

Audit Report
Great Kei Municipality
For the Year ended 30 June 2011

AUDIT REPORT OF THE AUDITOR-GENERAL TO THE PROVINCIAL LEGISLATURE AND COUNCIL OF THE GREAT KEI MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2011

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the Great Kei Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, 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 information, as set out on pages XX to XX.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation of these financial statements in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) as set out in accounting policy notes XX to XX and in the manner required by the Municipal Finance Management Act of South Africa and the Division of Revenue Act of South Africa (DORA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic 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), my responsibility is to express an opinion on these financial statements based on my audit. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), 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 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer opinion

4. I draw attention in respect of these matters:

Unauthorised expenditure

5. As disclosed in note 37 to the annual financial statements unauthorised expenditure of R625 000 (2010:R6 245 000) has been incurred. However due to the various limitation of scope paragraphs identified below I am unable to determine whether the unauthorised expenditure as disclosed is complete.

Irregular expenditure

6. I was unable to audit payments of R6 376 000 relating to competitive bidding processes as no or insufficient supporting evidence relating to the bidding processes was provided by the municipality. Due to the unavailability of municipal records alternative procedures could not be performed to determine the completeness of irregular expenditure of R111 528 000 as disclosed in note 38 to the financial statements.

7. Irregular expenditure incurred in contravention of the supply chain management regulations amounting to R8 596 000 (2010: R7 251 000) was identified as a result of the audit and was not initially identified and disclosed by the municipality. The municipality has subsequently disclosed these items in note 38 to the financial statements. Although this amount has been disclosed, the full extent of the irregular expenditure could not be determined. I am therefore unable to determine the completeness of the irregular expenditure of R8 596 000 as disclosed in note 38 to the financial statements.
8. In terms of section 32 (2) (b) of the MFMA, irregular expenditure may only be written off as irrecoverable after investigation by a council committee. Irregular expenditure written off of R5 989 000 as disclosed in note 38 to the financial statements was not investigated by a council committee and therefore this write off is not in compliance with the requirements of the MFMA. Furthermore, opening balances of R101 921 000 have not been investigated by council. As a result debtors may be understated as recoverable expenditure has not been identified and irrecoverable amounts have not been identified and written off.

Trade and other receivables from exchange and non-exchange transactions

9. Trade and other receivables were impaired by R35 538 000 as a result of not implementing the municipality's credit policy and the debtors system not being adequately maintained. I was unable to obtain sufficient appropriate documentation validating the existence and completeness of these debtors. Even through alternative procedures performed I was unable to obtain sufficient supporting evidence over service debtors. Consequently, I am unable to confirm the existence and completeness of trade receivables from exchange transactions as per note 7 of R1 026 000 (2010: R9 873 000) and trade receivables from non-exchange transactions of R879 000 (2010: R5 484 000) as per note 8.
10. Other receivables included in note 8 to the financial statements of R864 000 include debtors amounting to R389 000 which have not moved since the prior year and R434 000 which has not moved since 30 June 2009. I was unable to obtain sufficient appropriate audit evidence over the existence, completeness, valuation and accuracy of these amounts.

Revenue

11. I could not satisfy myself as to the completeness and accuracy of rates and refuse removal revenue of R10 335 000 (2010: R6 267 000) and R6 446 000 (2010: R6 027 000) respectively as disclosed in notes 18 and 19 of the financial statements, as numerous properties were omitted from the valuation roll on which this revenue was billed. Furthermore amendments to ownership, zoning, subdivisions etc. have not been made and no supplementary valuation roll has been approved since the approval of the original valuation roll of the municipality in the 2008/09 financial year.

12. Incorrect meter readings and inaccurate capturing of meter readings in the municipality's billing system resulted in revenue from the supply of electricity services being overstated by R2 561 000. Sale of electricity of R3 292 000 as disclosed in note 19 of the financial statements and trade receivables from exchange transactions is therefore overstated by this amount.
13. Included in sale of electricity of R3 292 000 is prepaid electricity. It was found that prepaid electricity and sundry revenues were billed inclusive of Value Added Tax (VAT). However the VAT output tax was not recorded against the output VAT account but as revenue on the statement of financial performance. As a result of these errors, sale of electricity and VAT receivables are overstated by an amount of R244 000.
14. The municipality recognised revenue in respect of the Local Government: Finance Management Grant of R1 229 000 as disclosed in note 20 to the financial statements. Per the accounting policy of the municipality conditional grants are only recognised as revenue to the extent to which conditions have been met. In terms of the conditions as set out in the DORA framework published in terms of section 14 of DORA, an internal audit function should exist, at least five interns over a multi year period appointed and an MFMA implementation plan developed in order to meet the conditions. These conditions were not met. This has resulted in an overstatement of revenue of R1 229 000 in the statement of financial performance, as well as a corresponding understatement to unspent conditional grants in the statement of financial position.
15. No interest was charged on overdue accounts as required by section 97(1)(e) of the Local Government Municipal System Act, Act No.32 of 2000. Interest revenue is assessed to be understated by R1 191 000 as well as the trade receivables from exchange and non exchange transactions.
16. Expenditure to the value of R609 000 with a description of "IEC elections" was incurred by the municipality during the current financial year. Independent Electoral Commission (IEC) grant revenue was however not recognised. I was unable to determine whether money relating to an IEC grant was received due to the nature of the records kept by the municipality and as such have not satisfied myself on the accuracy and completeness of other grant revenue of R27 000 as disclosed in note 20 to the financial statements.

Property, plant and equipment

17. The municipality was unable to provide any supporting documentation to corroborate R5 148 000 of infrastructure assets included in additions of R7 173 000 for the year ended 30 June 2010 as disclosed in note 5 to the financial statements. It was not possible to determine whether these additions had been capitalised accurately, or that VAT Input was claimed where appropriate. I was therefore unable to confirm or verify these items by alternative means and could not confirm the valuation, existence and completeness of the corresponding figures for infrastructure assets.

18. Included in infrastructure assets of R18 200 000 is two multi-year projects, budgeted at R7 000 000. These assets were recognised at R1 376 000 in the asset register. Payments of R1 805 000 for one of these projects made in 2010 were not capitalised. No contracts for these projects were provided to me. I was unable to obtain any supporting documentation to support the total spent on these assets over the project lives and as a result I am unable to determine the completeness and valuation of infrastructure assets.

Investment Property

19. Five of the six investment properties listed in note 4 to the financial statements could not be traced to the fixed asset register. Four of the investment properties listed also relate to buildings that are owner-occupied and does not meet the definition of investment property per GRAP 16. Furthermore a title deed search performed found that two of the properties were not registered in the name of the municipality and for another two properties no title deed results could be obtained. I was therefore unable to satisfy myself on the completeness, existence and classification of investment properties as disclosed in note 4 to the financial statements.

Trade and other payables

20. Included in trade payables of R9 346 000 (2010: R6 962 000) as disclosed in note 14 to the financial statements are project creditors of R3 881 000 (2010: R3 881 000), payments received in advance of R2 134 000 and a creditor of R792 000 for which no supporting documentation was provided by the municipality. I was unable to obtain sufficient appropriate audit evidence through alternative procedures. I was therefore unable to confirm the rights and obligations, existence and completeness of trade payables.

21. The accrual for leave of R1 117 000 as disclosed in note 14 to the financial statements is based on the annual leave balances of employees. The municipality did not provide me with attendance registers. The leave records of the municipality did not permit alternative procedures to be performed. It was therefore not practical to determine the full extent of the error. Therefore I am unable to confirm the existence of the accrual for leave.

Accumulated surplus

22. The municipality could not provide supporting documentation or adequate explanations to support an adjustment of R7 235 000 which was processed against the opening balance of accumulated surplus as disclosed in the statement of changes in net assets. I was unable to confirm or verify by alternative means the nature of this journal. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence and completeness of the accumulated surplus balance disclosed in the financial statements.

23. Included in the prior period adjustments of R4 247 000 as per the statement of changes in net assets is an amount of R835 000 to write off opening balances of property, plant and equipment. Opening balances of property, plant and equipment was reported in my previous report as a limitation of scope due to no supporting documentation being available. I was unable to obtain sufficient appropriate audit evidence over this write-off as no further investigation was performed by the municipality to determine whether these assets written off do exist and whether the accumulated surplus balance is complete and accurate.

Cash and cash equivalents

24. No supporting documentation could be provided by the municipality for an amount of R3 347 000 relating to inter-bank transfers which was netted off against bank balances. Furthermore, the municipality did not provide supporting documentation for outstanding deposits included in the year end bank reconciliation of R752 000 (2010:R796 000). It was not practical to confirm these items by alternative means in the absence of a proper system of internal control over cash and cash equivalents. Therefore I could not confirm the existence, rights and obligations and completeness of bank balances of R2 785 000 (2010: R2 924 000) as disclosed in note 10 to the financial statements.

Value added tax receivable (VAT)

25. The municipality was unable to provide any supporting evidence to corroborate a VAT receivable of R5 453 000 (2010: R2 873 000) disclosed in the statement of financial position and note 9 of the financial statements. The municipality's accounting records did not enable alternative procedures to be performed, nor could the amount be traced to correspondence received from the South African Revenue Services (SARS).
26. Furthermore the impact of the impairment for trade receivables on the VAT receivable was not considered resulting in an understatement of the VAT receivable by R4 364 000 and an overstatement of the impairment for trade receivables.
27. A difference of R577 000 was identified when reconciling the municipality's VAT 201 forms to the general ledger and no supporting documentation was provided to reconcile this difference.
28. Due to the findings noted in paragraphs 24 to 26 I was unable to confirm the existence, valuation, rights and completeness of the VAT receivable.

Financial Instruments

29. As disclosed in the statement of financial performance a fair value adjustment of R1 519 000 was recognised as required by IAS 39: Financial Instruments. In the assessment of fair value by management the trade payables and receivable balances used were not the final balances for the period ended 30 June 2011. As a result the fair value adjustment was overstated by R847 542 and consequently revenue is understated by R594 000 (2010: R1 274 000), general expenditure is overstated by R106 302 and trade payables overstated by R360 000 (2010: R101 000).

Cash flow statement

30. The presentation of a cash flow statement summarising the entity's operating, investing and financing activities is required by GRAP 2: Cash flow Statements. Due to the numerous findings on account balances and classes of transactions, the amounts disclosed in the cash flow statement do not fairly present the cash inflows and outflows of the municipality for the period.

Capital commitments

31. I was unable to obtain sufficient appropriate audit evidence over capital commitments of R16 419 000 (2010: R29 216 000) disclosed in note 28 to the financial statements. Furthermore three contracts included on the current year's Municipal Infrastructure Grant (MIG) expenditure summary for expenditure in the current financial year of R673 000 were not included on the contract listing used by management to determine capital commitments. I am therefore unable to verify the completeness, accuracy and existence of capital commitments as disclosed.

Contingent liabilities

32. Contingent liabilities disclosed amounting to R102 000 in note 29 to the financial statements do not meet the disclosure requirements of GRAP 19: Provisions, contingent liabilities and contingent assets. No description of the nature of the liabilities, uncertainties relating to the timing and value of the liabilities or the possibility of re-imbursments of any amounts were disclosed.

Budget reconciliation

33. GRAP 1 requires the disclosure of a comparison between budgeted expenditure and actual expenditure for each expenditure line item and capital expenditure incurred. No such disclosure was made on the face of the statement of financial performance or in the notes to the financial statements. The financial statements therefore do not comply with the disclosure requirements of GRAP 1.
34. The municipality was unable to provide supporting documentation to assist me in verifying the accuracy and completeness of the budget reconciliation as disclosed in note 40 of the financial statements. Weaknesses over the budget process, unauthorised expenditure and late submission of the budget, prevented me from performing alternative procedures to verify the accuracy and completeness of the reconciliation.

Aggregation of immaterial uncorrected misstatements

35. The financial statements as a whole are materially misstated due to the cumulative effect of various individually immaterial uncorrected misstatements in the following elements making up the statement of financial position, statement of financial performance, and the disclosures to the financial statements:
- Accumulated surplus as per the statement of financial position (R58 000);
 - Revenue per the statement of financial performance (R167 000);
 - Property, plant and equipment per note 5 to the financial statements (R33 000);
 - Trade and other receivables from exchange and non-exchange transactions as per notes 7 and 8 to the financial statements (R455 000);
 - VAT receivable per note 9 to the financial statements (R211 000);
 - Cash and cash equivalents per note 10 to the financial statements (R21 000);
 - Unspent conditional grants and receipts per note 12 to the financial statements (R110 000);
 - Trade and other payables from exchange transactions per note 14 to the financial statements (R1 449 000);

- General expenses per note 21 to the financial statements (R1 638 000);
- Personnel and remuneration of councillors per notes 22 and 23 to the financial statements (R157 000);
- Irregular expenditure as per note 38 to the financial statements (R15 000) and
- Electricity distribution losses as per note 41 to the financial statements (R160 000)

36. In addition, I was unable to obtain sufficient appropriate audit evidence and I was consequently unable to confirm or verify the following elements making up the statement of financial position, the statement of financial performance and the disclosures to the financial statements by alternative means:

- Revenue per the statement of financial performance;
- Property, plant and equipment per note 5 to the financial statements;
- Trade and other receivables from exchange and non-exchange transactions as per notes 7 and 8 to the financial statements;
- Cash and cash equivalents per note 10 to the financial statements;
- Trade and other payables from exchange transactions per note 14 to the financial statements;
- General expenses per note 21 to the financial statements;
- Personnel and remuneration of councillors per notes 22 and 23 to the financial statements, and
- Irregular expenditure as per note 38 to the financial statements

Other corresponding figures

37. The auditor's report for the year ended 30 June 2010 contained a disclaimer of opinion on the financial statements as a whole due to a limitation on the scope of the audit. The matters which gave rise to the limitation, as described below, remain unresolved in the current year.

38. The municipality could not provide sufficient appropriate audit evidence regarding:

- revenue relating to direct and other income of R7 040 000 included in total revenue per the statement of financial performance.;
- general expenditure of R5 749 000 disclosed on the face of the statement of financial performance;
- repairs and maintenance of R2 331 000 disclosed on the face of the statement of financial performance;
- accumulated surplus opening balance of R31 749 000 disclosed in the statement of changes in net assets
- cash from operating activities, investing activities and operating activities as disclosed in the cash flow statement
- unspent conditional grants of R983 000 disclosed in note 12 to the financial statements ;
- accrued leave pay of R974 000 disclosed per note 14 to the financial statements;
- employee costs of R13 416 000 disclosed in note 22 to the financial statements ;
- remuneration of councilors of R2 550 000 disclosed in note 23 to the financial statements and
- commitments relating to operating leases of R414 000 disclosed in note 28 to the financial statements.

- General expenses per note 21 to the financial statements (R1 638 000);
- Personnel and remuneration of councillors per notes 22 and 23 to the financial statements (R157 000);
- Irregular expenditure as per note 38 to the financial statements (R15 000) and
- Electricity distribution losses as per note 41 to the financial statements (R160 000)

36. In addition, I was unable to obtain sufficient appropriate audit evidence and I was consequently unable to confirm or verify the following elements making up the statement of financial position, the statement of financial performance and the disclosures to the financial statements by alternative means:

- Revenue per the statement of financial performance;
- Property, plant and equipment per note 5 to the financial statements;
- Trade and other receivables from exchange and non-exchange transactions as per notes 7 and 8 to the financial statements;
- Cash and cash equivalents per note 10 to the financial statements;
- Trade and other payables from exchange transactions per note 14 to the financial statements;
- General expenses per note 21 to the financial statements;
- Personnel and remuneration of councillors per notes 22 and 23 to the financial statements, and
- Irregular expenditure as per note 38 to the financial statements

Other corresponding figures

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- repairs and maintenance of R2 331 000 disclosed on the face of the statement of financial performance;
- accumulated surplus opening balance of R31 749 000 disclosed in the statement of changes in net assets
- cash from operating activities, investing activities and operating activities as disclosed in the cash flow statement
- unspent conditional grants of R983 000 disclosed in note 12 to the financial statements ;
- accrued leave pay of R974 000 disclosed per note 14 to the financial statements;
- employee costs of R13 416 000 disclosed in note 22 to the financial statements ;
- remuneration of councilors of R2 550 000 disclosed in note 23 to the financial statements and
- commitments relating to operating leases of R414 000 disclosed in note 28 to the financial statements.

39. I was unable to confirm or verify these amounts by alternative means and as a result, could not confirm the existence, valuation, completeness or rights and obligations of the abovementioned amounts included in the corresponding figures.

Disclaimer of opinion

40. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matters

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

Restatement of corresponding figures

41. As disclosed in note 31 and 32 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of errors discovered during the year ended 30 June 2011 in the financial statements of the municipality at, and for the year ended, 30 June 2010.

Fruitless and wasteful expenditure

42. As disclosed in note 38 to the financial statements fruitless and wasteful expenditure of R784 000 have been incurred.

Financial sustainability

43. While the municipality has prepared financial statements on a going concern basis its financial sustainability is under threat as revenue is not being collected. Management's assessment of going concern is disclosed in note 34 to the financial statements.

Material Impairments

44. As disclosed in note 7 to the financial statements, Trade and other receivables from exchange transactions, and Trade and other receivables for exchange and non-exchange transactions of R35 538 000 at 30 June 2011 have been impaired. This impairment is due to the poor collections of receivables by the municipality.

Material losses

45. As disclosed in note 42 to the financial statements, electricity distribution losses of R1 522 000 was incurred.

Additional Matter

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

Material inconsistencies in other information included in the annual report

46. As no draft annual report was submitted by management I was unable to evaluate whether there are any material inconsistencies.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

47. In accordance with the PAA and in terms of General notice 1111 of 2010, issued in Government Gazette 33872 of 15 December 2010, I include below my findings on the annual performance report as set out on pages XX to XX and material non-compliance with laws and regulations applicable to the municipality

Predetermined objectives

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

Presentation of information

49. The following criteria are relevant to the findings below:

- Performance against predetermined objectives is reported using the National Treasury guidelines.

50. The annual performance report for the financial year under review was not prepared and submitted for audit, as required by section 46 of the MSA read with section 121(3)(c) of the MFMA and section 74(1) of the MFMA.

Usefulness of information

51. The reported performance information was deficient in respect of the following criteria:

- **Measurability:** Indicators are well-defined and verifiable and targets are specific and measurable.

The following audit findings relate to the above criteria:

Planned indicators are not well defined

52. For the selected objectives, 100% of the planned indicators were not clear, as unambiguous data definitions were not available to allow for data to be collected consistently.

Planned indicators are not verifiable

53. For all objectives valid performance management processes and systems that produce actual performance against the planned indicators do not exist for 100% of the indicators.

Planned targets are not specific and measurable

54. For all objectives 100% of the planned and reported targets were not:

- Specific in clearly identifying the nature and the required level of performance;
- Measurable in identifying the required performance;

Compliance with laws and regulations

Included below are findings on material non-compliance with laws and regulations applicable to the local municipality:

Strategic and Performance legislation

55. The municipality did not implement the performance management framework approved by council 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 by section 38, 39, 40 and 41 of the MSA read with regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.
56. 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(1)(a)(ii) of the MFMA .

Budgets

57. Corporate services incurred actual expenditure of R6 078 815 for the current financial year which was in excess of the limit of the amount provided in the vote in the approved budget of R5 453 000. This is in contravention of section 15 of the MFMA.
58. The mayor did not submit any quarterly reports to council on the implementation of the budget and the financial state of affairs of the municipality within 30 days after the end of each quarter, as required by section 52(d) of the MFMA.
59. The annual budget of the municipality is not based on the objectives as well as the performance targets set by the municipality in its IDP as required by regulation 6 of the Municipal Planning and Performance Management Regulations, 2001.

Annual financial statements and annual report

60. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified during the audit were not adequately corrected, which resulted in the financial statements receiving a disclaimer of audit opinion.
61. The accounting officer did not make the 2010 annual report public immediately after the annual report was tabled in the council as required by section 127(5) of the MFMA.
62. The accounting officer did not make public the council's oversight report on the 2009/10 annual report within seven days of its adoption, as required by section 129(3) of the MFMA.
63. The performance report for the financial year under review was not prepared as required by section 46 of the Municipal Systems Act and section 121(3)(c) of the MFMA. Therefore I was unable to determine whether the municipality performed a comparison of each external service provider performed in line with the development priorities, objectives and performance indicators set out in the municipality's integrated development plan as which is required by section 46 of the Municipal Systems Act.

Audit committee

64. The audit committee was only appointed on 1 March 2011 and has not met since that date. The committee therefore did not function as required by section 166 of the MFMA, in that:

- The audit committee did not advise the council, the accounting officer and the management of the municipality on matters relating to internal financial control and internal audits, risk management, accounting policies, performance management, effective governance, compliance with applicable legislation and performance evaluation;
- The audit committee did not review the annual financial statements;
- The audit committee did not respond to the council on any issues raised by the Auditor-General in the audit report;
- The audit committee did not meet at least four times a year; and,
- The audit committee did not advise the municipal council, the political office bearers, the accounting officer and the management staff of the municipality on matters relating to compliance with the MFMA, the DORA and other applicable legislation as required by section 166(2)(a) of the MFMA.

65. The municipality did not appoint and budget for a performance audit committee, nor was another audit committee utilised as the performance audit committee as required by Municipal Planning and Performance Management Regulation 14.

66. The performance audit committee or another committee functioning as the performance audit committee did not perform the following as required by Municipal Planning and Performance Management Regulation 14:

- meet at least twice during the financial year;
- review the quarterly reports of the internal auditors on their audits of the performance measurements of the municipality;
- review the municipality's performance management system and make recommendations in this regard to the council of the municipality; and,
- submit an auditor's report to the council regarding the performance management system at least twice during the financial year.

Internal audit

67. The municipality did not have an internal audit unit in place as required by section 165(1) of the MFMA. Accordingly the functions of the internal auditor as per section 166 of the MFMA and per Regulation 14 Municipal Planning and Performance Management were not complied with.

Procurement and contract management

68. Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value of between R10 000 and R200 000 were procured by means of obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulation 17(a) & (c).

69. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R200 000 were procured by means of inviting competitive bids as per the requirements of SCM regulation 19(a) and 36(1).
70. Sufficient appropriate audit evidence could not be obtained to determine whether bid specifications for procurement of goods and services through competitive bids were drafted in an unbiased manner that allowed all potential suppliers to offer their goods or services as per the requirements of SCM regulation 27(2)(a).
71. Sufficient appropriate audit evidence could not be obtained that awards were to providers based on criteria that were similar to those stipulated in the original bid documents and/or were stipulated in the original bid documents as per the requirements of SCM regulation [21(b) and/or 28(1).
72. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period of days as per the requirements of SCM regulation 22(1) & 22(2).
73. Sufficient appropriate audit evidence could not be obtained that bid specifications were drafted by bid specification committees which were composed of one or more officials of the municipality as required by SCM regulation 27(3).
74. Sufficient appropriate audit evidence could not be obtained that bids were evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services and at least one SCM practitioner of the municipality as per the requirements of SCM regulation 28(2).
75. Sufficient appropriate audit evidence could not be obtained that final awards and/or recommendation of awards to the accounting officer were made by an adjudication committee constituted as per the requirements of SCM regulation 29(2).
76. Sufficient appropriate audit evidence could not be obtained that awards were made to providers whose tax matters have been declared by the South African Revenue Services to be in order as required by SCM regulation 43.
77. Awards were made to suppliers who did not submit a declaration on their employment by the state or their relationship to a person employed by the state as per the requirements of Municipal SCM regulation 13(c).
78. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).
79. Sufficient appropriate audit evidence could not be obtained that awards were made to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
80. Awards were made to suppliers based on preference points that were not allocated and/or calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.

81. Sufficient appropriate audit evidence could not be obtained that awards were made to suppliers that scored the highest points in the evaluation process as per the requirements of section 2(1)(f) of Preferential Procurement Policy Framework Act.
82. The performance of contractors or providers was not monitored on a monthly basis as required by section 116(2)(b) of the MFMA.
83. The contract performance measures and methods whereby they are monitored were insufficient to ensure effective contract management as per the requirements of section 116(2)(c) of the MFMA.
84. Sufficient appropriate audit evidence could not be obtained that construction contracts were awarded to contractors that were registered and qualified for the contract in accordance with the prescripts of the Construction Industry Development Board. Sufficient appropriate audit evidence could not be obtained that contracts to the value of R6 376 094 were procured in accordance with legislative requirements and the SCM policy.

Human resource management

85. Sufficient appropriate audit evidence could not be obtained that managers directly accountable to the municipal manager were appointed with approval by the council, as required by section 56(a) of the Municipal Systems Act.

Expenditure

86. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA
87. Payments were made by the municipality without payment vouchers being authorised by the accounting officer which is in contravention of section 11(1) of the MFMA.
88. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, as required by section 65(2)(a) of the MFMA.
89. The accounting officer did not take reasonable steps to prevent irregular, fruitless and wasteful and unauthorised expenditure as required by section 62(1)(d) of the MFMA.
90. The cases depicted above were not always reported to the South African Police Service by the accounting officer. The cases of alleged irregular expenditure constitutes a criminal offence, as per section 32(6) of the MFMA
91. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of expenditure control as required by section 65(2)(a) of the MFMA. Evidence of this contravention was evident in missing payment vouchers and order forms, unauthorised payments and discrepancies noted between expenditure as per the financial records and supporting documentation.

Transfer and conditional grants

92. The allocation for the Municipal System Infrastructure Grant (MSIG) was not utilised for purposes stipulated in its respective schedule 4 which is in contravention of the requirements of section 15(1) of the DORA.
93. Sufficient appropriate audit evidence could not be obtained that conditions were met for conditional grant expenditure prior to authorising payments in relation to those grants as required by the DORA and Government Gazette, 13 April 2010, Part 2 of 2

Revenue

94. The municipality did not charge interest on any arrear accounts for consumer debtors as required by section 64(2)(g) of the MFMA.
95. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which recognised traffic and license revenue when it is earned. Furthermore not all electricity meters were billed on a monthly basis, as is required by section 64(2)(e) of the MFMA.

Assets

96. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which accounts for the assets of the municipality. An effective system of internal control for assets (including an asset register) as required by section 63(2) of the MFMA was not maintained. Evidence of this contravention is illustrated by various assets that were noted on the rateable valuation reconciliation and infrastructure project lists but not included on the fixed asset register. Asset additions during the year could not be vouched to supporting invoices.

INTERNAL CONTROL

97. In accordance with the PAA and in terms of General notice 1111 of 2010, issued in Government Gazette 33872 of 15 December 2010, I considered internal control relevant to my audit, 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 that resulted in the basis for a disclaimer of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

- A lack of monthly monitoring and oversight resulted in additional interactions to be taken after the financial year to improve the audit outcome. It is evident from findings during the audit process that the accounting officer and in turn management, did not exercise effective oversight over reporting, compliance with laws and regulations and internal control. All the external audit findings of the prior year have not been addressed, resulting in repetitive findings and unattended weaknesses in the control environment. Although an action plan was developed in the IDP this was not monitored and successfully implemented.

- An appropriate attitude towards reporting against predetermined objectives was not demonstrated as controls over the development of performance targets and processes and controls to ensure that reporting of actual performance against targets is accurate and complete were not implemented.

Financial and performance management

- The financial and performance management control objective relates mainly to the preparation of quality financial statements and performance reports which are supported by appropriate record keeping and information systems. The audit process showed that pertinent information was not identified, captured and stored in a form and time frame to support financial and performance reporting. This resulted in delays to provide requested information in a timely manner. These shortcomings are further indicative that the financial statements were not reviewed for completeness and accuracy prior to the submission for audit.
- Adequate systems are not in place to ensure all suppliers are paid within the required 30 days from receipt of invoice.
- Municipalities rely heavily on computerised information systems to perform their statutory, financial management, reporting and administrative functions. The fact that manual and automated controls, although designed, were not in all instances implemented to ensure that the transactions have occurred, are authorised and are completely and accurately processed is reason for concern. In addition it should be noted that systems are not appropriate in all instances to facilitate the preparation of financial statements and performance reports, especially relating to reporting requirements with reference to budget and grant expenditure reporting.
- Key reconciliations between sub-ledgers and general ledger are not performed on a monthly basis and reconciling items cleared within the financial year, resulting in amounts being recognised as assets and liabilities which cannot be verified. Furthermore suspense accounts for unallocated receipts have not been cleared leading to inaccurate receivables data and disputes with consumers.
- No monitoring of performance objectives and targets are performed on a quarterly basis for the whole municipality. The performance evaluations of section 57 managers are not linked to the achievement of performance objectives and targets.

Governance

- The governance control objective relates mainly to involvement of the audit committee and internal audit in the identification and management of risk (including information technology) and fraud prevention. The municipality has not yet replaced its previous internal audit manager or invited bids for the outsourcing of the function. Furthermore the audit committee is not functioning as no meetings have been held since their appointment. No assessment of the risks identified during the previous year's audit has been performed and as a result repetitive findings and material misstatements appear in this management report due to the same internal control failures that were identified in the prior year. As a result of these weaknesses in the governance of the municipality no monitoring has occurred over the achievement and reporting over predetermined objectives.

OTHER REPORTS

Investigations

98. Investigations by external investigators in relation to cheque fraud and an unauthorised attempt to misappropriate funds from the main bank account amounting to R600 000 identified in the prior period, were still ongoing at the date of this report. The municipality did not suffer any financial losses as all funds were recovered.
99. An investigation by external investigators in relation to an unauthorised attempt to misappropriate funds from the main bank account amounting to R188 220 was identified during the period under review. The matter was still ongoing at the date of this report.

Auditor General

East London

30 November 2011



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence