

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON AMAHLATHI MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of Amahlathi Municipality, which comprise, the statement of financial position as at 30 June 2010, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages ... to

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation of these financial statements in accordance with Generally Recognised Accounting Practice (GRAP) financial reporting framework and in the manner required by the Municipal Finance Management Act (Act No. 56 of 2003) (MFMA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. 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 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, the financial statements of Amahlathi Municipality are prepared, in all material respects, in accordance with the GRAP financial reporting framework described in accounting policies note 1 to the financial statements and in the manner required by the MFMA.

Emphasis of matter

8. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Restatement of corresponding figures

9. The previously issued financial statements were restated where a change in accounting policy had been affected. This was as a result of the municipality changing its basis of accounting from an entity-specific basis (IMFO) to the GRAP reporting framework.

Additional matters

10. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Unaudited supplementary schedules

11. Included as part of the financial statements submitted were appendices A, B, C, D, E and F which do not form part of the GRAP reporting framework requirements and have therefore not been audited.

Material underspending of the budget

12. The municipality has underspent its budget to the amount of R8.8 million. This is due largely to several vacant posts which were not filled as well as job evaluations which were not conducted.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

13. As required by the PAA and in terms of *General Notice 1570 of 2009 issued in Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations (MFMA, Municipal Systems Act No. 32 of 2000 (MSA) and the Municipal Planning and Performance Management Regulations, 2001 (MPPMR) and financial management (internal control)).

Predetermined objectives

14. Material findings on the report on predetermined objectives, as set out on pages ... to ..., are reported below:

Non-compliance with regulatory requirements

Existence and functioning of a performance audit committee

15. The performance audit committee was not in existence for the entire year under review, impacting on their ability to advise the municipality on performance management issues as required by regulation 14(2) of the MPPMR.

Internal auditing of performance measurements

16. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance information as part of its internal audit processes, as required by regulation 14(2) of the MPPMR.

Mid-year budget and performance assessments not submitted

17. The assessment of 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, was performed as required by section 72(1)(a)(ii) of the MFMA, but was not submitted for audit.

Usefulness of information

18. The following criteria were used to assess the usefulness 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?
19. Key performance indicators set for the 2009/2010 financial year were not specific (not clearly stated what is to be measured without ambiguity) and not measurable (not easy to calculate from data that can be generated speedily, easily and at a reasonable cost). This results in the inability to assess the quality of targets met and targets may be met without achieving the underlying objective.

Inconsistently reported performance information

20. The municipality has not reported throughout the year on its performance with regard to its targets as per the approved integrated development plan.

Reliability of information

21. The following criterion was used to assess the reliability of the information on the municipality's performance with respect to the objectives in its integrated development plan:
 - 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?

Lack of appropriate information systems generating performance information

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

Source information not accurate and complete

23. The source information or evidence provided to support the reported performance information with regard to the objectives did not adequately support the accuracy and completeness of the facts.

Compliance with laws and regulations

Municipal Finance Management Act

Audit committee not in existence for entire year

24. The audit committee was in operation for only a portion of the financial year under review, limiting the fulfilment of all of its responsibilities for the year, as set out in section 166 of the MFMA.

Internal audit function not in existence for entire year

25. The municipality only had an internal audit unit for a portion of the year under review, limiting the fulfilment of all of its responsibilities for the year, as set out in section 165 of the MFMA.

The financial statements were not prepared in accordance with applicable legislation

26. In order for the financial statements to meet the requirements of section 122(1) of the MFMA, material misstatements identified during the audit were corrected by management.

INTERNAL CONTROL

27. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA, MSA, Division of Revenue Act, 2009 (Act No. 12 of 2009 (DORA) and the Municipal Structures Act, 1988 (Act No. 117 of 1998), but not for the purpose of expressing an opinion on the effectiveness of internal control.
28. The matters reported below are limited to the significant deficiencies regarding the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

- **Leadership**

Deficiencies were noted relating to the oversight responsibility where there was a lack of regular review, resulting in control environment weaknesses. This resulted in material findings relating to reported predetermined objectives. In addition, instances of material non-compliance were identified which was a result of inadequate supervision and review of internal controls. The necessary mechanisms are not in place at the municipality to detect

the deficiencies in the control environment and to detect non-compliance with laws and regulations.

- **Financial and performance management**

A performance management system has not been established by the municipality nor have policies been reviewed on a continuous basis ensuring the relevance thereof. Management is also not effectively scrutinising suspense accounts and as such the quality and reliability of financial and performance reporting are not assured. Material misstatements corrected have been identified due to a lack of controls over the conversion to the GRAP financial reporting framework process and the use of consultants over which no effective oversight has been instituted.

- **Governance**

Both the audit committee and internal audit function were not operational for the entire year under review. This resulted in the inability to adequately discharge all its duties during the financial year under review. The risk assessment and fraud prevention plan were approved towards the end of the financial year under review, however both documents had not been implemented and monitored.

Auditor-General

East London

30 November 2010



AUDITOR - GENERAL
SOUTH AFRICA

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