



AUDITOR - GENERAL
SOUTH AFRICA

The Accounting Officer
Tsolwana Municipality
P O Box 21
Tarkastad
5370

29 November 2010

Reference: 21303REG0910

Dear Sir

Report of the Auditor-General on the financial statements and predetermined objectives of Tsolwana Municipality for the year ended 30 June 2010.

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa 1996 and section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA, you are required to include the audit report in the Municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA, the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing

to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.

6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed



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Senior Manager: EL05

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Tsolwana Municipality, which comprise the statement of financial position as at 30 June 2010, and 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 and fair presentation of these financial statements in accordance with South African Statements of Generally Recognised Accounting Practise (GRAP) and in the manner required by the Municipal Finance Management Act of South Africa (Act no 56. of 2003) (MFMA) and the Division of Revenue Act of South Africa. 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) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 166(3)(d) 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 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for qualified opinion

Cumulative misstatements

The following misstatements below in aggregate are material.

Cash suspense account

7. Included in trade and other payables is an amount of R168 899 for unidentified deposits as disclosed in note 6 to the annual financial statements. These amounts consist of deposits by customers into the bank account of the municipality for monies owing and potential system errors on the clearing of the daily cash journals passed. These should either have been allocated to the debtors account or recognised as revenue depending on the basis of the transaction. The municipality was unable to provide any supporting documentation or explanations as to the reasons the amounts had not been allocated. The Municipality's records did not permit the application of alternative audit procedures and consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the classification of these amounts.

Irregular expenditure

8. Irregular expenditure of R86 363 incurred in contravention of the municipality's supply chain management policy is not included in the irregular expenditure disclosed in note 36.03 stated at R 11.7 million. As a result the irregular expenditure disclosed in note 36.03 is understated by this amount.
9. My audit report on the financial statements for the year ended 30 June 2009 was modified because the irregular expenditure disclosed was understated by R1.9 million. No adjustments have been affected to the corresponding figure for irregular expenditure in the current year financial statements to correct this misstatement. My opinion on these financial statements is modified due to comparability of the figures contained in this note.

Opinion

10. In my opinion, except for the possible effects of the matters described in the Basis of qualified opinion paragraphs, these financial statements present fairly, in all material respects, the financial position of the municipality as at 30 June 2010 and its financial performance and its cash flows for the year then ended in accordance with GRAP and in the manner required by the MFMA and DORA.

Emphasis of matters

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



Restatement of corresponding figures

11. As disclosed in note 29 to the annual financial statements, the corresponding figures for 30 June 2009 for refuse income, finance lease liability, investment property and consumer deposits, have been restated as a result of the recognition of refuse income that relates to the Chris Hani District Municipality and the correct treatment of the accounting statements in respect of the finance lease liabilities and investment property discovered during 30 June 2010, in the financial statements of the municipality at, and for the year ended 30 June 2009.

Unauthorised, fruitless and wasteful expenditure

The following was unauthorised, fruitless and wasteful and irregular expenditure was disclosed in note 36 to the annual financial statements:

12. Unauthorised expenditure of R2.8 million was incurred due to overspending on capital projects (roads and transport) and operational expenditure (roads and transport).
13. Fruitless and wasteful expenditure of R7 036 was incurred due to interest being charged on Eskom accounts; R12 103 was due to interest and penalties incurred for late payment to South African Revenue Services and payment amounting to R154 376 for work not performed on capital projects.

Material losses

14. As disclosed in note 36.04 to the annual financial statements, material losses to the amount of R 485 403 (this represents 38.47% of units) were incurred as a result of distribution losses relating to electricity.

Material under spending of the budget

15. The municipality materially under spent its budget. At year end, the under spending amounted to R6.7 million, which was due project delays. The impact of under spending was that not all set targets were achieved by the municipality.

Additional matter

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

The supplementary information set out on pages 59 to 70 does not form part of the financial statements and is presented as additional information. The schedules 50 to 70 on pages have not been audited and accordingly we do not express an opinion thereon.



REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

17. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, and Section 45 of the Municipal Systems Act, the Municipal Finance Management Act and Supply chain regulations. I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations, and financial management (internal control).

Predetermined objectives

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

Non-compliance with regulatory, and reporting requirements.

19. Development priorities, indicators and targets as set out in the Integrated Development Plan were not consistent with those in the annual performance report.
20. A comparison of the prior year achieved performance targets with that of the current year was not disclosed, as required by section 46 of the Municipal Systems Act No 32 of 2000.
21. There were no policies and procedures in place to ensure that the reporting and collection of performance information is followed as required by the Municipal Systems Act No.32 of 2000.

Usefulness of reported performance information

22. 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, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
 - Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
 - Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit findings relate to the above criteria:

23. The municipality's development priorities, key performance indicators and targets were not consistent with the Integrated Development Plan, Service Delivery Budget Integrated Plan and five year strategic plan, in respect of the Roads and Stormwater and Financial Management objectives.



24. The evidence provided to support the performance information was not consistent with the performance information reported, in respect of the Housing objectives.
25. The performance targets were not in line with the available resources as not all the targets were budgeted for. The targets not budgeted for were:
- the development and implementation of revenue improvement strategies;
 - the appointment of internal auditors; regular health inspection and reports;
 - the procurement of a retainer contract with legal firm;
 - the installation of the record management and archive system;
 - the review and implementation of a communication strategy;
 - the refurbishment and upgrade of the Hofmeyer grid.
26. Deadlines were not attached to indicators of service delivery for the following projects: Upgrade Access Road in Ward 1, Upgrade Access Road in Ward 2 (Project Registration) and Upgrade Access Road in Ward 3 (Project Registration).
27. Not all reported performance information could be traced back to source documentation in respect of Housing objectives as the municipality did not have sufficient documentation in place.

Reliability of reported performance information

28. The following criteria were used to assess the reliability of the planned and reported performance:
- **Validity:** Has the actual reported performance occurred and does it pertain to the entity i.e. can the reported performance information be traced back to the source data or documentation?
 - **Accuracy:** Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
 - **Completeness:** All actual results and events that should have been recorded have been included in the reported performance information.

The following audit findings relate to the above criteria:

29. The evidence submitted in support of target outputs reported on in the annual performance report did not agree to reported performance information, in respect of the Housing and Asset Management objectives.
30. Sufficient monitoring controls were not in place to ensure that source information for reported performance information was accurate and complete.



Compliance with laws and regulations

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

The Audit Committee was not properly established or not functioning

31. Contrary to section 166(2) of the MFMA, the audit committee did not advise council on matters relating to performance management and evaluation.

Expenditure was not paid within the parameters set by applicable legislation

32. Contrary to section 65(2)(e) of the MFMA, outstanding monies owing by the Municipality was not paid within 30 days of receiving the relevant invoice or statement. The total balance owing by the municipality, which was not paid within the prescribed amount of time, amounts to R 203,568.48.

The financial statements were not prepared in accordance with applicable legislation

33. The financial statements submitted for audit did not comply with section 122(1) of the MFMA. Material misstatements were identified during the audit and were not corrected. These misstatements are included in the basis for disclaimer of opinion paragraphs.
34. The accounting officer did not take all reasonable steps to ensure that the irregular and fruitless and wasteful expenditure incurred was prevented as required by section 62(1)(d) of the Municipal Finance Management Act.

Supply Chain Management legislative requirements were not implemented or not adhered to

Supply chain management regulations

35. Contrary to regulation 46 (2) (e), all officials and role players involved in the supply chain management policy have not recognized and disclosed any conflict of interest that may arise.

INTERNAL CONTROL

36. 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, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies identified during the audit.



Leadership

37. The accounting officer does not exercise oversight responsibility over reporting and internal control. The following highlights the significant deficiencies noted in the accounting officers oversight responsibility:
- The opening balance of the suspense accounts were not reconciled or cleared
 - Policies and procedures regarding the procurement processes were not adhered to
 - Sufficient reviews over key management and whether they were adequately performing their duties were not performed by the accounting officer.
38. The accounting officer did not review the report on predetermined objectives prior to their submission for audit and did not ensure that all the reported performance information was supported by sufficient evidence as there were discrepancies in reported performance.

Financial and performance information

39. Pertinent information is not identified and captured in a form and time frame support performance reporting.

Governance

40. The audit committee was not effective in the year under review as internal audit only presented their findings to the audit committee after year end and the audit committee could not evaluate any of these findings. Furthermore no evidence was provided which supported the review of the performance management system and the adjustments to the financial statements (adjustments made by management after their initial review) by the audit committee.
41. The internal audit function was ineffective due to their appointment occurring late in the financial year. Furthermore the municipality did not timeously respond to the internal audit findings via management comments even though these reports were submitted to the municipality during the financial year.



OTHER REPORTS

Investigations

42. An internal investigation is being conducted based on the allegation of unauthorised progress payments made by an employee to a contractor. The investigation was still ongoing at reporting date.

Ancster - General

East London

29 November 2010



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

