

REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE MBIZANA LOCAL 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 Mbizana 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 Statements of Generally Recognised Accounting Practice (Statements of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) 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

Management representations

- 4) I was unable to obtain the representations considered necessary from the management of the Mbizana Local Municipality with respect to the accompanying financial statements. I could not determine the effect of the lack of such representations on the financial position of the entity as at 30 June 2009, or the results of its operations and its cash flows for the year then ended.

Trade and other payables

- 5) Trade and other payables were disclosed at R4.05 million on the face of the statement of financial position and in note 10 to the annual financial statements. Accruals amounting to R857 123 and a variance between the general ledger and trial balance of R598 894 that were raised in the previous annual financial year have not been corrected by the municipality. This has resulted in trade payables being understated by R258 229 in the current year and accumulated surplus being overstated by the same amount.
- 6) The municipality did not have sufficient and appropriate documentation in support of sundry suspense and direct deposits accounts amounting to R967 025. Furthermore, the accounting records did not permit the application of alternative procedures regarding these accounts.
- 7) Trade and other payables were not disclosed and measured at fair value taking into account imputed interest as required by International Financial Reporting Standards, IFRS 7, *Financial Instruments: Disclosure* and International Accounting Standards, IAS 39, *Financial Instruments: Recognition and Measurement* respectively. My inability to quantify the misstatement in trade and other payables and consequently interest expense also impacted on the quantification of any fair value adjustment that may be required.
- 8) Consequently, I was unable to confirm whether the trade and other payable balance of R4.05 million as disclosed in the statement of financial position and in note 10 to the financial statements is reflected at the correct amount.

Investments

- 9) Management could not provide documentation supporting journals amounting to R8.3 million. The lack of appropriate accounting records prevented the application of alternative audit procedures regarding investments.
- 10) I could not satisfy myself that investments amounting to R14.7 million as disclosed in the statement of financial position and in note 6 to the annual financial statements are recorded at the correct amounts.

Cash and Bank

- 11) Cash and cash equivalents was disclosed as R12.1 million on the face of the statement of financial position and in note 7 to the annual financial statements. Untimely reconciliation of accounts resulted in the general ledger balance exceeding the bank statement balance by an amount of R9.9 million.
- 12) Bank overdraft was disclosed as R2.8 million on the face of the statement of financial position and in note 7 to the annual financial statements. Untimely reconciliation of accounts resulted in the bank statement balance exceeding the general ledger balance by an amount of R3.3 million.
- 13) Consequently I could not gather sufficient appropriate evidence to confirm that cash and cash equivalents and the bank overdraft are disclosed at the correct amounts.

Consumer debtors

- 14) Consumer debtors were disclosed as R1.0 million net of impairments on the face of the statement of financial position and in note 3 to the annual financial statements. The municipality has made a general provision for doubtful bad debts of 91% of consumer debtors and has not assessed whether there is objective evidence that each individual consumer debtor or group of consumer debtors is impaired. This is not in accordance with the impairment requirements of IAS 39.
- 15) The municipality did not calculate the financing portion of debtors that should have been transferred to interest revenue in line with International Accounting Standard, IAS 39, *Financial Instruments: Recognition and Measurement* which requires loans and receivables to be measured at amortised cost using the effective interest method. My inability to quantify the misstatement in consumer debtors and consequently interest revenue also impacted on the quantification of any fair value adjustment that may be required.
- 16) Furthermore, the assumptions made to estimate the provision for bad debts were not disclosed in the annual financial statements as required by International Financial Reporting Standards, IFRS 7, *Financial Instruments: Disclosure*.
- 17) Consequently, I could not satisfy myself that consumer debtors which were disclosed at R1.0 million on the face of the statement of financial position and in note 3 to the annual financial statements are recorded at the correct amounts.

VAT receivable

- 18) Other debtors net of impairments which were disclosed at R2.4 million in note 4 to the annual financial statements also include a VAT debtor totaling R4.4 million. The municipality has impaired this VAT debtor to the amount of R2.2 million. This balance has been outstanding for longer than 1 year with no communication from SARS regarding the refund status. Management has not provided adequate audit evidence to support the impairment made. Consequently we are unable to confirm whether the VAT receivable is reflected at the correct amount.
- 19) My testing of expenditure noted that the municipality processed expenditure transactions inclusive of VAT which resulted in input credits not being claimed from SARS. This has resulted in the VAT debtor being understated by R1.36 million and expenditure being overstated by the same amount.
- 20) The VAT debtor is further overstated by an amount of R722 020 resulting from the overstatement of revenue in the previous annual financial year due to the municipality not accounting for output VAT on this income.
- 21) Owing to the extent of shortcomings in respect of VAT, I could not gather sufficient appropriate evidence to confirm that the VAT debtor disclosed at R4.4 million in note 4 to the annual financial statements was disclosed at the correct amount.

Revenue

Interest earned on external investments

- 22) Interest earned on all investments and conditional grants amounting to R2.5 million was disclosed as revenue in the statement in financial performance. The municipality did not maintain adequate reconciliations on the interest earned from conditional grants to allow for the recalculation of these amounts. No additional information could be obtained to allow me to perform alternative procedures so as to confirm the accuracy of the interest income and conditional grant liability.

Expenditure

- 23) General expenditure was disclosed at R30.6 million in the statement of financial performance and in note 19 to the annual financial statements. The municipality expenditure filing system did not function effectively, resulting in documents supporting general expense payments amounting to R22.2 million not being provided for audit purposes. Owing to the lack of supporting documentation no alternative procedures could be performed to obtain the required audit assurance.
- 24) Invoices amounting to R1.65 million were not recorded in the correct financial period. This has resulted expenditure being understated by R718 583, trade payables being understated by R1.17 million and accumulated surplus being overstated by R454 016.
- 25) Due to the limitations placed on the scope of my work and the significance of the findings highlighted above, I was unable to satisfy myself that general expenditure amounting to R30.6 million as disclosed in the statement of financial performance and in note 19 to the annual financial statements is recorded at the correct amount.

Irregular expenditure

- 26) Invoices from suppliers totaling R3.16 million were not supported by valid tax clearance certificates and sufficient quotations were not obtained in support of expenditure amounting to R1.07 million as required by the supply chain management policy. Furthermore, signed contracts in support of capital expenditure amounting to R4.79 million could not be provided by the municipality.
- 27) The municipality has omitted disclosure of this irregular expenditure totaling R9.02 million, which was incurred during the financial year. This is contrary to section 125(2)(d) of the MFMA, which requires disclosure of irregular expenditure in the annual financial statements.

Conditional grants

- 28) Management was unable to supply documentation in support of conditional grants payments amounting to R5.08 million. The lack of appropriate accounting records prevented the application of alternative audit procedures regarding conditional grant expenditure.
- 29) I could not gather sufficient appropriate evidence to confirm the accuracy of the recording of grant expenditure. Consequently I was unable to satisfy myself as to whether conditional grants amounting to R4.47 million as disclosed on the face of the statement of financial position and in note 12 of the annual financial statements were reflected at the correct amounts.

Accumulated surplus

- 30) I was not able to confirm whether amounts disclosed for 2008 and 2009 that related to revenue, employee cost, expenditure, accumulated surplus, cash and bank, accounts payable, account receivable, VAT, disclosure and other matters, investments, consumer deposits, borrowings, provisions, funds and reserves, unspent conditional grants and inventory were adjusted to correct and attend to misstatements and limitations that caused me, not to express an opinion on the financial statements for the year ended 30 June 2008.
- 31) Due to the 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 substantiate transfers of R37.2 million from accumulated surplus to income, expenditure and investments.
- 32) Due to the limitations of scope of my work and municipal records not permitting the application of alternative audit procedures, I could not obtain sufficient appropriate evidence to confirm that the accumulated surplus amounting to R110.8 million as disclosed on the face of the statement of financial position is reflected at the correct amount.

Financial instruments

- 33) The municipality failed to comply with the provisions of the International Accounting Standards (IAS) 32 and 39 relating to the disclosure, recognition and measurement of financial instruments. It was not possible to assess the impact of such non-disclosure on the financial statements. Furthermore, the municipality did not comply with the disclosure requirements of the International Financial Reporting Standard (IFRS) 7, either in the statement of financial position or in the notes to the annual financial statements.

Provision for landfill sites

- 34) The municipality, which operates a dumping site, has an obligation in terms of section 28 of the National Environmental Management Act, No. 107 of 1998, to restore such sites to their original state. The municipality does not assess the remaining useful life of the dumping site. Detailed records of the capacity of the dumping site are not maintained by the municipality's community services department. Consequently, a provision for the rehabilitation of the dumping site has not been raised in the financial statements in terms of IAS 37. Due to the specialist nature of such a provision and lack of appropriate records, I was unable to estimate the provision and determine the extent of the misstatement.

Disclaimer of opinion

- 35) 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 matter

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

Basis of accounting

- 36) Government Notice 522 issued in Government Gazette No. 30013 of 29 June 2007 delayed the implementation of certain aspects of the GRAP reporting framework, in terms of section 122(3) of the MFMA, for medium capacity municipalities until the 2008/09 annual financial year. The municipality has adopted the standards of GRAP and has opted to make use of the Transitional Provisions as set out in Directive 4 as issued by the Accounting Standard Board (ASB).
- 37) In the prior financial year, the municipality had elected to early adopt the standards of GRAP, GAMAP and SA GAAP and to utilize the exemptions available to high capacity municipalities as listed in Annexure A of the abovementioned Gazette. The effects of these changes have not been disclosed in the annual financial statements.

Going concern

- 38) The municipality is considered to be a going concern risk as it is highly dependent on Government Grants which constitutes 86% of total income for the municipality. In the event that government grants decrease significantly, the municipality may not be able to continue rendering basic services to the local community.
- 39) Due to the above going concern risks, Mbizana Local Municipality will not be in a position to meet its obligations in the foreseeable future without financial support from government. This uncertainty regarding the going concern was also not disclosed in the financial statements.

Related parties

- 40) There is no signed service level agreement or contract between Mbizana Local Municipality and OR Tambo District Municipality with respect to the provision of water services by the district municipality. The municipality has made provision for the non-recovery of a receivable amounting to R766 439 from OR Tambo District Municipality for which no supporting documentation could be provided. The lack of appropriate accounting records prevented the application of alternative audit procedures regarding this receivable.

Distribution Losses

- 41) I could not verify whether all distribution losses for electricity distribution were recorded at the correct amount and whether all these losses had been accounted for, as there was no relevant supporting documentation.

Other matters

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

Unaudited supplementary schedules

42) 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)

- 43) The municipality did not maintain a proper fixed asset register as required by section 63(2)(c) of the MFMA.
- 44) Payments amounting to at least R415 418 were not made within 30 days of date of receipt of the relevant invoice or statement, as required by section 65(2)(e) of the MFMA.
- 45) The municipality did not have all the required information disclosed on its website as required by section 75(2) of the MFMA.

Housing Act No. 107 of 1997

46) The municipality did not submit detailed statements, signed by the manager, showing the results of the previous year's transactions and the balance sheets in respect of the separate accounts to the accounting officer of the provincial housing board as required by the section 10(4)(f) of the Housing Act No 107 of 1997.

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

- 47) A copy of the code of conduct was not distributed by the Municipal Manager to all members of staff in terms of section 70(a) of the MSA.
- 48) Not all members of the council have disclosed their direct and indirect business interests as required by section 54 of the MSA read in conjunction with paragraph 5(a) and (b) of schedule 1 of the code of conduct for councilors of the same act.
- 49) Job descriptions for each staff member were not established by the municipality in terms of section 66 of the MSA.

Environment Conservation Act, 1989 (Act No. 73 of 1989)

50) Section 20(1)(a) of the Act states that "No person shall establish, provide or operate any disposal site without a permit issued by the Minister of Water Affairs and that the Minister may issue a permit subject to such conditions as he may deem fit." The municipality's landfill site is illegal as the municipality failed to obtain a permit for the site.

Value Added Tax Act, 1991 (Act No. 89 of 1991) (VAT)

51) The municipality did not keep and maintain the required records and documents as required by section 55 of the VAT Act and there was inadequate monitoring of VAT to ensure compliance with the VAT Act.

52) The municipality did not maintain an adequate audit trail for VAT recorded in the accounting records and no VAT 201 reconciliations were prepared.

Electricity Regulations Act No. 4 of 2006

53) The municipality did not use the tariffs that were approved by National Electricity Regulator as required by Section 15(2) of Electricity Regulations Act.

Governance framework

54) 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

55) 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 opinion	CE	RA	CA	IC	M
5-9	Trade and other payables					1
10-11	Investments	5				
12-14	Cash and bank	5				
15-18	Consumer debtors	5				
19-22	VAT receivable					1
23-24	Revenue			6		
25-30	Expenditure			3		
31-32	Irregular expenditure			3		
33-34	Conditional grants	5				
35-36	Accumulated surplus			3		
37	Financial instruments			6		
38	Provision for landfill sites			6		

56) There is an urgent need for management to develop, implement and monitor internal controls specifically relating to the safekeeping, movement and storage of supporting documentation. Responsibilities must be clearly assigned and documented and appropriately monitored.

57) The leadership of the municipality did not impose punitive action on officials found guilty of non-compliance with the established internal control policies and procedures, especially in the area of trade payables, unspent conditional grants, VAT, revenue, expenditure, trade and other receivables and fixed assets.

58) Furthermore, a proper accounting system to deal with the complexities of the transition from GAMAP to GRAP was not in place to ensure that the information disclosed in the financial statements is accurate and complete.

- 59) Insufficient management oversight and the lack of accountability resulted in an abnormal amount of transactions being incorrectly classified, recorded in the incorrect periods and not being supported by an adequate audit trail.
- 60) There is also inadequate monitoring and implementation of action plans to resolve the root cause of the significant control deficiencies.

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

61) 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 Mbizana Local 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 Mbizana Local 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		✓

No.	Matter	Y	N
	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 79/106 of the MFMA.		✓
Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.		✓
14.	SCOPA resolutions have been substantially implemented.	n/a	
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 Mbizana Local Municipality against its mandate, predetermined objectives, outputs, indicators and targets section 68/87 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.		✓

- 62) The financial reporting section lacked adequate skills and competencies to apply the principles of the Statements of GRAP and was inadequately capacitated. The organisational structure does not support and promote a proper system of recording, monitoring and supervision of controls to ensure that the information disclosed in the financial statements are accurate and complete as material adjustments relating to various components had to be effected after submission of the financial statements for auditing.
- 63) Deficiencies in the design and implementation of internal controls resulted in the municipality not conducting regular risk assessments and implementing a fraud prevention plan. A lack of accountability on the part of officials had resulted in my prior year findings not being adequately resolved.
- 64) There was no audit committee and internal audit in operation during the year under review due to the incapacity of the municipality to implement the required committees. The municipality has not implemented action plans to rectify prior year audit findings as management do not have the capacity to address all issues adequately and the inability to commit to resolving all matters of governance.
- 65) Significant amendments to the audited financial statements were made regarding the accounting framework due to the municipality's inaccurate understanding of the required basis of accounting. This matter resulted in significant delays in the audit and timeous completion thereof.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

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

The accounting officer's responsibility for the performance information

67) 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

68) 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.

69) 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 judgment.

70) 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

Non-timeous adoption of integrated development plan

71) The Mbizana municipal council did not, within the prescribed period after the start of its elected term, adopt a process set out in writing to guide the planning, drafting, adoption and review of its integrated development plan, as required in terms of section 25 of the MSA.

Existence and functioning of a performance audit committee

72) The Mbizana Local 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

73) The Mbizana Local Municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurements 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

74) The 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

75) The accounting officer of the municipality did not (by 25 January) 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.

76) Section 41 of the MFMA states that actual performance must be monitored, measured and reviewed on a quarterly basis by council with regards to each of the development priorities and objectives and against the KPI's and targets. No evidence was obtained to confirm that the 3rd quarter and the 4th quarter performance was monitored, measured or reviewed.

Inadequate documentation provided for performance information

77) Sufficient appropriate audit evidence in relation to the reported performance information of the municipality could not be obtained, as the relevant source documentation could not be provided for audit purposes.

Lack of appropriate information systems generating performance information

78) Sufficient appropriate audit evidence with regard to the reported performance information of the municipality could not be obtained, as the information system used for generating performance information was not appropriate to facilitate the preparation of accurate and complete performance information.

Usefulness and reliability of reported performance information

79) 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:

Reported performance information not reliable

80) In some cases, there was incomplete reporting for certain pre-determined objectives, indicators and targets. Actual achievements with regard to all indicators and targets specified in the 2008-09 annual report were not always reported on.

APPRECIATION

81) The assistance rendered by the staff of the Mbizana Local Municipality during the audit is sincerely appreciated.

East London



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence