

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL OF CHRIS HANI DISTRICT MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the Chris Hani District Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, the statement of changes in net assets and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory information and the accounting officer's report, 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 the Statements of Generally Recognised Accounting Practice (Statements of GRAP) and in the manner required by the Municipal Finance Management Act of South Africa (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 and section 4 of the Public Audit Act of South Africa and section 126(3) (d) of the MFMA my responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with the International Standards on Auditing and General Notice 1570 of 2009 issued in Government Gazette 32758 of 27 November 2009. 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

Revenue – Service charges

4. The municipality has accounted for the water services revenue and debtors for the first time in this financial year. However this is a correction of an error and the municipality should have accounted for these transactions in the previous year. GRAP 3 requires errors to be corrected retrospectively and for all opening balances of balance sheet items to be restated. The municipality has not retrospectively accounted for the water transactions and as a result, comparative figures for revenue and debtors are understated by an unknown amount. The lack of records pertaining to the prior year did not permit application of alternative procedures to ascertain the amounts.
5. The municipality is a Water Services Authority (WSA) and the local municipalities have been appointed as the Water Services Providers (WSP). Revenue is collected at the local

municipalities and then recorded in the financial statements of the district municipality. The general ledgers at the water service provider's do not agree to the billing reports and to the ring fenced annual financial statements. The municipality was unable to provide sufficient appropriate audit evidence in support of these variances. The municipality's accounting records did not permit the application of alternative procedures to this revenue. As a result, the occurrence, completeness and accuracy of water revenue of R53 165 385 and completeness, existence and valuation of consumer debtors of R68 994 265 could not be confirmed.

6. Sufficient appropriate audit evidence was not obtained for revenue transactions amounting to R1 508 531 as the municipality did not submit the requested information. The municipality's accounting records did not permit the application of alternative procedures. As a result, the occurrence, completeness and accuracy of water revenue could not be confirmed.
7. There was no adequate system of control over water revenue at the WSP on which I could rely for the purpose of my audit. Consumers were billed at incorrect rates, some were not billed for water for the year, and some were billed only the basic charge. Faulty meters are not replaced and meter readings are not taken regularly or in some instances not at all for the year. In addition, the valuation rolls are incomplete which results in some consumers not being billed for the water consumption. As a result revenue is understated by R8, 074,928 and consumer debtors are understated by the same amount.
8. The municipality did not record consumer debtors relating to the Inxuba Yethemba WSP. As a result consumer debtors and revenue are understated by R54 368 432.
9. The municipality did not classify interest income that is charged on long outstanding debtors separately in the statement of financial performance. As a result service charges are overstated by R2 686 065 and interest is understated by the same amount.

Receivables from exchange transactions

10. Receivables from exchange transactions relating to the water services revenue do not agree to the general ledgers at the local municipalities and is misstated by R44 141 022. Furthermore, the general ledgers at the local municipalities do not agree to the age analyses. It was not possible to perform alternative procedures to determine which amounts are correct. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, rights, completeness, and valuation and allocation of consumer debtors of R200 982 333 as disclosed in note 4 to the financial statements.
11. The municipality disclosed an amount of R68 994 265 as consumer debtors in note 4 to the annual financial statements. I could not confirm existence and recoverability of debtors amounting to R29 883 713. The debtors are long outstanding and have not made payments towards their outstanding accounts during the financial year. The municipality's accounting records did not permit the application of alternative audit procedures. Consequently I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the existence of consumer debtors to the value of R29 883 713.

12. The provision for doubtful debts of R131 988 068 was not calculated in terms of the applicable accounting standards. The provision for doubtful debts calculation was done based on all outstanding debtors that are greater than 30 days excluding debtors relating to government departments. A re-calculation of the provision performed using the best estimates available at the time revealed that the provision for doubtful debts is understated by R124 423 814. As a result consumer debtors are overstated by R124 423 814 and expenditure is understated by the same amount.

Other Receivables

13. The entity disclosed an amount of R18 642 267 as other receivables in note 5 to the financial statements. I could not confirm existence of debtors amounting to R3 036 370. The debtors were transferred from the old financial accounting system to the current financial account system and no supporting documents have been retained. Furthermore, the debtors are long outstanding and have not made any payments toward their outstanding balances. The municipality's accounting records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, rights and valuation and allocation of other receivables of R18 642 267 as disclosed in note 5 to the financial statements.

Accumulated surplus

14. The accumulated surplus balance of R550 229 704 as disclosed in the financial statements does not agree to the amount as per the trial balance. An adjustment of R223 356 947 was processed against accumulated surplus for inclusion in the financial statements but this amount was not processed in the general ledger. The municipality was unable to provide sufficient and appropriate evidence and explanations for this adjustment. The municipality's accounting records did not permit the application of alternative audit procedures to this adjustment. Consequently I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the existence, rights or obligations, completeness, and valuation and allocation of the accumulated surplus as disclosed in the statement of financial position and the statement of net assets.

Expenditure

15. The municipality has accounted for the water expenditure and creditors for the first time in this financial year. However this is a correction of an error and the municipality should have accounted for these transactions in the previous year. GRAP 3 requires errors to be corrected retrospectively and for all opening balances of balance sheet items to be restated. The municipality has not retrospectively accounted for the water transactions and as a result, comparative figures for expenditure and creditors are understated by an unknown amount. The lack of records pertaining to the prior year did not permit application of alternative procedures to ascertain the amounts.
16. Included in the statement of financial performance is expenditure of R377 633 591 excluding employee related costs and loss on disposal of fixed assets. The municipality did not provide payment vouchers and source documentation for purchases to the value of R18 320 922. The municipality's accounting records did not permit the application of alternative audit procedures. Consequently I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the occurrence, completeness, accuracy, cut-off and classification of expenditure to the value of R377 633 591.

17. Included in the operating expenditure recorded in the annual financial statements is expenditure to value of R135 052 566 for water services expenditure incurred by the water service providers. The expenditure transactions recorded in the annual financial statements do not agree to the general ledgers from the WSP's and appears to be understated by R10 679 528. The municipality could not provide explanations and sufficient appropriate audit evidence in support of these variances of the variances. The municipality's accounting records did not permit the application of alternative audit procedures to ascertain which amount is the correct amount. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the occurrence, completeness, accuracy, cut-off and classification of water services expenditure of R135 052 566.
18. Included in expenditure is expenditure from Intsika Yethu water services of R7 696 743. All expenditure was processed to one vote and split it at year end for inclusion in the financial statements of the district municipality. The basis for splitting the expenditure into the correct classifications was not obtained. The municipality's accounting records did not permit the application of alternative audit procedures. Furthermore, included in expenditure is expenditure from Inkwanca water service provider for expenditure to value of R9 548 854. The expenditure relates to the impairment loss on consumer debtors. The basis for calculating this amount was not obtained. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself on the occurrence, accuracy and classification of expenditure to the value of R17 155 597.
19. The municipality incorrectly captured invoices to the value of R5 644 876 in the financial accounting system resulting in understatement in expenditure. Furthermore expenditure to the value of R4 972 379 was incorrectly captured inclusive VAT. As a result expenditure and creditors are understated by R672 497.
20. The municipality did not account for accruals for creditors that are due at year end at the water service providers. As a result expenditure and creditors are understated by R33 288 889.
21. The time value of money has not been taken into account as per IAS 39 for the valuation of creditors and expenditure. As a result, expenditure is overstated by R5 483 674, interest paid is understated by R4 720 116 and creditors are overstated by R763 557.
22. Included in expenditure, is expenditure from Intsika Yethu WSP to the value of R2 951 088 which relates to expenditure paid to consultants. The consultants were contracted to assist the WSP in managing the water schemes. The expenditure paid to the consultants' is incorrectly classified as salaries and wages. As a result employee costs is overstated by R2 951 088 and general expenditure is understated by the same amount.

Trade and other payables

23. Creditors are understated by R51 802 229 as the municipality did not account for the liability relating to the expenditure in excess of the subsidy transferred to the Water Service Providers for the rendering of water services. A creditor of R22 276 130 has been duplicated on the creditors listing. As a result, creditors and operating expenditure are understated by R29 526 099.
24. Prior year creditors was understated by R9 767 668, being suspense accounts not cleared, adjustments and creditors with no supporting documents, understatement of retentions,

understatement of overtime and transactions processed in the incorrect period. These matters were not resolved by the municipality and my opinion on the current period financial statements is also modified because of the possible effect of these matters on the current figures and the comparability of the corresponding period figures.

Provisions

25. The municipality did not have sufficient internal controls regarding proper record keeping of leave forms and *attendance register* as well as timeous capturing of leave into the payroll system. I was unable to satisfy myself as to the accuracy and validity of leave days that were used in the leave provision calculation. There were no alternative procedure I could perform to confirm the leave days balance. Consequently, I was unable to satisfy myself as to existence, rights, valuation and completeness of the leave pay accrual amount of R5 034 367 as disclosed in note 9 to the financial Statements.
26. Provisions of R6 874 998 (2009: R5 938 709) are disclosed in the statement of financial position. The municipality has classified the annual leave balance of R5 034 367 as a provision in the statement of financial position. GRAP 19, *Provisions* requires the accrual for annual leave balance to be classified as Trade and other payables. As a result provisions are overstated by R5 034 367 and trade and other payables are understated by the same amount.

Employee related costs

27. An adjustment of R9 027 532 was processed against employee costs for inclusion in the financial statements but this amount was not processed in the general ledger. The municipality was unable to provide supporting documentation for the adjustment. The municipality's accounting records did not permit the application of alternative audit procedures. Consequently I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the occurrence, completeness, accuracy, cut-off and classification of employee related costs of R9 027 532.
28. Included in employee related costs is employee costs from Lukhanji Local Municipality for water services employees of R3 066 067. No basis for calculating this amount or a list of the employees who make up this amount could be obtained. The municipality's accounting records did not permit the application of alternative audit procedures. Consequently I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the occurrence, completeness, accuracy, cut-off and classification of expenditure of R3 066 067.
29. Prior year employee costs was misstated by R4 975 391 being overstatement of the leave provision, salaries incorrectly classified as project expenditure and overtime overstated. These matters were not resolved by the municipality and my opinion on the current period financial statements is also modified because of the possible effect of these matters on the current figures and the comparability of the corresponding period figures.

Inventory

30. The basis for determining the water inventory balance of R6 754 579 is not in terms of the GRAP 17 as well as the accounting policy of the municipality. The municipality has utilised the selling price (basic charge of metered water from the WSP's) as a basis for determining cost. Furthermore the municipality does have supporting documentation that substantiates

the inventory quantities that were at the reservoirs at year end. There were no alternative procedures I could perform to confirm the water inventory balance. Consequently, I was unable to satisfy myself as to existence, rights, valuation and completeness of the water inventory balance of amount of R6 754 579 as disclosed in note 2 to the financial Statements.

Interest received

31. The municipality did not accrue for interest on positive cash and bank balances. As a result interest income and cash and cash equivalents are understated by R3 644 390.

Government Grants and Subsidies Received

32. The municipality disclosed an amount of R513 779 361 as government grants and subsidies received in note 24 to the financial statements. The municipality incorrectly recorded revenue during the year, in respect of services that were rendered after year end. In addition supporting documentation received for the Provincial Health Subsidies does not reconcile to the amount that is disclosed in the annual financial statements. The cumulative effect is that revenue is overstated by R1 231 980. Unspent Conditional Grants and Receipts are understated by the same amount.

Property Plant and Equipment

33. I was unable to trace moveable property plant and equipment to the value of R3 855 621 to the fixed asset register of the municipality. Furthermore, assets to the value of R1 086 037 have been incorrectly reflected as disposals in the fixed asset register. As a result property plant and equipment as disclosed note 9 of the annual financial statements is understated by R4 941 658.

Value-Added Tax Receivable

34. Disclosed in the statement of financial position and in note 6 of the annual financial statements is a VAT receivable of R32 555 598. The municipality processed a journal entry of R28 137 526 debiting VAT receivables and crediting consumer debtors. This journal relates to VAT output on the consumer debtors (R68 994 265). The output VAT on consumer debtors has been incorrectly classified as VAT Input and included in the VAT receivable balance. As a result VAT receivable is overstated by R28 137 526 and consumer debtors are understated by the same amount.

Irregular Expenditure

35. Operating expenditure of R38 061 531 is included in the statement of financial performance were not procured in the manner that is required by the municipality's supply chain management policy and Municipal Supply Chain Management Regulations. This irregular expenditure has not been disclosed in the annual financial statements. As a result irregular expenditure is understated by this amount.

Unauthorised expenditure

36. Unauthorised expenditure as disclosed in note 43.1 to the financial statements states that an amount of R31 206 062 has been condoned. However, the council resolution only condones / approves R1 892 350. As a result, unauthorised expenditure awaiting authorisation is understated by R29 313 712.

Commitments

37. No commitments are disclosed in the financial statements. As a result, commitments as disclosed in note 45 to the financial statements are understated by R173 806 186.

Disclaimer of opinion

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 these financial statements.

Emphasis of matters

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

Restatement of corresponding figures

39. As disclosed in note 38 of the annual financial statements the following corresponding figures have been restated to correct prior period errors that were identified;

- the property, plant and equipment have been restated by an amount of R224 594 887 to correctly record the infrastructure assets held by the municipality, previously expensed as grant expenditure from the MIG Grant.
- creditors have been restated by an amount of R1 237 941 to recognise the liability for workmen's compensation not yet assessed.
- grants paid have been restated by R113 595 693 in respect of assets from MIG grants that were expensed in the 2008-09 financial year.
- the disclosure note for fruitless and wasteful expenditure has been restated by R1 462 577 to disclose penalties and interest on incorrect VAT claims submitted to the South African Revenue Services in the 2008-09 financial year.

Material losses (through criminal conduct)/Impairments

40. In note 4.3 and note 5 of the annual financial statement the municipality has disclosed impairment on debtors amounting to R136 570 966 (2009:R22 072 312). The impairment relates to debtors balances which are not recoverable and has been disclosed in the annual financial statements.

Additional matters

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

Unaudited supplementary schedules

42. The supplementary information set out on pages ... to 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

43. 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, and financial management (internal control).

Predetermined objectives

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

Non-compliance with regulatory and reporting requirements

45. Included below are findings related to material non-compliance with the regulatory and reporting requirements.

Municipal Planning and Performance Management Regulations, 2001.

46. The performance audit committee did not review the performance management system of the municipality and make recommendations in this regard to the council as required by regulation 14(2) of the Municipal Planning and Performance Management Regulations, 2001.

Municipal Systems Act of South Africa, No 32 of 2000 (MSA)

47. The internal audit processes and procedures did not include assessments of the functionality of the municipality's performance management system and whether the system complied with the requirements of the section 45 of the MSA.

48. The reported performance information to be included in the annual report does not include comparisons between performance in the current year with targets set for the current and previous financial years, as required by section 46 of the MSA.

49. The IDP of the municipality does not have key performance indicators which include input, output and outcome indicators in respect of each development priority or objective as required by section 41(a) of the MSA.

50. No evidence was obtained confirming that the IDP of the municipality was submitted to the MEC for Local Government within 10 days of the adoption or amendment of the plan in accordance with the requirements of section 32 of the MSA.

51. The municipality did not give notice to the public of the adoption of the plan, within 14 days of adoption of its IDP as required by Section 25(4) (a) of the MSA.

52. The IDP of the municipality was not reviewed and amended to align it with the mid-year budget as per the requirements of section of 34 of the MSA.

Usefulness of reported performance information

The following criteria were used to assess the usefulness of the planned and reported performance:

- **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:

53. For the selected objectives of the planned and reported targets the following was noted:

- a. 69% of the selected objectives were not well defined in that they do not have a clear and unambiguous definition and are not defined so that the data will be collected consistently.
- b. 50% of the selected objectives were not specific in that they do not state the nature and required level of performance.
- c. 56% of selected objectives were not time bound in specifying the time period or deadline for delivery.

54. The IDP of the municipality does not have key performance indicators which include input, output and outcome indicators in respect of each development priority or objective. As a result the annual performance report could not be traced back to the Integrated Development Plan.

Reliability of reported performance information

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:

- For 31% percent of the selected programme objectives; the actual results that should have been recorded in the performance report have not been recorded.

55. The supporting documentation for the following programme which is deemed to be material was not provided to determine the validity of the result that was reported in the performance report;

- Buckets Eradication Reported: 613

Compliance with laws and regulations

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

Non-adherence to legislation

56. Contrary to the requirements set out in section 62(1)(c) of the MFMA a material amount of supporting documentation could not be provided to support operating expenditure and compliance with the Supply Chain Management Regulations.
57. Contrary to the requirements of section 62(1)(d) and 111 of the MFMA the accounting officer did not implement the municipality's supply chain management policy and also did not implement a system to prevent, detect and correct and disclose the incurrence of irregular and fruitless and wasteful expenditure.
58. Contrary to the requirements set out in section 71(1) the municipality did not by no later than 10 working days after the end of each month submit to the mayor of the municipality and the relevant provincial treasury a statement in the prescribed format on the state of the municipality's budget reflecting the following particulars for that month and for the financial year up to the end of that month:
 - (a) Actual revenue, per revenue source;
 - (b) Actual borrowings;
 - (c) Actual expenditure, per vote;
 - (d) Actual capital expenditure, per vote
 - (e) The amount of any allocations received
 - (f) Actual expenditure on those allocations, excluding expenditure on
59. Contrary to the requirements set out in section 72 of the MFMA the accounting officer 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.
60. Contrary to the requirements set out in section 66 of the MFMA, the accounting officer did not report to the council on all expenditure incurred by the municipality on staff salaries, wages, allowances and benefits, and in a manner that discloses such expenditure per type of expenditure.
61. The annual financial statements of the municipality were not submitted were not submitted to for audit within two months after the financial year end in terms of section 126 (1) (a) of the MFMA.
62. The annual financial statements of the municipality do fairly present the affairs of the as required by section 122(a) of the MFMA.

Municipal Supply Chain Management Regulations

63. Contrary to section 22 (1) (b)(i) a competitive bid to the value of over R10 million was advertised in the newspaper for less than 30 days. No expenditure has been incurred on this project during the year.
64. On the same project, contrary to section 21(d)(ii) a certificate signed by the bidder certifying that the bidder has no undisputed commitments for municipal services which is overdue for more than 30 days was not obtained from the bidder.
65. Contrary to section 18(a) all requirements in excess of R30, 000 are not advertised on the website and official notice board for 7 days.
66. Section 62 (f) of the MFMA prescribes that a municipality has and implements a supply chain management policy. Although the municipality has an approved supply chain management policy, it has not been properly implemented. Evidence of this is the material finding on irregular expenditure that is reported in the paragraphs above.

INTERNAL CONTROL

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.

67. The matters reported below are limited to the significant deficiencies regarding the basis for disclaimer of opinion paragraph, the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.
68. Below is a summary of the internal control deficiencies that resulted in the above assessment and that gave rise to the basis for the disclaimer opinion on the financial statements as well as findings on predetermined objectives and compliance with laws and regulations. Additional information on significant internal control deficiencies is provided later in this report.

- **Leadership**

The accounting officer did not exercise oversight over the preparation of financial statements, reporting on predetermined objectives, compliance with the laws and regulations and internal control. There is a lack of monitoring and oversight to improve upon audit outcome from the previous financial year. This was also evidenced by the numerous instances of non-compliance with laws and regulations, internal control deficiencies and material misstatements identified in the financial statements and the report on predetermined objectives.

The critical position of the strategic manager remained vacant during the financial year. The unfilled position has resulted in a lack of accountability for the reporting on predetermined objectives and numerous misstatements which were identified in the report.

The accounting officer did not exercise oversight over adherence to the supply chain management regulations. The non-adherence to supply chain management

regulations resulted in irregular expenditure of R38 061 531. The municipality did not report on the irregular expenditure incurred during the financial year.

The municipality did not implement action plans to address user access control deficiencies within information and technology systems. The user account management procedures are incomplete, which might lead to users obtaining access rights that are not in line with their job responsibilities. Users' access is not periodically reviewed to ensure that it remained in line with their job responsibilities, which could result in fraudulent transactions being conducted without detection on Venue and Payday.

- **Financial and performance management**

Quality, reliable annual financial statements were not submitted as material misstatements were identified in the annual financial statements that were submitted for audit. Proper reviews are not performed on the financial and performance information to ensure completeness and accuracy of submitted information.

The predetermined objective report, supporting processes was not subjected to regular review and monitoring resulting in material findings on predetermined objectives.

Record-keeping at the various local municipalities is not adequate to report on the various transactions relating to the water services function. Furthermore the municipality did not implement basic financial controls throughout the financial year, i.e. daily processing of transactions, monthly reconciliation of accounts and continuous reviewing and monitoring over the water sanitation accounts. The financial management controls over the review and evaluation of management accounts and record keeping did not support the preparation of credible financial statements.

In addition a complete, accurate and comprehensive asset register was not maintained. The asset register was not updated on a regular basis and were also not reconciled to the financial records. This has resulted in a material understatement in fixed assets recorded in the annual financial statements.

Audit trails are not reviewed which may lead to undetected unauthorised activity and negatively affect the quality of the data that is used for financial information.

- **Governance**

The internal audit division and performance audit committee did not fulfil their responsibilities in terms of reviewing the internal processes and procedures of the financial and performance information reporting systems.

The effectiveness of the internal audit function and audit committee was limited due to inadequate responses provided to matters that are reported in the internal audit reports.

The municipality did not adequately monitor risks relating to the IT environment. Risks relating to the IT environment were not included in the risk assessment that was performed during the year. Furthermore the municipality does not have a formal information technology framework and an IT strategic plan.

Auditor-General

East London

14 January 2011



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence