

REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE ANNUAL FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF GREAT KEI MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of Great Kei Municipality which comprise the statement of financial position as at 30 June 2009, the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages [xx] to [xx].

The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the entity-specific basis of accounting as set out in accounting policy note 1 and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and for such internal controls as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

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) and section 126(3) of the MFMA, my responsibility is to express an opinion on the 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 described 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 for disclaimer of opinion

Accumulated surplus

4. The accumulated surplus for the year ending 30 June 2009 is disclosed at R1,9 million (2008: R9,9 million) on the face of the balance sheet and the income statement. Amounts disclosed for 2008 and opening balances in 2009 that related to debtors, creditors, accumulated surplus, and property, plant and equipment, were not adjusted. Adjustments were required to correct and address misstatements and limitations experienced during my prior year audit that caused me not to express an opinion on the financial statements for the year ended 30 June 2008.

5. The accumulated surplus per the general ledger at 30 June 2009, exceeded the accumulated surplus of R1,9 million disclosed in the financial statements by R11,2 million. The comparative balance of accumulated surplus per the annual financial statements furthermore exceeded the opening balance of accumulated surplus per the trial balance by R203,815, while the current year opening balance per the general ledger exceeded the closing balance of the accumulated surplus in the general ledger accounts of the prior year by R880,054.
6. Appropriations amounting to R10,995,024 that were disclosed in the income statement do not agree to the movement within the accumulated surplus for the financial year that only amounted to R111,447. No supporting documentation could be obtained for the amount disclosed in the financial statements. In addition, sufficient, appropriate evidence to confirm the correct treatment and suitability of journal entries recording the movement could not be obtained. Details to appropriations were not disclosed.
7. Due to limitations placed on the scope of my work and municipal records not permitting the application of alternative audit procedures, the impact of these matters could not be assessed.

Fixed assets

8. Fixed assets is disclosed at R3,8 million (2008: R4,0 million) on the face of the balance sheet and note 6 to the financial statements. As reported in paragraph 4 misstatements identified in my prior year audit were not corrected.
9. Due to the deficiencies in the fixed asset register, I could not confirm that all assets were included in the financial statements at appropriate amounts, that the municipality owned the disclosed assets and that assets recorded in the financial statements actually existed. The fixed asset register did not include sufficient information on assets relating to: the source of funding , disposals and withdrawals, identification numbers, detailed descriptions, acquisition dates, physical location details and department or vote details. In certain instances cost of the individual asset were not recorded.
10. Fixed assets were incorrectly repeated in the fixed asset register which resulted in the cost prices of assets being inappropriately inflated by R19,1 million. The value of fixed property included in the fixed asset register was furthermore R7,4 million less than the value of municipal property included in the valuation rolls of the municipality. Overall, the cost price of fixed assets that was reflected in the fixed asset register at R23,0 million was R18,0 million less than the cost price of assets that is disclosed at R41,0 million in note 6 to the financial statements.
11. Contract registers reflecting fixed assets under construction and maintenance records on fixed assets could not be obtained. With municipal records not permitting the application of alternative audit procedures, I could not confirm that all assets were correctly allocated and recorded while impaired assets could not be identified. The fixed asset register did not include additions for the financial year ending 30 June 2009. Additions to fixed assets according to note 6 to the financial statements however amounted to R8,4 million. Schedules in support of commitments indicated capital project costs amounting to R11,4 million. The conflicting information regarding additions to fixed assets prohibited the quantification of any adjustments that might have been necessary to the amounts shown in the financial statements for creditors, expenditure and value added tax.

12. No leased assets were identified in the accounting records. Note 24 to the financial statements however disclose finance lease obligations amounting to R618,192. The absence of information available prohibited the assessment of the appropriate treatments of leased assets.
13. Expenditure in the grant register amounting to R3,0 million could not be agreed to the general ledger. In the absence of control accounts, schedules and explanations for the differences noted, the appropriate recording of grant expenditure could not be confirmed. The limitation referred to above also impacted on accounts payable and grant income.
14. Expenditure amounting to R907,132, recorded in schedules which supported grant movement, could not be identified within the accounting records. I could not determine whether all capital expenditure was appropriately recorded in the accounting records of the municipality due to the inadequacy of information available.

Debtors

15. Debtors, after the provision for doubtful debts are disclosed at R18,4 million (2008: R10,4 million) on the face of the balance sheet and note 10 to the financial statements. As reported in paragraph 4, misstatements identified in my prior year audit that affected current year balances were not corrected. Total debtors per the general ledger exceeded debtors after the provision for doubtful debts, as disclosed on the face of the balance sheet and note 10 to the financial statements, by R5,5 million.
16. The comparative amount noted above similarly exceeded debtors per the audited financial statements of the prior year by R4,6 million. The debtor's age analysis balance that exceeded debtors reflected in the financial statements by R5,4 million included instances where debtors were duplicated. Duplicated debtors totaled R5,3 million. Management explanations for the inconsistencies noted and the movement in the debtors balance could not be obtained.
17. Provision for doubtful debts amounting to R4,1 million is disclosed in note 10 to the annual financial statements. Re-assessment of debtors indicate that this provision may be understated by R4,3 million. Doubtful debts could however not be estimated reliably due to the inconsistencies and errors noted in the debtors balances.
18. Irregular expenditure amounting to R935,016 is included under debtors and disclosed in note 10 to the financial statements. It could not be confirmed that these debtors were in actual fact raised as the general ledger accounts supporting the balance disclosed in note 10 could not be identified.
19. Debtors with credit balances amounting to R687,584 were inappropriately included under debtors. This amount included unidentified deposits to the value of R239,551. In the absence of adequate documentation, schedules and explanations, the balance, nature and correct allocation of these balances could not be determined.
20. Interest was not charged on overdue accounts as required by section 97(1)(e) of the Local Government Municipal System Act, Act No.32 of 2000. Due to limitations set out in the paragraphs above, I could not reliably estimate the impact that interest charges not levied had on income and debtors.

Income

21. Total actual income disclosed at R43,7 million on the face of the income statement exceeds the total income per general ledger accounts by R9,4 million.
22. The accuracy and appropriate recognition of grant income amounting to R27,8 million could not be confirmed. Grant income could not be compared to total grant expenditure. Grant expenditure was not recorded in the grant register and was also not reconciled from general ledger accounts. Grant receipts amounting to R8,1 million recorded in the schedule of grant receipts could not be agreed to bank statements. Grants receipts amounting to R1,8 million were not recorded in the grants register while unspent grants that amounted to R4,8 million in general ledger could not be agreed to the R1,7 million unspent grants in the grant register. The differences noted was neither reconciled nor explained by management and I was unable to determine the impact of the differences unspent conditional grants, grant receipts, property plant and equipment and grants income.
23. Grant income amounting to R27,8 million was included under income in the income statement. Disclosure of how grant allocations were spent per vote, as contemplated in terms of section 123(1) and 123(2) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA), were not included in the financial statements.
24. Registers for direct and other income were not maintained. Originating source- and supporting documentation to direct and other income, amounting to R9,3 million, could furthermore not be obtained. In the absence of alternative audit procedures it could not be confirmed that all direct and other income were accurately and appropriately accounted for.
25. Property rates amounting to R4,2 million forms part of total income disclosed on the face of the income statement. Property rates were based on a general valuation performed in 1994 with no evidence of subsequent supplementary or interim valuations that were performed or implemented. Property values, maintained in excel registers could not be substantiated with approved original valuation role. I could therefore not quantify the assessment rate income which was not included in the financial statements. It could also not be confirmed that assessment rates were accounted for at appropriate amounts.
26. Electricity income amounting to R2,8 million forms part of total income disclosed in the income statement. A recalculation of the estimated electricity income based on electricity purchases that took into account maximum electricity losses allowed by the National Electricity Regulator (NER) indicated a loss of electricity income in excess of R3 million due to unbilled usage.
27. Electricity tariffs were not approved by the NER since 2000. The inappropriate electricity tariff applied resulted in both electricity revenue and debtors exceeding the permitted income levels by R528,880.
28. Interest earned according to the investments register exceeded the interest income amounting to R216,817 that is included under income disclosed on the face of the income statement by R635,922.

Operating expenditure

29. Actual total expenditure is disclosed at R24,6 million on the face of the income statement. Included in expenditure is operating expenditure amounting to R13,3 million. Operating expenditure per the general ledger exceeded the operating expenditure noted above by R1,0 million.
30. It could not be confirmed that payments to suppliers that amounted to R6,1 million were recorded in municipality accounting records. The documentation that was not available prohibited confirmation of fraud similar to that which was under investigation as referred to in paragraph 104 below.
31. Expenditure documentation amounting to R4,1 million could not be obtained. Sufficient appropriate evidence to determine the validity of tenders awarded by the municipality amounting to R599,000 could furthermore not be confirmed due to the non-submission of tender documents. The limitations experienced prohibited the identification of irregular expenditure and fruitless and wasteful expenditure.
32. It could not be confirmed that expenditure amounting to R3,9 million were recorded in municipal accounting records. Expenditure not recorded in municipal accounting records prohibited the identification of fraud and losses similar to the fraud identified and reported on in paragraph 104 below.

Long term liabilities

33. The short term portion of long term liabilities and long term liabilities disclosed at R199,895 and R3,4 million respectively on the face of the balance sheet totals to R3,6 million. The R3,6 million disclosed exceeded the total of long term liability general ledger accounts by R1,8 million.
34. In the absence of internal loan registers and alternative audit procedures internal loan balances amounting to R311,363 could not be confirmed. Internal loan balances were furthermore not disclosed in the notes to the financial statements as required by the standards laid down by the Institute of Municipal Treasurers and accountants in its Code of Practice, 1992, (IMFO).
35. Advances received on long term loans per Appendix B amounting to R628,214 of the financial statements did not agree to the advances per third party confirmations which indicated a total of R22,384. Amounts redeemed according to Appendix B that amounted to R3,5 million could furthermore not be agreed to the municipal loan schedules that reflected R3,2 million. Third party confirmations indicated R2,7 million redeemed. The differences between individual accounts within the accounting system, the conflicting information included in appendix B and the fact that a loan register were not maintained resulted in an inability to verify how the movement in loans were accounted.

Bank and cash

36. Bank and cash balances per the general ledger exceeded bank and cash disclosed at R3,2 million on the face of balance sheet by R7,6 million. Interbank transfers, which reduce bank and cash balances by R1,7 million in note 11 to the financial statements, was inappropriately set off against the positive bank and cash balances. No schedule or documentation in support of the interbank transfers could be presented.
37. Bank and cash balances according to bank statements as at 30 June 2009 exceeded the balance of bank and cash disclosed in the financial statements by R229,063. The year-end bank reconciliation reflected reconciling items amounting to R413,462.

Details of the reconciling items were however not available. In the absence explanations or other appropriate documentation, the impact of the noted discrepancies on cash, revenue and expenditure could not be quantified.

Cash flow statement

38. The prior year cash generated by operations disclosed in the cash flow statement at R15,7 million does not agree to the R13,2 million disclosed in note 17 to the financial statements.
39. The prior year (increase)/ decrease in cash investments is disclosed in the cash flow statement at R5,9 million. This does not agree to the amount disclosed in note 19 to the financial statements amounting to R555,764.
40. Note 18 to the financial statements that disclose an increase in accounts payable and provisions amounting to R2,9 million does not take into account the increase in provisions of R369, 291.
41. The reliability of the information contained in the cash flow statement could not be confirmed as a result of the differences and inconsistencies identified and reported under bank and cash and investments in this report.

Commitments

42. Capital commitments are disclosed at R2,8 million in note 23 to the financial statements. Capital commitments according to the commitments listing exceeded commitments recorded in expenditure reports by R1,2 million. The commitments listing, conversely, did not include contracts to the value of R5,8 million. The amount at which commitments should be disclosed could not be confirmed due to conflicting information contained in accounting records.

Employee Costs

43. Newly appointed municipal employees that did not appear in the payroll system, were identified. Remuneration paid to these employees could not be quantified from the available information. An unreconciled salary control account that amounted to R290,989 was included under creditors. In the absence of reconciliations and schedules the impact of salary suspense accounts on employee cost could not be quantified.
44. Evidence in support of calculations related to leave gratuity expenditure amounting to R339,438 could not be obtained. Municipal records did not permit the application of alternative audit procedures to confirm whether leave gratuity were correctly calculated.

Inventory

45. Due to limitations placed on the scope of my work and municipal records not permitting the application of alternative audit procedures, I could not gather sufficient appropriate evidence to confirm that inventory amounting to R223,165 were appropriately written off. As reported in paragraph 6, appropriations were not adequately disclosed in the financial statements.

Investments

46. Investments amounting to R9,2 million, as disclosed on the face of the balance sheet and note 7 to the financial statements, exceeded investments per the general ledger by R13,8 million.

47. Investments balances per investment statements exceeded the investment balances disclosed in the financial statements by R2,8 million. Interest earned according to investment statements furthermore exceeded interest revenue included in the income statements that amounted to R216,817. The difference noted was equal to R643,669. As a result of inconsistencies and conflicting information, the impact on other account balances could not be assessed.

Irregular expenditure

48. Irregular expenditure amounting to R331,917 was incurred due to non-compliance to the municipal supply chain policy. The irregular expenditure was not identified by internal control systems at the municipality and was therefore not disclosed in the financial statements.

49. As reported in paragraph 31 above the completeness of irregular expenditure could not be confirmed due to supporting documentaiton to expenditure that could not be obtained. In addition to matters reported in paragraph 28, a contract for a project amounting to R1,6 million could not be obtained and it could not be confirmed that the necessary steps to recover irregular and fruitless expenditure were taken.

50. Irregular expenditure for the 2008 year, as disclosed in note 28 to the financial statements that amounted to R979,210 do not agree to the amounts disclosed in the prior year audited financial statements which amounted to R7,3 million. The amount disclosed in the financial statements for the 2007 financial year amounting to R5,3 also do not agree to the amounts disclosed in the prior year audited financial statements that amounted to R4,8 million The reasons for differences noted was not disclosed in the financial statements.

51. Full and proper supporting documentation to expenditure vouchers amounting to R3,0 million were not available. Documentation not maintained results in irregular expenditure as the lack of documentation results in non-compliance to the municipal supply chain management policies. In the absence of documentation it could not be confirmed that the procured goods were received by the municipality.

Fruitless and wasteful expenditure

52. A lack of schedules and documentaton in support of the R4,6 million fruitless and wasteful expenditure disclosed in note 29 prohibited confirmation of the disclosed amount.

Creditors

53. Creditors disclosed at R25,6 million (2008:R22,6 million) on the face of the balance sheet and note 13 to the financial statements exceeded total creditors reflected in the general ledger accounts by R1,6 million. As reported in paragraph 4 entries to correct misstatements identified in my report on the financial statements for the year ending 30 June 2008 were not processed.

54. Schedules and documentation in support of creditors could not be obtained. I could therefore not confirm the existence of the municipality's obligations. I could also not confirm that all creditors that should have been accounted for were accounted for at appropriate amounts. Adjustments that may have been necessary to expenditure could not be quantified.

55. Due to limitations placed on the scope of my work as reported in paragraph 13 and municipal records not permitting the application of alternative audit procedures, I could not confirm that unspent conditional grants amounting to R5,2 million were appropriately accounted for. The impact on the grant income and fixed assets could not be determined.

Provisions

56. The annual financial statements do not include a provision for the rehabilitation of the communal Great Kei landfill site. Information to quantify the impact of the liability not recognised on provisions and expenditure could not be obtained.

57. In contravention of IMFO requirements, the assumptions and basis for the calculation of provision reflected at R992,931 on the face of the balance sheet and note 12 to the financial statements are not disclosed in the financial statements.

Funds and Reserves

58. Total trust funds per the general ledger exceeded trust funds disclosed on the face of the balance sheet and note 3 to the financial statements by R2,3 million.

59. The accounting policy for funds and reserves in the annual financial statements do not indicate the purpose of the various funds and reserves as required by IMFO. The policies also do not indicate how contributions will be made and how funds should be utilised. In the absence of alternative information to verify the regularity of movements in funds and reserves the possible misstatement in these balances could not be quantified.

60. Statutory funds are disclosed at R4,9 million on the face of the balance sheet and note 1 to the financial statements. Investments that serves as concomitant assets to the these funds however only amounted to R1,59 million leaving a shortfall of R3,3 million.

VAT

61. A Value Added Tax (VAT) account with a credit balance was incorrectly accounted for under creditors. Had this account been correctly set off against VAT accounts with debit balances, debtors and creditors would have decreased by R2,8 million.

62. Net VAT receivable included in the financial statements amounted to R1,0 million at year end. VAT receivable per the accounting records was not assessed to be reasonable. The amount disclosed were already in excess of the SARS confirmed balance of R777,548 that were not reduced by the VAT liability related to debtor balances.

63. VAT input per the VAT schedules used to prepare VAT returns did not agree to VAT recorded in the general ledger account and noted a difference R746,477. VAT claimed from SARS in effect exceeded VAT inputs processed in the general ledger and VAT receivable would have increased had input VAT been recorded in the general ledger in line with VAT schedules.

64. Due to limitations placed on the scope of my work and municipal records not permitting the application of alternative audit procedures, I could not gather sufficient appropriate evidence to confirm that journal entries decreasing VAT by R962,884, decreasing trust funds by R193,049 and decreasing debtors by R1,2 million were valid.

Unauthorised expenditure

65. Unauthorised expenditure amounting to R13,4 million was incurred by the municipality due to overspending on the Municipal budget. Further unauthorised expenditure amounting to R331,917 was incurred due to the grants used for purposes other than in accordance with the conditions of the allocation. Unauthorised expenditure amounting to R942,680 was incurred when expenditure on Municipal Infrastructure Grant projects that exceeded the total amount included in the approved budget.

Events after the reporting date

66. The municipal manager resigned from the Municipality subsequent to the reporting date. The details, of this material non-adjusting event after the reporting date, were not disclosed in the annual financial statements.

Disclaimer of opinion

67. 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 Great Kei Municipality. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matters

I draw attention to the following matters on which I do not express a disclaimer of opinion:

Basis of accounting

68. The municipality's policy is to prepare financial statements on the entity specific basis of accounting as set out in accounting policy note 1.1

Going concern

69. The municipality is largely dependent on the financial support received from government. In the absence of grants and subsidies, the municipality will not generate sufficient internal revenue to fund expenditure. This material uncertainty that may cast significant doubt on the municipality's ability to continue as a going concern was disclosed in accounting policy 1.4 to the financial statements.

Unauthorised, irregular or fruitless and wasteful expenditure as well as material losses through criminal conduct

70. Note 27 to the annual financial statements indicate that council authorised all unauthorised expenditure as council authorized all expenditure in excess of the budgeted amounts made during the current and previous financial years.

71. As disclosed in note 28 to the financial statements, irregular expenditure totaling R51,1 million was incurred by the Municipality during the recent past.

72. Fruitless and wasteful expenditure relating to expenditure incurred totaling R4,6 million is disclosed in note 29 to the financial statements.

73. Note 30 furthermore disclose losses and losses due to theft, amounting to R264,472 incurred as a result of unauthorised electronic transactions processed from the municipality's primary bank account.

Other matters

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

Material inconsistencies in other information included in the annual report

74. The following differences were noted between amounts included in Appendices and amounts disclosed in the annual financial statements:

Description	Note 3 of the financial statements	Appendix A of Financial statements	Difference
Trust Funds	R1,619,285.00	R4,444,748.64	R2,825,463.64-

75. As also indicated in paragraph 109 below, I have not obtained other information included in the annual report and have not been able to identify any material inconsistencies with the financial statements.

Unaudited supplementary schedules

76. The supplementary information set out on pages **XX to XX** does 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.

Non-compliance with applicable legislation

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

77. A draft service delivery and budget implementation plan for the budget year; and drafts of the annual performance agreements were not submitted to the mayor as required by section 69 (3) of the MFMA.

78. Evidence could not be obtained that the adjustment budget was accompanied by the explanations and motivations as required by section 28 (2) of the MFMA.

79. Evidence could not be obtained that the municipal council considered and responded to the submissions made by the local community, National Treasury and the relevant provincial treasury as required in terms of section 23 of the MFMA.

80. It could not be confirmed that the accounting officer took all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems as required by section 62 of the MFMA as it was established that the Municipal Supply Chain Management Policy do not include risk management, performance management or disposal management.

81. Evidence could not be obtained that the accounting officer for a municipality immediately informed National Treasury of any payments due by an organ of state as required by section 62(3) of the MFMA.

82. No evidence could be obtained that the accounting officer submitted electronic returns on their conditional grant spending to the National Treasury and Provincial treasury as contemplated in section 76 of the MFMA.

83. A service delivery and budget implementation plan were not developed by the municipality. The mayor therefore did not consider monthly budget reports as required by section 54(1) of the MFMA. Budget reports were not evaluated and revised as required and appropriate instructions were not issued to ensure implementation of the budget in accordance with the service delivery and budget implementation plan. Mid-year budget and performance assessments were not submitted to council by 31 January as required by legislation.
84. The accounting officer did not submit a draft service delivery and budget implementation plan for the budget year and drafts of the annual performance agreements for the municipal manager and all section 57 managers as required by section 69 (3) of the MFMA.
85. Evidence to demonstrate that the accounting officer took all reasonable steps to ensure that all monies owing by the municipality was paid within 30 days of receiving the relevant invoice or statement as required by section 65 (2) of the MFMA could not be obtained.
86. All revenue received by the municipality including revenue received by any collecting agent on its behalf were not reconciled on, at least, a weekly basis as required by Section 62(2)(g) of the MFMA.

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

87. The municipality did not exercise its legislative and executive authority by development and adoption of policies, plans, strategies and programmes, including setting targets for delivery as contemplated in section 11(3)(a) of the Municipal Systems Act No. 32 of 2000. Policies not developed include policies on: unauthorised, Irregular, Fruitless & Wasteful Expenditure, disclosure in the financial statements, controls over activities of service organizations, revenue management; long outstanding debtors.
88. The municipal council did not adopt by-laws to give effect to the implementation and enforcement of its tariff policy, credit control and debt collection policy as contemplated in section 75(1) and 98 of the MSA respectively.
89. Evidence could not be obtained that the municipal manager, within a policy framework determined by the municipal council and subject to any applicable legislation provided a job description for each post on the staff establishment as required by section 66 (1) (b) of the MSA.
90. The institutional framework required section 26 of the MSA, which must include an organogram, required for the implementation of the integrated development plan and address the municipality's internal transformation needs, was not identified in the municipality's integrated development plan.

Governance framework

91. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the internal control deficiencies and key governance responsibilities addressed below.

Internal control deficiencies

92. 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 deficiencies 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 (the number listed per component can be followed with the legend below the table.) In some instances deficiencies exist in more than one internal control component.

Par No.	Basis for disclaimer of opinion	CE	RA	CA	IC	M
4-8	Accumulated surplus(Ex.20)	2				
4-8	Accumulated surplus(EX.21& Ex.292)	5				
9-16	Fixed assets (Ex.39 & Ex.109)	5				
9-16	Fixed assets (Ex.113)				1	
17-22	Debtors (Ex.43)					1
17-22	Debtors (Ex.247)			4		
17-22	Debtors (Ex.282)	5				
23-30	Revenue (Ex.13)					5
23-30	Revenue (Ex.42)					1
23- 30	Revenue (Ex.200)	5				
23-30	Revenue (Ex.237)			2		
31-36	Operating expenditure (Ex.25)			4		
37-39	Long term liabilities(Ex.40)			6		
40-42	Cash and cash equivalents(Ex.47)			1		
43-44	Cash flow statement (EX.49)			5		
45	Commitments(EX.49)			5		
46-47	Employee cost(Ex,146 & Ex.154)	5				
48	Inventory(EX.49)			5		
49-52	Investments(Ex.18)	6				
49-52	Investments(Ex.285)	5				
53-55	Irregular expenditure (EX.49)			5		
56-58	Payables/ accruals(Ex.55)	5				
56-58	Prepayments (Ex.41)					1
59-60	Provisions (Ex.234)	5				
61-63	Reserves					

64-67	VAT (Ex.134)			5		
68-70	Unauthorised expenditure (Ex.49)			5		
71	Events after the reporting date (Ex.15)	6				
71	Events after the reporting date (Ex.226)	5				

93. The control environment was mostly affected by the inadequacy of control activities. The effectiveness and functioning of internal controls were adversely affected by the lack of approved written policies and procedures and the failure to implement control activities that will address the risks, written policies and procedures that were not in place and failure to implement control activities that will address risks.
94. Insufficient staff resources, limited management oversight, a lack of monitoring processes and inadequate supporting documentation for financial transactions contributed to an environment susceptible to undetected fraud and error.

Legend	
CE = Control environment	
The organisational structure does not address areas of responsibility and lines of reporting to support effective control over financial reporting.	1
Management and staff are not assigned appropriate levels of authority and responsibility to facilitate control over financial reporting.	2
Human resource policies do not facilitate effective recruitment and training, disciplining and supervision of personnel.	3
Integrity and ethical values have not been developed and are not understood to set the standard for financial reporting.	4
The accounting officer/accounting authority does not exercise oversight responsibility over financial reporting and internal control.	5
Management's philosophy and operating style do not promote effective control over financial reporting.	6
The entity does not have individuals competent in financial reporting and related matters.	7
RA = Risk assessment	
Management has not specified financial reporting objectives to enable the identification of risks to reliable financial reporting.	1
The entity does not identify risks to the achievement of financial reporting objectives.	2
The entity does not analyse the likelihood and impact of the risks identified.	3
The entity does not determine a risk strategy/action plan to manage identified risks.	4
The potential for material misstatement due to fraud is not considered.	5
CA = Control activities	
There is inadequate segregation of duties to prevent fraudulent data and asset misappropriation.	1
General information technology controls have not been designed to maintain the integrity of the information system and the security of the data.	2
Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.	3
Actions are not taken to address risks to the achievement of financial reporting objectives.	4
Control activities are not selected and developed to mitigate risks over financial reporting.	5
Policies and procedures related to financial reporting are not established and communicated.	6
Realistic targets are not set for financial performance measures, which are in turn not linked to an effective reward system.	7
IC = Information and communication	
Pertinent information is not identified and captured in a form and time frame to support financial reporting.	1
Information required to implement internal control is not available to personnel to enable internal control responsibilities.	2
Communications do not enable and support the understanding and execution of internal control processes and responsibilities by personnel.	3
M = Monitoring	
Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.	1
Neither reviews by internal audit or the audit committee nor self-assessments are evident.	2
Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.	3

Key governance responsibilities

95. 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 key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.		✓
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material amendments resulting from the audit.	✓	
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.		✓
Timeliness of financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines (section 126 of the MFMA).		✓
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.		✓
Development of and compliance with risk management, effective internal control and governance practices			
6.	Audit committee		
	<ul style="list-style-type: none"> The municipality had an audit committee in operation throughout the financial year. 		✓
	<ul style="list-style-type: none"> The audit committee operates in accordance with approved, written terms of reference. 		✓
	<ul style="list-style-type: none"> The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA. 		✓
7.	Internal audit		
	<ul style="list-style-type: none"> The municipality had an internal audit function in operation throughout the financial year. 		✓
	<ul style="list-style-type: none"> The internal audit function operates in terms of an approved internal audit plan. 		✓
	<ul style="list-style-type: none"> The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA. 		✓
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		✓
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		✓
10.	The information systems were appropriate to facilitate the preparation of the financial statements.		✓
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(c)(i) of the MFMA.		✓

No.	Matter	Y	N
12.	Delegations of responsibility are in place, as set out in section 79 of the MFMA.		✓
Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.		✓
14.	Oversight resolutions have been substantially implemented.		✓
Issues relating to the reporting of performance information			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.		✓
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		✓
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the municipality against its mandate, predetermined objectives, outputs, indicators and targets (section 68 of the MFMA).		✓
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.		✓

96. Delays were experienced during the execution of our audit as a result of the Municipality not providing some of the documentation and explanations timeously. These were only submitted after the agreed due date of submission. This was due to inadequate systems, monitoring and supervision in place throughout the financial year.
97. The Municipality did not submit their annual financial statements on the due date as required by IMFO. The preparation of the financial statements was outsourced to consultants.
98. The municipality did not have a functional internal audit and audit committee during the year. The audit committee therefore did not meet prior to the submission of the financial statements for the year ended 30 June 2009 to review their adequacy, reliability and accuracy.
99. The significant deficiencies in the design and implementation of internal control in respect of financial and risk management were attributed to a lack of approved and implemented policies being in place for the whole year under review and to key internal controls and processes that were either not in place or not functioning as intended.
100. The significant deficiencies in the design and implementation of internal control in respect of the compliance with applicable laws and regulations were attributed to a lack of implemented controls not being adhered to and a lack of monitoring and supervision by management.
101. The municipality does not have reliable information systems for recording and reporting of financial information. Significant difficulties were furthermore experienced during the audit to extract reliable accounting information from the system.

102. Management has not substantially addressed the prior year findings and the prior year findings were still recurring in the current year.
103. There are no documented and approved policies and procedures in place for the reporting of performance information.

Investigations

104. With reference to paragraphs 30 and 32 above, payments without documentation in support of expenditure incurred were made from the primary bank account of the municipality. An investigation relating to this matter was still ongoing at the reporting date.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

I have reviewed the performance information as set out on pages xx to xx.

The accounting officer's responsibility for the performance information

105. 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).

The Auditor-General's responsibility

106. 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 MSA.
107. 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.
108. 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

No reporting of performance information

109. The entity has not reported performance against predetermined objectives, as required by Section 121(3) (c) of the MFMA.

Content of integrated development plan

110. The IDP of Great Kei Municipality does not identify the institutional framework, which must include an organogram required for the implementation of the IDP and addressing the municipality's transformation needs, as required by section 26(a) of MSA and regulation 2(a) of Municipal Planning and Performance Management Regulations, 2001.

Existence and functioning of a performance audit committee

111. The Great Kei Municipality did not appoint and budget for a performance audit committee, nor was another audit committee utilised as the performance audit committee, as required by regulation 14(2) of the Municipal Planning and Performance Management Regulations, 2001.

Internal auditing of performance measurements

112. As indicated in paragraph 95 above no internal audit unit existed to perform audits on performance information.

Lack of adoption or implementation of a performance management system

113. The Great Kei Municipality did not implement a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players, as required in terms of regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

No mid-year budget and performance assessments

114. The accounting officer of the Great Kei Municipality did not by the 25th of January 2009 assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan, as required by section 72 of the MFMA.

Usefulness and reliability of reported performance information

115. The following criteria were used to assess the usefulness and reliability of the information on the municipality's performance with respect to the objectives in its integrated development plan:

- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan?
- Relevance: Is the performance information as reflected in the indicators and targets clearly linked to the predetermined objectives and mandate. Is this specific and measurable, and is the time period or deadline for delivery specified?
- Reliability: Can the reported performance information be traced back to the source data or documentation and is the reported performance information accurate and complete in relation to the source data or documentation?

The following audit findings relate to the above criteria:

Inconsistency reported performance information

116. The municipality did not prepare an annual performance information report as required by section 46 of the Municipal Systems Act, No 32 of 2000.

Reported performance information not relevant

117. An assessment could not be performed on the reliability of the reported performance information, as set out on pages xx to xx of the annual report, since the information was not received in time for audit purposes.

APPRECIATION

118. The assistance rendered by the staff of Great Kei Municipality during the audit is sincerely appreciated.

East London

12 May 2010



A U D I T O R - G E N E R A L
S O U T H A F R I C A

Auditing to build public confidence