

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the Sundays River Valley Municipality which comprise the statement of financial position as at 30 June 2008, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages X to X.

Responsibility of the accounting officer for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1.1.2 to the financial statements and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2007 (Act No. 1 of 2007) (DoRA). This responsibility includes:
 - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
 - selecting and applying appropriate accounting policies
 - making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with the International Standards on Auditing and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Because of the matters discussed in the Basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis of accounting

The municipality's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in accounting policy note 1.1.2 to the financial statements.

Basis for disclaimer of opinion

Reserves

4. Capitalisation reserve

The restated capitalisation reserve at 1 July 2006 was overstated by R226 343, the offsetting of 2007 year depreciation was overstated by R452 706 and the capitalisation of assets transferred to reserves was understated by R724 416 when compared to the asset register.

The capitalisation reserve at the beginning of the year is therefore understated by R45 367 and the current year depreciation that has been released from the reserve to the accumulated deficit has also been overstated by R45 367. The net affect is nil on the closing balance of the capitalisation reserve.

Accumulated deficit

5. Supporting documentation could not be provided for the GAMAP/GRAP adjustment amount of R4,7 million included in the Statement of Changes in Net Assets in the financial statements. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain all the information and explanations I considered necessary to determine the occurrence, accuracy, completeness and classification of the adjustment.

Provisions, trade and other payables

6. Unrecorded liabilities of R2,3 million were identified resulting in an understatement of payables and expenditure. Management performed an exercise to determine whether there were further unrecorded liabilities and processed an adjustment of R2,4 million to the financial statements. Additional audit procedures were performed to determine whether the exercise performed by management was complete, however further unrecorded liabilities were still identified and as a result the completeness of the adjusted trade creditors of R24,6 million recorded in note 5 to the financial statements could still not be confirmed as required by GAMAP 19: Provisions, contingent liabilities and contingent assets.
7. Included in the trade creditors of R24,6 million as per note 5 to the financial statements, is an amount of R8,6 million in respect of loans for grants. Adequate supporting documentation could not be provided to substantiate this amount, and the municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain all the information and explanations I considered necessary to satisfy myself as to the existence, completeness and valuation of the loans for grants.
8. The increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate has not been disclosed separately from additions for each class of provision, as required by GAMAP : Provisions, contingent liabilities and contingent assets 19 paragraph .95.
9. The following has not been disclosed for each class of provision as required by paragraph .96

- 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. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events; and
- the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

Unspent grants and subsidies

10. Funds allocated to specific projects are transferred to other funds on a temporary basis to fulfill cash flow needs. When these transfers are made, the unspent grant and subsidies liability account for that project is debited with the withdrawal and the unspent grant and subsidies liability account of the receiving project is credited. This is not correct as the movement is not in line with the fulfillment of conditions.

As a result of the inadequate record keeping in relation to the monitoring of conditional grants and subsidies movements and the errors identified in the opening balances, I was not able to perform the audit procedures deemed necessary to determine the existence and valuation of the debit balance in unspent grants and subsidies of R6,7 million as per note 10 to the financial statements and the unspent grants and subsidies liability of R14,3 million as per note 12 to the financial statements.

As a result of the above limitation to the scope of my audit, I was also unable to determine the financial impact on the government grant reserve and accumulated deficit in respect of the recognition of revenue from conditional grants and the related accumulated depreciation and depreciation for the current year in respect of capital grants and subsidies received.

11. Grant agreements for two projects were not provided. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain all the information and explanations I considered necessary to determine whether the expenditure incurred of R10,7 million were in terms of the agreement.

In addition, I could not determine whether the agreements required that separate investment accounts be maintained in respect of unspent conditional grants.

Property, plant and equipment

12. Finance lease assets of R1,4 million have been reflected as one line item on the asset register which is contravention with GAMAP 17: Property, plant and equipment, paragraph .15, which requires that each component be accounted for separately when the component assets have different useful lives or provide benefits to the entity in a different pattern.
13. The rights to land of R235 700 out of a total sample of R490 030 could not be confirmed as a result of the land not being registered in the municipality's name. The municipality could not provide a list of possible names that all the land could have been registered in and thus due to time constraints, alternative audit procedures could not be applied over the remainder population at a cost of R6,35 million. Consequently, I did not obtain all the information and explanations I considered necessary to satisfy myself as to the municipality's rights to land

reflected at a total cost of R6,58 million included in note 7 to the financial statements.

14. GAMAP 17: Property, plant and equipment, paragraph .09 defines the residual value as the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Residual values reflected in the asset register have been determined based on a generalised percentage-of-cost formula which is not appropriate as certain assets such as roads, sewerage and water works would be expected to have a residual value of nil.

As a result of the number of assets and the time required to reassess useful lives of each individual asset, I was not able to perform alternative audit procedures to determine the financial impact of revised residual values on the accumulated depreciation and the depreciation expense for the year.

15. Supporting documentation could not be provided for additions to property, plant and equipment of R4 million and the municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain all the information and explanations I considered necessary to satisfy myself as to the existence and valuation of the additions.

16. The municipality obtained an exemption from IAS 36 (AC 128): Impairment of assets, in terms of *Government Notice 552 of 2007* issued in *Government Gazette 30013 of 29 June 2007*; however this was not disclosed in the basis of preparation note 1.1.2 to the financial statements.

17. The financial statements have not included disclosure of the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning of the period and a reconciliation of the carrying amount at the beginning of the period as required by GAMAP 17: Property, plant and equipment paragraph .75.

The financial statements did not disclose the amount of commitments for the acquisition of property, plant and equipment for each class of property, plant and equipment as required by paragraph .76.

Receivables

18. Salaries, travel allowances and cell phone allowances amounting to R701 358 were overpaid to councilors and the mayor in the 2005/2006 financial year. No evidence could be provided to confirm that an attempt was made to recover the expenditure as required by section 167 2(a) and (b) of the MFMA.

19. Supporting documentation and proof of recoverability could not be provided for debit balances totalling R127 190 and R479 426 respectively that had been regrouped to other debtors, long term debtors and trade creditors in the adjusted financial statements. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain all the information and explanations I considered necessary to satisfy myself as to the existence and valuation of these balances.

20. The municipality provided for all trade debtors that have been outstanding for longer than 90 days which amounted to R25 million as reflected in note 10 to the financial statements. An independent recalculation of the provision for bad debts indicated that the provision and the bad debts expense is likely to be understated by R1,1 million.
21. Included in the income accrued amount of R3,4 million as per note 10 to the financial statements is an amount of R2,5 million in respect of fines issued but not received at year end. It is unlikely that the full amount of fines will be recovered from the offenders. Management has not performed an assessment of the recoverability of this amount. Consequently, I was unable to perform the audit procedures I considered necessary to satisfy myself as to the valuation of the accrual.
22. A reconciliation of the revenue per the 2007/2008 financial statements to the output VAT returns for the year could not be provided for audit purposes. Consequently, I was unable to perform the audit procedures I considered necessary to satisfy myself as to the completeness and rights to the VAT receivable balance.

Revenue

23. A rateable valuation reconciliation between the valuation roll and rates charged in support of the property rates revenue of R5,5 million per the statement of financial performance was not performed. The entity's records did not permit the application of alternative audit procedures. Consequently, I did not obtain all the information and explanations I considered necessary to satisfy myself as to the accuracy and completeness of property rates revenue recognised.
24. Agency fees received by the municipality for assisting the Department of Roads and Transport with the collection of license fees are not shown on a net basis as required by *GAMAP 9: Revenue*, paragraph 08. This resulted in the overstatement of revenue by R3,2 million and expenditure relating to amounts owed/paid to the department by R2,7 million.

Reconciliation between the E-Natis system, cash collected paid over to the department and the general ledger figures was not performed at year end. Consequently, I did not obtain all the information and explanations I considered necessary to satisfy myself as to the accuracy and completeness of agency fee income of R506 483 in respect of license fees collected.

25. Unfilled conditions and restrictions attaching to transfers and government grants has not been disclosed as required by *GAMAP 9 : Revenue* paragraph .62

Expenditure

26. There were unrecorded liabilities at the end of the prior year which has resulted in an overstatement of expenditure in the current year and an understatement of the accumulated deficit by R130 095.
27. A conditional grant received was incorrectly allocated as a credit to expenditure resulting in an understatement of expenditure and unspent grants and subsidies by R362 342. In addition, a receipt of R160 706 for the use of the municipality's network was incorrectly allocated as a credit to expenditure resulting in an understatement of expenditure and revenue by R160 706.

28. Supporting documentation could not be provided for expenditure incurred of R119 269 and the municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain all the information and explanations I considered necessary to satisfy myself as to the occurrence, accuracy, completeness and classification of expenditure.
29. A number of capturing errors and the incorrect accounting treatment of VAT on invoices has resulted in an understatement of expenditure and an overstatement of the VAT receivable by the net effect of R612 134.

The South African Revenue Services withheld R96 079 from refunds that were paid to the municipality in respect of penalties and interest incurred in respect of late VAT payments. This amount is still reflected as a VAT receivable in the municipality's records resulting in an overstatement of the VAT receivable and an understatement of expenditure.

30. As a result of the above, the high error rates identified during the execution of audit procedures on expenditure and the number of unrecorded liabilities identified, the occurrence, accuracy, completeness, and classification of total expenditure on repairs and maintenance, bulk purchases, contracted services, grants and subsidies paid and general expenditure amounting to R39 million per the statement of financial performance could not be determined.

Unauthorised, irregular and fruitless and wasteful expenditure

31. Total expenditure exceeded the budget by R27,9 million. This constitutes unauthorised expenditure as defined in section 1 of the MFMA. The unauthorised expenditure has not been disclosed in the financial statements as required in terms of section 125 (2)(d)(i) of the MFMA. Furthermore, no attempt was made to recover the unauthorised expenditure as required by section 32 (2) of the MFMA nor has it been authorized in an adjustments budget, or certified as irrecoverable by council in terms of section 32 (2) (b). Furthermore, it was identified that the budgeted figures included in Appendix E(1) and Appendix E(2) to the financial statements reflected the amounts as per the original budget and not the adjustments budget.
32. Formal written price quotations for procurements with a transaction value exceeding R10 000 up to R200 000 (VAT included) could not be provided for expenditure amounting to R702 559 (VAT included), as required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) Municipal Supply Chain Regulation 12 (c).

A competitive bidding process had not been followed for transactions with a value of above R200 000 (VAT included) and the procurement of long-term contracts amounting to R55 million, as required by Municipal Supply Chain Regulation 12 (d).

No preferential point system was applied in awarding a contract to the value of R55 million as required by Municipal Supply Chain Regulation 27(2)(f) and as prescribed in terms of the Preferential Procurement Policy Framework Act, 2000 (Act No.5 of 2000).

A competitive bidding process had not been followed for transactions with a value of above R200 000 (VAT included) for procurement of consultants amounting to R5,1 million as required by Municipal Supply Chain Regulation 35.

The above expenditure therefore constitutes irregular expenditure as defined in section 1 of the MFMA which has not been disclosed as such in the financial statements as required by section 125(2)(d)(i) of the MFMA. Furthermore, no attempt was made to recover the irregular expenditure as required by section 32 (2) of the MFMA nor has it been certified as irrecoverable by council in terms of section 32 (2) (b).

33. Interest and penalties of R97 686 were incurred as a result of the late payment of VAT, Skills Development Levies (SDL) and Pay As You Earn (PAYE). In addition, a settlement of R350 000 was incurred in respect of a lawsuit. This fruitless and wasteful expenditure has not been disclosed in the financial statements as required by section 125 (2)(d)(i) of the MFMA. Furthermore, no attempt was made to recover the fruitless and wasteful expenditure as required by section 32 (2) of the MFMA nor has it been certified as irrecoverable by council in terms of section 32 (2) (b).
34. The accrual for a litigation settlement of R350 000 has not been disclosed as required by GRAP 1: Presentation of financial statements, paragraph .99.

Cash flow statement

35. The amount for cash receipts from customers of R63,7 million does not agree to the revenue figure, as adjusted for changes in trade debtors, income accrued, other debtors and VAT on trade debtors (grouped to trade payables) per the financial statements of R66,5 million which is in contravention with GRAP 2: Cash flow statements, paragraph 18.

Disclosure

36. IAS 32 (AC 125): Financial instruments: Disclosure and presentation

The financial statements do not include an accounting policy for long term liabilities as required by paragraph .60 (b).

37. IAS 39 (AC 133): Financial Instruments: Recognition and measurement

38.1 For each class of financial asset, financial liability and equity instrument, the following was not disclosed as required paragraph .60:

- information about the extent and nature of the financial instruments, including significant terms and conditions that may affect the amount, timing and certainty of future cash flows;
- the accounting policies and methods adopted, including the criteria for recognition and the basis of measurement applied.

38.2 The following was not disclosed in respect of significant accounting policies as required by paragraph .66:

- the criteria applied in determining when to recognise a financial asset or financial liability and when to derecognise it;
- the basis of measurement applied to financial assets and financial liabilities on initial recognition and subsequently;
- the basis on which income and expenses arising from financial assets and financial liabilities are recognised and measured.

38.3 For each class of financial assets and financial liabilities, the information about the municipality's exposure to interest rate risk has not been disclosed as required by paragraph .67.

Disclaimer of opinion

38. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the Sundays River Valley Municipality. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matters

I draw attention to the following matters:

Going concern

39. The municipality has an accumulated loss of R13,3 million at year end. Note 34 to the financial statements indicate that this condition, along with other matters, point to the existence of a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern.

Restatement of corresponding figures

40. As disclosed in note 21 to the financial statements, the corresponding figures for 30 June 2007 have been restated as a result of errors discovered during the current and prior financial year.

OTHER MATTERS

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

Internal controls

41. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the inefficiencies in the system of internal control, which led to the disclaimer of opinion. The root causes are categorised according to the five components of an effective system of internal control. In some instances deficiencies exist in more than one internal control component.

Reporting Item	Control environment	Risk assessment	Control activities	Information and communication	Monitoring
Reserves	X		X		
Accumulated deficit	X				
Trade and other payables			X		
Unspent grants and subsidies	X	X	X		
Property, plant and equipment	X		X		

Reporting Item	Control environment	Risk assessment	Control activities	Information and communication	Monitoring
Receivables		X	X		
Revenue	X		X		
Expenditure	X		X		
Unauthorised, irregular and fruitless and wasteful expenditure		X			
Cash flow statement	X				
Disclosure	X				

Control environment: establishes the foundation for the internal control system by providing fundamental discipline and structure for financial reporting.

Risk assessment: involves the identification and analysis by management of relevant financial reporting risks to achieve predetermined financial reporting objectives.

Control activities: policies, procedures and practices that ensure that management's financial reporting objectives are achieved and financial reporting risk mitigation strategies are carried out.

Information and communication: supports all other control components by communicating control responsibilities for financial reporting to employees and by providing financial reporting information in a form and time frame that allow people to carry out their financial reporting duties.

Monitoring: covers external oversight of internal controls over financial reporting by management or other parties outside the process; or the application of independent methodologies, like customised procedures or standard checklists, by employees within a process.

Material non-compliance with applicable legislation

42. Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA)

- 43.1 All monies owing by the municipality were not paid within 30 days of receiving the relevant invoice or statement as required by section 65(2)(e) of the MFMA.
- 43.2 The municipality did not have an effective system of expenditure control that included procedures for the approval, authorisation, withdrawal and payment of funds as required by 65(2)(a) of the MFMA.
- 43.3 The annual financial statements were not submitted to the Auditor-General within two months after year end as required by section 126(1) of the MFMA, as they were only submitted on the 5th of September 2008.
- 43.4 Management has not developed written policies and procedures to guide financial accounting processes and related controls for revenue and receivables as required by section 78(1) of the MFMA
- 43.5 National Treasury was not notified of overdrawn accounts during the year, the reasons for the overdrawn accounts, or the steps taken to correct the matter as required by section 70(2) of the MFMA. In addition the bank account details were not submitted to the Auditor-General before the start of the financial year as required by section 9 of the MFMA.

43.6 The following material non-compliances with section 62 of the MFMA have been noted regarding the effective, efficient and transparent systems of financial risk management and internal control:

- There are no documented policies and procedures in place relating to long term debtors;
- There are no documented policies and procedures in respect of the salaries and wages system;
- There was no formal risk management policy at the municipality and the last risk assessment performed was in 2005 by the internal auditors;
- There is no independent review of journal entries that have been processed or a comparison of posted journal entries to the authorized journal forms;
- Certain assets do not have asset numbers assigned on the fixed asset register, nor is the asset number physically attached to the asset;
- A register of the deposits and rentals received for each facility of the municipality rented out is not maintained;
- A reconciliation between the rateable valuation as per the valuation rolls and the rates and taxes raised through the municipal system was not performed for 2007/2008 year; and
- Supporting documentation for fixed asset additions made during the current year in the amount of R4 034 192.84 could not be provided.

43.7 The following material non-compliances with section 63 of the MFMA have been noted regarding the maintenance and safeguarding of assets:

- Additions to fixed assets recorded in the general ledger are not timeously recorded to the fixed asset register;
- Only one composite depreciation calculation is performed at year end by the third party consultants that prepare the annual financial statements;
- The reconciliation of the fixed asset register to the general ledger is not performed on a monthly basis; and
- Disposals recorded in the general ledger are not updated to the fixed asset register timeously.

43.8 The following material non-compliances with section 64 of the MFMA have been noted regarding the system of internal control in respect of debtors and revenue:

- No master file amendment controls are in place for amendments made to the customer master. There is therefore also no reconciliation of the valuation roll input into the system back to the authorized valuation roll received from the valuers;
- Investment accounts are not reconciled to the grant liability accounts on a monthly basis; and
- There is a lack of controls regarding the follow up of overdue customers such as the installation of prepaid meters, sending out letters of demand.

43.9 The following material non-compliances with section 65 of the MFMA have been noted regarding the system of internal control in respect of creditors and payments:

- There are no controls in place for amendments to the payroll master file;
- Goods received vouchers (GRV's) are not issued on receipt of goods, nor is a certificate of satisfactory performance issued on receipt of services;
- There was a lack of supporting documentation available to support expenditure incurred as referred to in paragraph 26 above.
- There are no controls in place over amendments to the supplier master file;
- Reconciliations between supplier statement balances and the balance per the creditors control account is not performed on a monthly basis;

43.10 The internal audit plan of the municipality for 2007/08 did not include an evaluation of matters relating to compliance with the MFMA, DoRA and other applicable legislation, audit of loss control, an evaluation of accounting procedures and practices; and the audit of performance management as required by section 165(2)(b) of the MFMA.

43. Electricity Regulation Act, 2006 (Act No. 4 of 2006) (ERA).

Electricity tariffs proposed by council and approved by the National Electricity Regulator (NER) for the current financial year were not implemented as required by section 16(2) of the ERA.

44. Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA)

The accounting officer of the municipality did not submit the annual report for the 2006/2007 financial year to the Auditor-General as required by section 21A of the MSA.

Matters of governance

45. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

Matter of governance	Yes	No
Audit committee		
• The municipality had an audit committee in operation throughout the financial year.	X	
• The audit committee operates in accordance with approved, written terms of reference.	X	
• The audit committee substantially fulfilled its responsibilities for the year, as set out in Section 166(2) of the MFMA.	X	
Internal audit		
• The municipality had an internal audit function in operation throughout the financial year.	X	
• The internal audit function operates in terms of an approved internal audit plan.	X	
• The internal audit function substantially fulfilled its responsibilities for the year, as set out in Section 165(2) of the MFMA.		X
Other matters of governance		
• The annual financial statements were submitted for audit as per the legislated		X

Matter of governance	Yes	No
deadlines in section 128 of the MFMA.		
• The annual report was submitted to the auditor for consideration prior to the date of the auditor's report.		X
• The financial statements submitted for audit were not subject to any material amendments resulting from the audit.		X
• No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.		X
• The prior year's external audit recommendations have been substantially implemented.		X
Implementation of Standards of Generally Recognised Accounting Practice (GRAP)		
• The municipality submitted an implementation plan, detailing progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 30 October 2007.		X
• The municipality substantially complied with the implementation plan it submitted to the National Treasury and the relevant provincial treasury before 30 October 2007, detailing its progress towards full compliance with GRAP.		X
• The municipality submitted an implementation plan, detailing further progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 31 March 2008.		X

Unaudited supplementary schedules

46. The supplementary information set out in Appendix C, D, E(1) and E(2) do not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

OTHER REPORTING RESPONSIBILITIES

REPORT ON PERFORMANCE INFORMATION

47. I was engaged to audit the performance information.

Responsibility of the accounting officer for the performance information

48. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

Responsibility of the Auditor-General

49. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in Government Gazette No. 31057 of 15 May 2008 and read in conjunction with section 45 of the Municipal Systems Act, No. 32 of 2000.

50. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

51. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit findings (performance information)

Non-compliance with regulatory requirements

Existence and functioning of a performance audit committee

52. The municipality did not appoint and budget for a performance audit committee, neither was another audit committee utilised as the performance audit committee as required by section 14(2)(a) of the Local Government: Municipal Planning and Performance Management Regulations of 2001.

Internal auditing of performance measurements

53. The internal auditors did not audit the performance measurements on a continuous basis as required by section 14(2)(a) of the Local Government: Municipal Planning and Performance Management Regulations of 2001, read in conjunction with section 45 of the MSA.

Reporting on performance information

54. No quarterly reports on the progress on achieving measurable objectives and targets were prepared to facilitate effective performance monitoring, evaluation and corrective action as required by 41(1)(c) of the MSA.
55. The municipality did not prepare the annual performance report to be included in the annual report in terms of section 46 of the MSA.

Content of integrated development plan (IDP)

56. The integrated development plan of the municipality did not include the general key performance indicators (KPIs) of debt and cost coverage ratios. In addition, the municipality identified the percentage of households earning less than R800 per month with access to basic services, not households earning less than R1 100 per month as per the general KPI as required by section 43 of the MSA.

The IDP does not reflect the key performance indicators and performance targets as determined in terms of section 41 of the MSA, including the specific performance targets and input, output and outcome indicators for each objective and development priority as required by sections 26 of the MSA.

Other reports

57. Investigations

An internal investigation was conducted relating to allegations of tender irregularities in respect of various housing projects. Payments of R12,4 million were made during the current financial year. The results from the investigation are in the process of being evaluated.

APPRECIATION

58. The assistance rendered by the staff of the Sundays River Valley Municipality during the audit is sincerely appreciated.

Auditor General

Port Elizabeth

30 January 2009



AUDITOR-GENERAL