

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the Gariiep Municipality which comprise the balance sheet as at 30 June 2009, the income statement 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 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 the Division of Revenue Act, 2008 (Act No. 2 of 2008) (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) 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

Income

4. I could not confirm that journals that decreased income, as disclosed in the income statement, by R14,4 million should have been processed or were recorded in the correct accounts and at the correct amounts as they were not supported by appropriate supporting documentation. The municipality's records did not permit the application of alternative audit procedures.
5. The municipality was unable to provide certain meter reading registers and was also unable to provide sufficient appropriate audit evidence to confirm the amount of pre-paid electricity sold and the amounts received. I was therefore unable to determine if all electricity income that should have been billed and included in actual trading service income of R10,9 million, as presented in the income statement, and debtors as disclosed in the balance sheet, were included and recorded at the correct amounts. The municipality's records did not permit the application of alternative audit procedures.

6. I was unable to obtain audit assurance that all other tariffs and services income that should have been billed and included in actual income of R39,7 million, disclosed in the income statement, was included and recorded at the correct amounts. The internal control system of the municipality could not provide me with sufficient audit evidence as this income is only recognised when funds are received and I was unable to extend my examination beyond the receipts actually recorded. The municipality has inadequate accounting records to permit the application of alternative audit procedures.
7. The valuation roll did not agree with the total value as recorded on the system and a reconciliation in support of this difference was not provided. As a result, I was unable to determine if rates income amounting to R5,1 million, which is included in the total actual income of R39,7 million as disclosed in the income statement, did actually take place and pertains to the municipality and, furthermore that all rates that should have been included were included and recorded at the correct amounts. The municipality has inadequate accounting records to permit the application of alternative audit procedures.
8. In accordance with accounting policy note 1, the financial statements are prepared on the accrual basis and income is accrued when collectable and measureable. Incorrect rates were used to calculate interest on overdue debtors and due to the system being off-line, no interest was charged during August 2008 and September 2008. Consequently, income as disclosed in the income statement and debtors as disclosed in note 9 to the financial statements are understated by R512 021.

Creditors

9. Even after performing alternative procedures I was unable to determine whether trade creditors amounting to R9,3 million and other creditors amounting to R11,4 million, as disclosed in note 11 to the financial statements, represented actual amounts owed to third parties, and that trade creditors and other creditors included all amounts due to third parties at year-end and were recorded at the correct amounts. This was as a result of creditors amounting to R4,1 million not being supported by adequate documentation, creditor's reconciliations that were not performed and alternative procedures that did not provide adequate evidence of the balances.
10. I could not confirm that journals that increased creditors, as disclosed in note 11 to the financial statements, by R1,8 million should have been processed or were recorded in the correct accounts and at the correct amounts as they were not supported by appropriate supporting documentation. The municipality's records did not permit the application of alternative audit procedures.

Expenditure

11. I was unable to obtain audit assurance that expenditure amounting to R9,2 million, as disclosed in the income statement, did actually take place and pertained to the municipality. This was as a result of expenditure not being supported by adequate documentation and the municipality's records not permitting the application of alternative audit procedures.
12. I could not confirm that journals that decreased expenditure, as disclosed in the income statement, by R9 million should have been processed or were recorded in the correct accounts and at the correct amounts as they were not supported by appropriate supporting documentation. The municipality's records did not permit the application of alternative audit procedures.

Accumulated deficit

13. I could not confirm journals that decreased accumulated deficit, as disclosed in note 16 to the financial statements, by R4,9 million should have been processed or were recorded in the correct accounts and at the correct amounts as they were not supported by appropriate supporting documentation. The municipality's records did not permit the application of alternative audit procedures.

Debtors

14. The detailed age analysis in support of consumer debtors and rates and general services debtors provided for audit purposes did not agree with the amounts disclosed in note 9 to the financial statements. This was due to water and sanitation debtors of the water services authority, for which the municipality only acts as an agent, being excluded from the financial statements. A reconciliation in support of this difference was not provided and as a result it was not possible to carry out all the required audit procedures or to obtain all the information and explanations necessary to confirm an amount of R20,8 million which was excluded from the gross debtors balance of R44,2 million. Consequently, I was unable to determine if debtors represented actual credit extended and that all debtors that should have been recorded were recorded and at appropriate amounts. The municipality's records did not permit the application of alternative audit procedures.
15. Accounting policy note 6 to the financial statements states that a provision for doubtful debts is raised for outstanding debtors of 90 days and older. No reliance could be placed on the calculation of the provision for bad debts disclosed as R22 million in note 9 to the financial statements as it was based on the debtors age analysis. As a result, I was unable to confirm whether the provision was recognised at an appropriate amount.
16. I could not confirm that journals that decreased debtors, as disclosed in note 10 to the financial statements, by R107 661 should have been processed or were recorded in the correct accounts and at the correct amounts as they were not supported by appropriate supporting documentation. The municipality's records did not permit the application of alternative audit procedures.
17. Audit procedures identified a debtor amounting to R11,1 million included in other debtors, as disclosed in note 9 to the financial statements. A dispute resolution exists which indicates that the recoverability of this debt is doubtful. This debtor was not included in the provision for bad debts, as disclosed in note 9 to the financial statements. Consequently, debtors are overstated and expenditure, as disclosed in the income statement is understated by R11,1 million.

Project funds

18. I could not confirm that journals that increased project funds as disclosed in note 4 to the financial statements by R2,4 million should have been processed or were recorded in the correct accounts and at the correct amounts as they were not supported by appropriate supporting documentation. The municipality's records did not permit the application of alternative audit procedures.
19. I was unable to obtain audit assurance that amounts recognised as project expenditure amounting to R1,8 million and included in project funds, as disclosed in note 4 to the financial statements, did actually take place and pertained to the municipality. This was as a result of these amounts not being supported by adequate documentation and the municipality's records not permitting the application of alternative audit procedures.

Statutory funds

20. I could not confirm that journals that decreased statutory funds, as disclosed in note 1 to the financial statements, by R752 921 should have been processed or were recorded in the correct accounts and at the correct amounts as they were not supported by appropriate supporting documentation. The municipality's records did not permit the application of alternative audit procedures.

Provisions

21. The municipality, which operates landfill sites, has an obligation in terms of section 28 of the National Environment Management Act, 1998 (Act No. 107 of 1998) to restore such sites. A provision for landfill sites amounting to R1 660 264 was included in provisions, as disclosed in note 10 to the financial statements. I was unable to confirm the percentage at which these sites have been used as detailed monthly records of landfill sites are not maintained by the municipality. Furthermore, I was unable to confirm whether the municipality had permits for these sites as required by section 21(1)(a) of the National Environment Management Act. Due to the lack of appropriate records, I was unable to confirm whether this provision was recognised at an appropriate amount.

Value Added Tax (VAT)

22. The municipality is registered for the payment of VAT on the invoice basis for the time of supply. However, in contravention with section 15 of the VAT Act, the municipality recorded transactions on the cash basis and therefore VAT was accounted for, and claimed and paid on the same basis. In addition, the municipality was unable to reconcile the VAT balance of R9,2 million, as disclosed in note 11 to the financial statements, with the last return submitted to SARS. Alternative audit procedures were performed and VAT at year-end was found to be misstated. I was unable to quantify the error as a result of not being able to confirm the balances of creditors of R32,6 million and debtors of R22,2 million as disclosed in the balance sheet as well as income of R39,7 million and expenditure of R51,9 million as disclosed in the income statement.
23. The VAT liability, as disclosed in note 11 to the financial statements, exceeded the general ledger by R2 million. A reconciliation in support of this difference was not provided and as a result, it was not possible to carry out all the required audit procedures or to obtain all the information and explanations necessary to confirm that this amount represents the actual amount owed and that all amounts owed that should have been recorded, have been recorded and have been recorded at appropriate amounts. The municipality did not have adequate accounting records to permit the application of alternative audit procedures.
24. I could not confirm that journals that decreased VAT, as disclosed in note 11 to the financial statements, by R570 702 should have been processed or were recorded in the correct accounts and at the correct amounts as they were not supported by appropriate supporting documentation. The municipality's records did not permit the application of alternative audit procedures.

Inventory

25. Inventory as disclosed in note 8 to the financial statements exceeded the amount on the detail inventory listing by R186 088. A reconciliation in support of this difference was not provided and, as a result, it was not possible to carry out all the required audit procedures or to obtain all the information and explanations necessary to confirm that inventory amounting to R435 804 represented assets owned by the municipality and that all inventory has been recorded and recorded at appropriate amounts. The municipality did not have adequate accounting records to permit the application of alternative auditing procedures.

Bank

26. I could not confirm that journals that increased bank, as disclosed in the balance sheet, by R3,7 million should have been processed or were recorded in the correct accounts and at the correct amounts as they were not supported by appropriate supporting documentation. The municipality's records did not permit the application of alternative audit procedures.
27. I was unable to obtain audit assurance that bank, as disclosed in the balance sheet, excludes stale cheques which originated from payments to suppliers for which the cheques were not presented by the drawer within six months after issuing the cheque. This was the result of outstanding payments amounting to R742 434 that reflected on the bank reconciliation which could not be traced to bank statements after year-end and no other supporting documentation could be presented. Furthermore, reconciling items amounting to R177 912 on the bank reconciliation could not be supported by adequate documentation. Consequently, I was unable to obtain audit assurance that bank, as disclosed in the balance sheet, represented an asset in the possession of the municipality and that bank was recorded at an appropriate amount. The municipality did not have adequate accounting records to permit the application of alternative audit procedures.

Distribution losses

28. Section 125(2)(d)(i) of the MFMA states that the notes to the annual financial statements of a municipality must disclose particulars of any material losses. Electricity distribution losses amounting to R3 million were disclosed in note 34 to the financial statements. I was unable to obtain audit assurance that all distribution losses that should have been recorded, were recorded and that distribution losses were recorded at an appropriate amount. This was as a result of the municipality not being able to provide sufficient appropriate audit evidence to support these amounts. I was unable to perform alternative procedures due to a lack of controls with regard to the recording of these losses.

Unauthorised expenditure

29. As disclosed in note 33 to the financial statements, unauthorised expenditure to the amount of R4,2 million was incurred due to overspending of the total amount appropriated for several votes in the municipality's approved budget.
30. No supporting documentation could be obtained as assurance that the accounting officer informed the mayor, the MEC for Local Government and the Auditor-General in writing of any unauthorised, expenditure incurred by the municipality, as required by section 32(4) of the MFMA.

31. The municipality did not disclose any disciplinary steps taken as a result of unauthorised expenditure incurred and whether these are recoverable, as required by section 125(2)(d)(ii) of the MFMA.
32. I was not provided with sufficient, appropriate audit evidence that management has properly identified, investigated and recorded all unauthorised expenditure during the year under review. This was due to not being able to confirm project fund expenditure included in project funds, as disclosed in the balance sheet and expenditure, as disclosed in the income statement. There were no satisfactory alternative audit procedures that I could perform to confirm that all unauthorised expenditure have been disclosed in the financial statements.

Irregular expenditure

33. As disclosed in note 28 to the financial statements, irregular expenditure to the amount of R2,4 million was incurred, as proper procurement processes were not followed.
34. No supporting documentation could be obtained as assurance that the accounting officer informed the mayor, the MEC for Local Government and the Auditor-General in writing of any irregular expenditure incurred by the municipality, as required by section 32(4) of the MFMA.
35. The municipality did not disclose any disciplinary steps taken as a result of irregular expenditure incurred and whether these are recoverable, as required by section 125(2)(d)(ii) of the MFMA.
36. I was not provided with sufficient, appropriate audit evidence that management has properly identified, investigated and recorded all irregular expenditure transactions during the year under review. This was due to not being able to confirm project fund expenditure included in project funds, as disclosed in the balance sheet and expenditure, as disclosed in the income statement. There were no satisfactory alternative audit procedures that I could perform to confirm that all irregular expenditure has been disclosed in the financial statements.

Going concern

37. The municipality was experiencing serious difficulties with regard to debt collection. Actual current expenditure exceeded the actual current revenue by R12,2 million and current liabilities exceeded current assets by R12,8 million. The municipality may not be in a position to settle its current obligations in the normal course of business. The municipality did not settle its debt within 30 days as required by the MFMA and was significantly dependent on the national and provincial government for its continued sustainability. Conditional amounts received from a department were identified which were not utilised for their intended purpose. Furthermore, project funds amounting to R10 million were identified for which cash was utilised for purposes other than intended. The municipality may therefore be unable to realise its assets and discharge its liabilities in the normal course of business. These are indicators that the municipality may be facing serious financial problems in terms of section 138 of the MFMA.

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. 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

39. The municipality's policy is to prepare financial statements on the entity-specific basis of accounting, as set out in accounting policy note 1 to the financial statements.

Contingent liabilities

40. As disclosed in note 30 to the financial statements, the municipality is the defendant in a claim and several lawsuits. The municipality is opposing the claims based on legal advice obtained. The ultimate outcome of these matters cannot be determined at present and no provision for any liabilities that may result was made in the financial statements. However, contingent liabilities amounting to R1,5 million have been disclosed in the financial statements.

Fruitless and wasteful expenditure

41. As disclosed in note 29 to the financial statements, fruitless and wasteful expenditure to the amount of R2,4 million was incurred. The majority of these payments related to interest incurred on late payments to the SALA pension fund, the bank overdraft and on other late payments.
42. No supporting documentation could be obtained as assurance that the accounting officer informed the mayor, the MEC for Local Government and the Auditor-General in writing of any fruitless and wasteful expenditure incurred by the municipality, as required by section 32(4) of the MFMA.
43. The municipality did not disclose any disciplinary steps taken as a result of fruitless and wasteful expenditure incurred and whether these are recoverable, as required by section 125(2)(d)(ii) of the MFMA.

Other matters

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

Unaudited supplementary schedules

44. The appendices set out in pages XX to XX 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.

Non-compliance with applicable legislation

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

45. A proper system of internal control over fixed assets and a fixed asset register was not maintained, as required by section 63(2)(c) of the MFMA.
46. Payments to suppliers were delayed beyond the 30 day period from receipt of invoice as required by section 65(2)(e) of the MFMA.
47. The mayor did not table to the council the 30 June 2008 annual report within seven months after the end of the previous financial year, as required by section 127(2) of the MFMA. In addition, the mayor did not submit a written explanation to the council setting out the reasons for delay, as required by section 127(3)(a) of the MFMA.

48. No supporting documentation could be obtained as assurance that the accounting officer, within 10 days of the end of each quarter, submitted a report on the implementation of the supply chain management policy of the municipality to the mayor, as required by regulation 6(3) of the municipal supply chain management regulations.

Governance framework

49. 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

50. 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
4-8	Income	7	2	3
9-10	Creditors	7	2	5
11-12	Expenditure	7	2	3
13	Accumulated deficit	7	2	3
14-17	Debtors	7	2	5
18-19	Project funds	7	2	5
20	Statutory funds	7	2	5
21	Provisions	7	2	5
22-24	Value Added Tax (VAT)	7	2	3
25	Inventory	7	2	3
26-27	Bank	7	2	5
28	Distribution losses	7	2	4
29-32	Unauthorised expenditure	7	2	4
33-36	Irregular expenditure	7	2	4
37	Going concern	5		

51. Inadequate leadership oversight at the municipality as a result of the instability in the chief financial officer position resulted in insufficient direction being provided to the municipality. The acting chief financial officer was appointed from 6 March 2008. Furthermore, a vacancy existed in the finance section and among finance staff there was a general lack of understanding of the basis of accounting. There was insufficient monitoring of the recording and reconciliation of the financial records. Sufficient control measures were not developed to address the qualifications reported in the prior years as identified in the action plan.
52. The accounting officer did not prioritise and take appropriate action to address the lack of discipline in the finance and supply chain management directorates, resulting in non-compliance with applicable legislation and inadequate budget control measures. This, in turn, resulted in irregular, fruitless and wasteful as well as unauthorised expenditure.

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

Key governance responsibilities

53. 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.		X
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material amendments resulting from the audit.		X
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.		X
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.		X
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.	X	
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. 		X

	<ul style="list-style-type: none"> The audit committee operates in accordance with approved, written terms of reference. 		X
	<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. 		X
7.	Internal audit		
	<ul style="list-style-type: none"> The municipality had an internal audit function in operation throughout the financial year. 		X
	<ul style="list-style-type: none"> The internal audit function operates in terms of an approved internal audit plan. 		X
	<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. 		X
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		X
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		X
10.	The information systems were appropriate to facilitate the preparation of the financial statements.		X
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.		X
12.	Delegations of responsibility are in place, as set out in section 79 of the MFMA.	X	
Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.		X
14.	Oversight resolutions have been substantially implemented.		X
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.		X
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		X
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 Gariep municipality against its mandate, predetermined objectives, outputs, indicators and targets section 68/87 of the MFMA.	X	
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	X	

54. The financial statements were not submitted for auditing as per the legislated deadline and significant difficulties were experienced concerning the delays or availability of requested information due to management being dependent on consultants to finalise the financial statements and providing requested information.
55. The financial statements were subjected to material amendments resulting from the audit because the municipality engaged the consultants in preparing the financial statements and the underlying accounting records of the municipality did not facilitate the preparation of the financial statements to comply with the basis of accounting. This is due to no risk assessment being performed, weaknesses in the design and implementation of internal control in respect of financial management and financial reporting and weaknesses in the information systems of the municipality.
56. The accounting officer did not prioritise the appointment of the audit committee upon expiry of the previous committee's term and therefore an audit committee was not in operation throughout the financial year. This also resulted in the committee not being able to fulfil all its responsibilities, the municipality not having an internal audit function in operation throughout the financial year and no risk assessment being conducted.

57. Prior year issues were not substantially addressed in the current year due to insufficient monitoring of recording and reconciliation of the financial records. Management did not develop sufficient control measures to address the qualifications reported in the prior years.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

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

The accounting officer's responsibility for the performance information

59. 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

60. 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.
61. 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.
62. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Findings on performance information

Non-compliance with regulatory requirements

Content of integrated development plan

63. The integrated development plan of the Gariep Municipality did not include the key performance indicators and performance targets determined in terms of a performance management system, as required by sections 26(i) and 41(1)(b) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.

Existence and functioning of a performance audit committee

64. The 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

65. The Gariep Municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required in terms of section 45 of the MSA.

Lack of adoption or implementation of a performance management system

66. The Gariiep Municipality did not adopt 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

67. The accounting officer of the municipality did not (by 25 January of each year) 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

68. 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:

Inconsistently reported performance information

69. The Gariiep Municipality has not reported on its performance with regard to all its objectives, indicators and targets as per the approved service delivery budget implementation plan. The review findings mainly resulted from the fact that the municipality lacked documented performance management processes and internal controls, with the result that, for purposes of reporting the performance information, the municipality presumes that every head of department is aware of how and when performance information should be provided. In compiling the performance information, every department uses its own management processes regarding input, processing and reporting.

APPRECIATION

70. The assistance rendered by the staff of the Gariep Local Municipality during the audit is sincerely appreciated.

East London

31 March 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