

AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

# **Audit Report**

## **Tsolwana Municipality**

For the Year ended 30 June 2014



AUDITOR-GENERAL  
SOUTH AFRICA

The Accounting Officer  
Tsolwana Municipality  
P.O.Box 21  
Tarkastad  
5370

30 November 2011

Reference: 21303REG10/11

Dear Sir/Madam

**Report of the Auditor-General on the financial statements and other legal and regulatory requirements of municipality for the year ended 30 June 2011.**

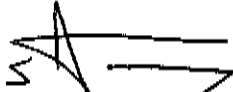
1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (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) municipality; 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 municipality 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

A handwritten signature in black ink, appearing to be 'Teresa Naidoo', written over a dotted line.

Senior Manager: EL05

Enquiries: Teresa Naidoo  
Telephone: (043) 709 7200  
Fax: (043) 709 7300

# **REPORT OF THE AUDITOR-GENERAL TO EASTERN CAPE PROVINCIAL LEGISLATURE AND 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 2011, 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, 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 South African Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act no 56. of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010) (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.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1111 of 2010* issued in Government Gazette 33872 of 15 December 2010. 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.

**Opinion**

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Tsohwana Municipality as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with GRAP and the requirements of the MFMA and DoRA.

**Emphasis of matters**

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

**Restatement of corresponding figures**

9. As disclosed in note 30 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of errors discovered in the financial statements of the Tsohwana Municipality during 2011.

**Unauthorised and fruitless and wasteful expenditure**

10. The municipality incurred unauthorised expenditure of R5 873 374 as a result of exceeding the total amount of the vote, as disclosed in note 39.1.
11. The municipality incurred fruitless and wasteful expenditure of R563 536 due to the payment of the salary of a senior manager who had been suspended for the year, as disclosed in note 39.2.

**Material losses/ Impairments**

12. The municipality suffered a significant distribution loss relating to electricity of 4 117 218 units (Kwh), representing 47% of the units during the year under review, as disclosed in note 39.4.
13. The municipality had receivables for service charges totalling R7 793 276 at 30 June 2011, which had been outstanding for more than six months. The recoverability of these amounts is doubtful, as disclosed in notes 14 and 15.

**Material underspending of the vote**

14. The municipality had materially underspent its budget. At the date of this report, the underspending amounted to R5 319 046 and no satisfactory explanation was provided. This underspending related to the votes of planning and development, cemeteries, sports and recreation, public safety, water and sanitation as disclosed in note 38.2.

The impact of the underspending is that performance targets relating to the above votes were not met.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

15. 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 ... to ... and material non-compliance with laws and regulations applicable to the municipality.

### **Predetermined objectives**

#### **Presentation of information**

16. The following criteria are relevant and there are no findings:

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

Audit finding:

#### **Measures taken to improve performance not reported**

Forty-two 42 instances were identified where the annual performance report did not reflect measures taken to improve performance.

#### **Usefulness of information**

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

- Consistency: Objectives, indicators and targets are consistent between planning and reporting documents
- Relevance: A clear and logical link exists between the objectives, outcomes, outputs, indicators and performance targets
- Measurability: Indicators are well-defined and verifiable, and targets are specific, measurable and time bound

Audit findings:

#### **Reported indicators are not consistent when compared with the planned indicators/targets**

18. Reported performance against predetermined indicators and targets were not consistent with the approved integrated development plan.

#### **Changes to planned indicators/targets are not approved**

19. Inconsistent indicators and targets were reported on as opposed to the approved integrated development plan. These adjustments were not subsequently approved.

#### **Planned and reported targets are not specific**

20. For the selected objectives, 76% of the planned and reported targets were not specific in clearly identifying the nature and the required level of performance.

#### **Planned and reported targets are not/measurable**

21. For the selected objectives, 76% of the planned and reported targets were not measurable in identifying the required performance.

### **Planned and reported targets are not time bound**

22. For the selected objectives, 74% of the planned and reported targets were not time bound in specifying the time period or deadline for delivery.

### **Reliability of information**

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

- Validity: Actual reported performance has occurred and pertains to the entity.
- Accuracy: Amounts, numbers and other data relating to reported actual performance have been recorded and reported appropriately.
- Completeness: All actual results and events that should have been recorded have been included in the annual performance report.

Audit findings:

### **The validity, accuracy and completeness of reported performance against indicators and targets could not be confirmed as no supporting source information was provided**

24. For the selected programmes, 50% of the reported targets were not valid, accurate and complete based on the source information or evidence provided.

## **Compliance with laws and regulations**

### **Expenditure management**

25. As per section 65(2)(e) of the MFMA, outstanding monies owing by the municipality were 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, amounted to R99 779.
26. As per section 32(4) of the MFMA, the accounting officer did not inform the MEC for Local Government and the Auditor-General of the unauthorised, irregular and fruitless and wasteful expenditure incurred during the financial year.
27. The accounting officer did not take reasonable steps to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

### **Audit Committee**

28. As per section 166(2) of the MFMA the audit committee did not advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality on internal financial control and internal audits, risk management and compliance with the MFMA, the DoRA and any other applicable legislation.

## **INTERNAL CONTROL**

29. 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 findings on compliance with laws and regulations included in this report.



### **Leadership**

30. The accounting officer did not exercise sufficient oversight responsibility over compliance with laws and regulations and related internal control.

### **Financial and performance management**

31. The municipality did not have sufficient compensating manual controls to ensure compliance with laws and regulations.

### **Governance**

32. The audit committee did not perform all the functions as documented in the audit charter, thereby rendering it ineffective.

## **OTHER REPORTS**

### **Investigations**

33. An investigation is being conducted into the allegations against the technical services manager, in respect of suspected fraudulent procurement practices. At year-end the investigation was ongoing.



Auditor-General

East London

30 November 2011



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