

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Senqu Local Municipality which comprise the statement of financial position as at 30 June 2009, and 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 basis of accounting determined by the National Treasury as set out in accounting policy note 1 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA), Division of Revenue Act (Act No. 1 of 2007) (DoRA) and for such internal control 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), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this

financial year, I have determined that my audit of any disclosures made by the Senqu Local Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.

7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

8. In my opinion the financial statements present fairly, in all material respects, the financial position of Senqu Local Municipality as at 30 June 2009 and its financial performance and its cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 and in the manner required by the MFMA and DoRA.

Emphasis of matters

Without qualifying my opinion, I draw attention to the following matters:

Highlighting critically important matters presented or disclosed in the financial statements

9. As disclosed in note 22 to the financial statements, the municipality suffered a significant electricity loss of 9 million kilowatts amounting to R3 million.
10. Unauthorised expenditure of R2,3 million is disclosed in note 35.01 to the financial statements. The unauthorised expenditure was incurred as a result of management's failure to effectively monitor the implementation of internal controls designed to prevent, detect and correct instances where expenditure exceeds the budget approved by the council.
11. As disclosed in note 34 to the financial statements, fruitless and wasteful expenditure to the amount of R5,5 million was incurred largely due to the excessive distribution loss experienced by the municipality.
12. Furthermore, note 35 to the financial statements disclosed irregular expenditure to the amount of R1 million relating to supply chain processes and procedures not being followed.

Other matters

Without qualifying my opinion, I draw attention to the following matters that relates to my responsibilities in the audit of the financial statements:

Unaudited supplementary schedules

13. 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 schedule(s) and accordingly I do not express an opinion thereon.

Non compliance with applicable legislation

Non compliance with MFMA

14. Payments to suppliers were delayed beyond the 30 day receipt of invoice period as required by section 65(2)(b) and (c) of the MFMA.

Governance framework

15. 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 requirements addressed below:

Key governance responsibilities

16. 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 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		✓

No.	Matter	Y	N
	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.		✓
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 Senqu Local 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.		✓

17. Key governance responsibilities, including the development and compliance with risk management and effective internal control have substantially not been implemented as reflected in the table above as the municipality had not timeously implemented the required systems to ensure adherence to key governance responsibilities.
18. The capacity of the finance department is inadequate to effectively support, manage and perform the required financial functions as reliance is placed on specific individuals in the municipality. The impact of this was that material adjustments were effected to the financial statements submitted for audit purposes.
19. The unavailability of key staff during the audit was due to various governmental and training seminars being held during the critical stages of the audit resulting in delays in obtaining and resolving audit issues.
20. The internal audit function was not effective due to the following:
- The internal audit function did not perform frequent and adequate risk assessments and advise management on performance management and compliance with laws and regulations nor prepare an annual internal audit plan to guide its operations.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

21. I was engaged to review the performance information.

The Accounting Officer's responsibility for the performance information

22. 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

23. 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 section 45 of the MSA.

24. 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.

25. 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

26. The municipality has not submitted a performance report for audit purpose as required by paragraph 4 of Government Gazette No. 29919 (Notice 646 of 2007) on Performance Information dated 25 May 2007.

27. During the audit of performance information, it would appear that the municipality did not comply with the following regulations:

- Municipal Supply Chain Management, Regulation. 8 - The council should adopt the Performance Management System before or at the same time as the commencement by the municipality of the process of setting Key Performance Indicator's and targets in accordance with its Integrated Development Plan.
- Section 40 of the Municipal Systems Act (No. 32 of 2000) - The municipality must establish mechanisms to monitor and review the Performance Management System.
- MFMA section 54(1)(c), 71 and 72 - On receipt of a statement or report submitted by the accounting officer of a municipality in terms of section 71 or 72 the mayor must, *inter alia*, consider and, if necessary, make any revisions to the SDBIP, provided that the provisions to the service delivery targets and performance indicators in the plan may only be made with the approval of the council following approval of an adjustments budget.
- Municipal Systems Act, section 41; Regulation. 13 - Actual performance is monitored, measured and reviewed on a quarterly basis by council with regards to each of the

development priorities and objectives and against the Key Performance Indicator's and targets.

APPRECIATION

28. The assistance rendered by the staff of Senqu Local Municipality during the audit is sincerely appreciated.

East London

30 November 2009



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence