state of affairs as there is a need for the improvement of the infrastructure of the Municipality. Without cash resources the municipality is hamstrung. The Municipality will have to investigate the sourcing of grants from the State to correct this as I can see no way of the Municipality generating funds from its own resources, being that it cannot cover its current expenditure.
6. The A.G. has pointed out that the Audit Committee has not meet its commitments regarding the Performance Audit Committee's involvement in assessing the performance of Sec 57 and other Managers. This was because the Municipality has failed to convene such a committee. This is an action that Council will have to rectify promptly. The Council, as per

Council meeting dated 21st October 2009, has convened a Performance Audit Committee to audit the Management System.

Despite set backs and staff changes the financial affairs of the municipality continue to improve and I have every expectation that the 2009/10 financial year will achieve a further improved AG's report.

I wish to thank the management and all the staff at Ndlambe for their willing assistance over the past year.

A handwritten signature in black ink, appearing to read 'B. Reid', with a long horizontal stroke extending to the right.

Brian G, Reid B.Com CA(SA)
Chairman of the Ndlambe Audit Committee.