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**AUDITOR - GENERAL
SOUTH AFRICA**

Audit Report

Emalahleni Municipality

For the Year ended 30 June 2011

REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON EMALAHLENI MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the Emalahleni 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, 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, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act 2010 (Act No. 1 of 2010), 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 South Africa 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 of opinion

4. I draw attention in respect of these matters:

Comparatives

5. In my previous audit report dated 30 November 2010, I was unable to express an audit opinion on the financial statements of the municipality for the year ended 30 June 2010. This was due to significant uncertainties and a limitation of scope on the audit. No adjustments have been effected to the financial statements to correct the matters raised in the previous audit report. The prior year uncertainties and scope restriction has an effect on the accumulated surplus and statement of financial position items. The municipality has not addressed the issues raised in the previous audit report and as required by section 131 (1) of the MFMA.

Unauthorised expenditure

6. Unauthorised expenditure was incurred during the current year of R2.5 million (2010: R257 950). Actual expenditure exceeded budgeted expenditure of the Integrated Planning and Economic Development Department (IPED) (R62 812), Licensing & Registration (R449 640) and Roadworks & Stormwater (R1.4 million) votes. An amount of R142 184 was incurred on the Technical Services vote, but was not budgeted for. Expenditure amounting to R15 187 was not spent in accordance with the conditions of the Municipal Infrastructure Grant (MIG). I am unable to determine if actual expenditure on the Financial Services and Assessment Rates votes exceed budgeted expenditure as they are reflected as a negative expenditure in the general ledger. Expenditure amounting to R398 828 was not incurred in terms of the purpose of the votes. The budget approved by council does not agree to the budget in the accounting system. There were also numerous

errors within the accounting records. There were no satisfactory alternative procedures I could perform to obtain reasonable assurance that the above amount is complete. As a result, I am unable to conclude on the full extent of the unauthorised expenditure incurred during year.

Irregular expenditure

7. Section 125(2) of the MFMA requires the financial statements of the municipality to disclose material irregular expenditure that occurred during the financial year. Audited payments amounting to R18.3 million (2010: R18.3 million) were irregular as they were made in contravention of the supply chain management requirements. The amount was not disclosed as irregular expenditure in a note to the financial statements. It was not practical to determine the full extent of the understatement as there was no system of control in place to identify all irregular expenditure incurred.

Cash and cash equivalents

8. The cash and cash equivalents balance of R36.2 million as disclosed in the statement of financial position and note 14 to the financial statements does not agree to the balance of R30.9 million per the general ledger. The municipality did not reconcile the difference of R5.3 million between the financial statements and accounting records. The municipality's records did not permit the application of alternative procedures. I was unable to determine the effect on the other account balances or classes of transactions contained in the financial statements.
9. Cash and cash equivalents is disclosed in the statement of financial position and note 14 to the financial statements. Cash at banks of R13 million indicated in the general ledger does not agree to the amount of R17.7 million confirmed by the banks and I am unable to reconcile an amount of R4.7 million. Further, the cash at bank amounts disclosed in the financial statements of R7.6 million does not agree to the amounts per the general ledger. It was impractical to perform alternative procedures.
10. Reconciliations of cashbook balances to the statements received for bank accounts held by the municipality for the year were not completed for all cashbook accounts. In the instances where the reconciliations were prepared, these were not performed properly as there were reconciling items which were not taken into account. The municipality's records did not permit the application of alternative procedures.
11. As a result of the above findings, I am unable to conclude on the extent to which cash and cash equivalents of R36.2 million, as disclosed in the statement of financial position and note 14 to the financial statements, may be misstated.

Revenue

12. Revenue of R65.7 million as disclosed in the statement of financial performance and notes 23, 24, 25, 50 and 31 to the financial statements does not agree to the balance of R95.4 million per the general ledger. The municipality did not reconcile the difference of R29.7 between the financial statements and the accounting records. The municipality's records did not permit the application of alternative procedures. I was unable to determine the effect on the other account balances or classes of transactions contained in the financial statements.
13. The rates revenue of R1.2 million (2010: R3 million) is disclosed in the statement of financial performance and note 23 to the financial statements. As no reconciliation of the valuation roll was performed, the valuation roll did not agree to the details on the system. Consequently, I am unable to verify the completeness of this amount. There were no satisfactory alternative procedures that I could perform to obtain reasonable assurance that all properties were

recorded and it was impractical to determine the effect on rates income and consumer debtors.

14. Interest charged on outstanding receivables as disclosed in the statement of financial performance is R2.2 million (2010: R365 013). The municipality did not apply the correct interest rate during the year on outstanding receivables. The interest on receivables is being calculated by the debtors system without taking into account the *in duplum* rule in section 103 (5) of the National Credit Act, 2005 (Act No. 34 of 2005), which states that interest stops accumulating when the unpaid interest equals the outstanding capital. As a result, the estimated effect of the misstatement of revenue and consumer debtors could not be determined. There were no satisfactory alternative procedures that I could perform to obtain reasonable assurance that all interest on outstanding receivables was recorded and it was impractical to obtain the effect on rates income.
15. Electricity revenue of R4.9 million (2010: R3.3 million) is included in service charges of R7.3 million as disclosed in the statement of financial performance and note 24 to the financial statements. I was unable to verify the amount due to supporting documentation not being submitted for audit purposes. Consequently, there were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that electricity revenue is properly recorded and I am unable to conclude on the full extent of the misstatement of electricity revenue and consumer debtors.

Trade receivables from exchange transactions

16. The net trade receivables from exchange transactions balance of R1.1 million as disclosed in the statement of financial position and note 13 to the financial statements does not agree to the balance of R5.5 million per the general ledger. The municipality did not reconcile the difference of R4.4 million between the financial statements and the accounting records. The municipality's records did not permit the application of alternative procedures. I was unable to determine the effect on the other account balances or classes of transactions contained in the financial statements.
17. An amount of R23.4 million (2010: R20.7 million) for municipal debtors as disclosed in note 13 to the financial statements could not be verified as a title deed search failed to provide evidence over the existence of certain debtors. The municipality's records did not permit the application of alternative procedures.
18. As a result of the matter raised in paragraph 17 I am unable to verify if the amount raised as a provision for bad debts as disclosed in note 13 to the financial statements of R18.1 million (2010: R27.1 million) and the relating debt impairment of R7.8 million as disclosed in the statement of financial performance and note 30 to the financial statements is adequate.
19. Suspense accounts totalling R181 248 are included under trade debtors and other receivables in note 11 to the financial statements. The municipality did not clear these accounts during the year. Transactions in these accounts could not be supported by sufficient and appropriate audit evidence. Even after performing alternative procedures, I cannot conclude on the valuation, existence and rights of these suspense accounts.
20. Documentation supporting transactions totalling R3.6 million was not submitted for audit purposes. The municipality's records did not permit the application of alternative procedures. Consequently, it was not possible to confirm the rights pertaining to the municipality of trade receivables from exchange transactions as disclosed in the statement of financial position and note 13 to the financial statements.
21. In terms of IAS 39, Financial Instruments, trade and other receivables should be stated at their present value in the financial statements as at year end, with the difference between the

nominal amount and the present value recognised as interest income over the financing period. I was unable to determine the effect on receivables and accumulated surplus, even after performing alternative procedures, as not all debtors have been included on the municipality's debtors system and the debtors system failed to fully integrate with the accounting system.

22. The municipality could not provide sufficient appropriate audit evidence to support the municipal debtors with credit balances totalling R812 203 that are included in note 13 to the financial statements. The municipality's records did not permit the application of alternative procedures.
23. As a result of the above matters, I am unable to conclude if the amount of R1.1 million as disclosed in the statement of financial position and note 13 to the financial statements is complete, exists, is valued correctly and the rights pertain to the municipality.

Property, plant and equipment

24. Ownership of land and buildings disclosed in the statement of financial position and in note 4 to the financial statements of R117.5 million could not be confirmed as title deeds could not be obtained for certain properties. The municipality's records did not permit the application of alternative procedures.
25. Infrastructure assets of R75.8 million as disclosed in note 4 to the financial statements could not be verified as the municipality has not captured all the relevant information on the geographical information system. It was impractical to perform alternative procedures.
26. The balances reflected on the fixed asset register of R139.4 million did not agree to the balances disclosed in the statement of financial position totaling R223.8 million and note 4 to the financial statements and I am unable to reconcile the difference of R84.4 million. The municipality's records did not permit the application of alternative procedures.
27. As a result of the above findings, I am unable to conclude if the amount of R223.8 million (2010: R191 million) as disclosed in the statement of financial position and note 4 to the financial statements is complete, exists, is valued correctly and the rights pertain to the municipality.

Investment property

28. Investment property is disclosed in note 3 to the financial statements at a nil value. The municipality has not identified and separately disclosed the number of such properties in the note to the financial statements and statement of financial position and is included within the land and buildings as disclosed in note 4 to the financial statements. The municipality's records did not permit the application of alternative procedures. As a result, I am unable to conclude on the completeness of investment property.

Unspent conditional grants and receipts

29. The amount of unspent conditional grants and receipts as disclosed in the statement of financial position and note 16 to the financial statements of R26.4 million does not agree to the supporting documentation provided which amounts to R15.2 million. I am unable to reconcile the difference of R11.2 million. No alternative procedures could be performed. Consequently, I could not satisfy myself as to the completeness, existence, valuation and rights pertaining to unspent conditional grants.

Expenditure

30. Other expenditure comprising Administration and Management Fees Paid, Finance Costs, Debt Impairment, Repairs and Maintenance, Bulk Purchases, General Expenditure and

Operating Grant Expenditure of R41.9 million as disclosed in the statement of financial performance and notes 51, 32, 30, 34 and 27 to the financial statements do not agree to the balance of R47.2 million per the general ledger. The municipality did not reconcile the difference of R5.3 between the financial statements and the accounting records. The municipality's records did not permit the application of alternative procedures. I was unable to determine the effect on the other account balances or classes of transactions contained in the financial statements.

31. GRAP 17, Property, Plant and Equipment, prescribes that the cost of an item of property, plant and equipment shall be recognised as an asset if it is probable that future economic benefits or service potential associated with the item will flow to the entity. General expenditure is disclosed in the statement of financial performance and note 27 to the financial statements. Included in this amount is an amount of R4.3 million, incurred in respect of an electrification project for the construction of electricity assets. This amount has been incorrectly expensed and should be capitalised as the revenue associated with the assets is an economic benefit that flows to the municipality. The municipality has recognised revenue from the sale of prepaid electricity in the accounting records derived from these electricity assets and property, plant and equipment is, thus, understated by the above amount. The municipality has received a R5 million grant from the Department of Energy in respect of the electrification project.
32. As a result of the above, I am unable to conclude on the validity, accuracy and completeness of other expenses of R41.9 million (2010: R32 million) disclosed in the statement of financial performance and the corresponding notes to the financial statements.

Value added taxation (VAT)

33. The VAT receivable balance of R9.5 million as disclosed in the statement of financial position and note 12 to the financial statements does not agree to the balance of R8.6 million per the general ledger. The municipality did not reconcile the difference of R900 000 between the financial statements and the accounting records. The municipality's records did not permit the application of alternative procedures.
34. Amounts reflected on the VAT returns submitted to the South African Revenue Services (SARS) for the year under review do not agree to the amounts recorded in the general ledger. As a result, even after performing alternative audit procedures, sufficient audit evidence relating to the unreconciled amount could not be obtained.
35. Consequently, I am unable to verify the completeness, existence, rights and valuation of the VAT receivable of R9.5 million (2010: R3.9 million) as disclosed in the statement of financial position and note 12 of the financial statements.

Trade and other payables from exchange transactions

36. The trade and other payables from exchange transactions balance of R26.2 million as disclosed in the statement of financial position and note 18 to the financial statements does not agree to the balance of R20 million per the general ledger. The municipality did not reconcile the difference of R6.2 million between the financial statements and the accounting records. The municipality's records did not permit the application of alternative procedures. I was unable to determine the effect on the other account balances or classes of transactions contained in the financial statements.
37. The leave accrual listing provided by the municipality of R1.6 million did not agree to the amount of R1.1 million disclosed in note 18 to the financial statements as the municipality did not update its financial statements from the prior year. The leave balance of employees could not be verified as the leave records of the municipality have not been adequately

maintained. The attendance registers for employees and full time councillors were not adequately monitored. The municipality's records did not permit the application of alternative procedures.

38. As a result of the matter raised in paragraph 38, I am unable to conclude on the full extent of the misstatement of the accrued leave of R1.1 million as disclosed in the statement of financial position and note 18 to the financial statements and the related employee cost as disclosed in the statement of financial performance and note 28 to the financial statements.
39. Documentation supporting transactions totalling R3.5 million was not submitted for audit purposes. The municipality's records did not permit the application of alternative procedures. Consequently, it was not possible to confirm the completeness, existence, valuation and obligations of trade and other payables from exchange transactions as disclosed in the statement of financial position and note 18 to the financial statements.
40. A cash suspense account of R15.4 million is included under trade payables in note 18 to the financial statements. The municipality did not clear this account during the year. This account is utilised to record transactions that could not be adequately identified and balance the bank reconciliations without any investigations into the nature of these transactions. These transactions also could not be supported by sufficient and appropriate audit evidence. As a result, no alternative procedures regarding the cash suspense account could be performed. Consequently, I cannot conclude on the validity, accuracy and completeness of the cash suspense account.
41. The municipality did not submit the general ledger for months subsequent to year end. Consequently, I am unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of trade payables and the related expenditure.
42. As a result of the above findings, I am unable to conclude on the extent to which trade and other payables of R26 million (2010: R5 million), as disclosed in note 18 to the financial statements, is misstated.

Employee related costs

43. Personnel costs of R26.6 million and remuneration of councillors of R6.6 million as disclosed in the statement of financial performance and notes 28 and 29 to the financial statements does not agree to the balance of R39.3 million per the general ledger. The municipality did not reconcile the difference of R6 million between the financial statements and the accounting records. The municipality's records did not permit the application of alternative procedures. I was unable to determine the effect on the other account balances or classes of transactions contained in the financial statements.
44. The municipality's payroll system reflecting an amount of R23.3 million failed to fully integrate with the accounting system which reflects a credit amount of R795 779. I am unable to reconcile the difference of R24 million.
45. Consequently, it was not possible to determine the occurrence, accuracy and completeness of employee related costs of R33.3 million (2010: R9 million) as disclosed in the financial statements.

Retirement benefit obligation

46. Retirement benefit obligation of R1.2 million (2010: R1.2 million) is disclosed in the statement of financial position and note 7 to the financial statements. A valuation of the benefit was not performed in the current year as required by IAS 19, Employee benefits, which prescribes that an entity shall use actuarial techniques to make a reliable estimate of the amount of the

benefit that employees have earned in return for their services in the current and prior periods. Owing to the nature of the liability, I was unable to confirm or verify by alternative means the value of the benefit.

47. The municipality adopted a resolution of South African Local Government Association (SALGA) which states that all current employees who are not covered by the provisions of resolutions 1 and 2 (of resolution 8: post retirement medical aid subsidies) with effect from 1 July 2003 will not be entitled to the subsidy after retirement. This resolution has not been legislated.
48. As a result of the above, I am unable to conclude on the completeness and valuation of the liability and related employee costs.

Other receivables from non-exchange transactions

49. Other receivables from non- exchange transactions of R29.3 million as disclosed in the statement of financial position and note 11 to the financial statements does not agree to the balance of R43.1 million per the general ledger. The municipality did not reconcile the difference of R13.8 million between the financial statements and the accounting records. The municipality's records did not permit the application of alternative procedures. I was unable to determine the effect on the other account balances or classes of transactions contained in the financial statements.
50. Note 11 to the financial statements discloses the net effect of assets, liabilities, income and expenditure relating to the water and sanitation function totalling R28.4 million (2010: R29 million). The functions of water and sanitation were transferred to the district municipality in 2003. The municipality delivers the services to the community on behalf of the district municipality. I am unable to conclude if this amount is correct as not all debtors exist, all assets have not been identified and transferred and all revenue and related expenditure have not been accounted for correctly. The municipality's records did not permit the application of alternative procedures.
51. The service level agreement between the municipality and the district municipality states that a 10% management fee is payable by the district municipality for the services provided by the municipality. This management fee was not raised in the current year. No alternative procedures could be performed. As a result of this and the above findings, I am unable to determine the amount of the management fee income not raised as disclosed in the statement of financial performance and the related adjustment to the agency account as disclosed in the statement of financial position and note 11 to the financial statements.
52. As a result of the above findings, I am unable to conclude on the extent to which other receivables from non-exchange transactions of R29.3 million (2010: R30.7 million), as disclosed in the statement of financial position and note 11 to the financial statements, is misstated.

Prepayments

53. Prepayments of R7.2 million are disclosed in the statement of financial position and note 8 to the financial statements. The municipality did not perform an exercise whereby they identified prepayments for the year under review. I was unable to verify by alternative procedures the value of amounts paid in advance at year end. Consequently, I could not obtain sufficient appropriate audit evidence to satisfy myself as to the valuation and completeness of prepayments.

Provisions

54. Provision for pro-rata bonuses of R341 512 is included in provisions in the statement of financial position and note 17 to the financial statements. The municipality did not review and

adjust this provision to reflect the current best estimate at year end as required by GRAP 19, Provisions, Contingent Liabilities and Contingent Assets. The municipality's records did not permit the application of alternative procedures. Consequently, it was not possible to conclude on the validity, accuracy and completeness of provisions as disclosed in the statement of financial position and note 17 to the financial statements.

Commitments

55. No committed expenditure for the current year is disclosed in note 36 to the financial statements as the municipality did not prepare an updated list of commitments at year end. The municipality's records did not permit the application of alternative procedures. As a result, I am unable to conclude on the full effect of the understatement of commitments.

Contingent liabilities

56. The municipality did not assess the contingent liabilities from the prior year disclosed in note 37 to the financial statements to determine whether an outflow of resources embodying economic benefits or service potential has become probable. This assessment is required by GRAP 19, Provisions, Contingent Liabilities and Contingent Assets. No contingent liabilities were disclosed for the current year. Even after performing alternative audit procedures, sufficient appropriate audit evidence relating to the completeness and valuation of contingent liabilities and possible provisions and the relating expenditure that should be recognised could not be obtained.

Material losses

57. Distribution losses relating to the supply of electricity were not monitored during the year and were not disclosed in the financial statements as required by section 125(2)(d) of the MFMA. As a result, even after performing alternative procedures, sufficient appropriate audit evidence could not be obtained to ascertain the full extent of any distribution losses to be reported.

Cash flow statement

58. Cash and cash equivalents as disclosed in the statement of financial position, cash flow statement and note 14 to the financial statements is R36.2 million. Presentation of a cash flow statement, summarising the entity's operating, investing and financing activities, is required by GRAP 2, Cash flow statements. Reconciliations of cashbook balances to the statements received for bank accounts held by the municipality for the year were not completed for all cashbook accounts. In the instances where the reconciliations were prepared, these were not performed properly as there were reconciling items which were not taken into account. As a result, the cash flows for the year could not be reconciled to the cash and cash equivalents balance at year end.
59. Amounts used in the presentation of the cash flow statement were not classified correctly in terms of GRAP 2. The accounting records of the municipality are incomplete and inaccurate and as a result I am unable to conclude on the full extent of the errors within this statement. It is estimated that the net cash flows from operating activities is understated by R28.7 million, the net cash flows from investing activities is understated by R20.8 million and the net cash flows from financing activities is understated by R53 629. Resulting from the matters I have discussed in paragraph 58 above, there is an amount of R7.8 million that is not supported by sufficient appropriate audit evidence.
60. There were no satisfactory alternative procedures that I could perform to obtain reasonable assurance that the cash flow statement fairly presents the cash inflows and cash outflows of the municipality for the year.

Councillors' arrear consumer accounts

61. Section 124(1)(b) of the MFMA requires the notes to the financial statements of a municipality to include particulars of any arrears owed by individual councillors to the municipality, for rates or services and which at any time during the relevant financial year were outstanding for more than 90 days, including the names of those councillors. Councillors' arrear consumer accounts disclosed in note 45 to the financial statements is R48 408. The list of councillors which was provided was not sufficient and appropriate and I could not verify the completeness and accuracy of the disclosure. The municipality's records did not permit the application of alternative procedures.

Municipal officials' arrear consumer accounts

62. Schedule 2 of the MSA states that a staff member of a municipality may not owe the municipality for rates and services charges for a period exceeding 3 months. The municipality is required to deduct any outstanding amounts from a staff member's salary after this period. The municipality did not deduct any arrear amounts during the year and no staff debtors have been disclosed in the financial statements. The full extent of the details not disclosed could not be determined. Consequently, I am unable to obtain sufficient appropriate audit evidence to satisfy myself as to the valuation of the staff debtors to be disclosed in the financial statements.

Departmental debtors

63. Section 123(1)(b)(ii) of the MFMA requires that the financial statements of a municipality to disclose information on any allocations made by the municipality to any other organ of state. The municipality did not disclose information relating to amounts owed by government departments in the financial statements. The accounting records are incomplete as the debtors system did not fully integrate with it. Consequently, I am unable to obtain sufficient appropriate audit evidence to satisfy myself as to the valuation of the departmental debtors to be disclosed in the financial statements.

Accumulation of immaterial uncorrected misstatements

64. I am unable to obtain sufficient appropriate audit evidence and I am therefore unable to confirm or verify the following elements making up the statement of financial position and the statement of financial performance by alternative means:

- Revenue
- Expenditure
- Employee related costs
- Trade and other payables from exchange transactions
- Provisions
- Inventory
- Accumulated surplus
- Property, plant and equipment
- Trade receivables from exchange transactions
- Finance leases
- Other receivables from non-exchange transactions
- Cash and cash equivalents
- Staff debtors

65. As a result, I am unable to determine whether any adjustments to these elements were necessary.

Budget

66. A reconciliation between budget and the statement of financial performance as required by GRAP 1, Presentation of Financial Statements, is disclosed in note 48 to the financial statements. I am unable to verify the amounts contained in this reconciliation due to the matters referred to in paragraphs 5 to 65 above. Also, the budget approved by council does not agree to the budget in the accounting system. As a result I am unable to conclude on the validity, accuracy and completeness of the amounts contained in the reconciliation.

Disclaimer of opinion

67. 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.

Additional matter

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

Unaudited supplementary schedules

69. The municipality refers to appendices on the index page of the financial statements, however, no appendices were included. This supplementary information does not form part of the financial statements and is presented as additional information. These schedules are not audited and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

Compliance with laws and regulations

Strategic planning and performance management

71. Sufficient appropriate audit evidence could not be obtained to confirm that the accounting officer of the municipality by 25 January assessed 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.
72. The accounting officer of the municipality did not submit the results of the assessment on the performance of the municipality during the first half of the financial year to the mayor of the municipality, the National Treasury, and the provincial treasury as required by section 72(1)(b) of the MFMA.
73. The municipality did not implement a framework 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 sections 38, 39, 40 and 41 of the MSA and Municipal Planning and Performance Management Regulations 7 and 8.

Budgets

74. The mayor did not submit all 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.

75. The municipality incurred expenditure that was not budgeted for and incurred expenditure in excess of the limits of the amounts provided for in the votes in the approved budget, in contravention of section 15 of the MFMA.
76. The accounting officer did not always submit the monthly budget statements to the mayor and/or the relevant provincial treasury, as required by section 71(1) of the MFMA.
77. Sufficient appropriate audit evidence was not provided to confirm that unforeseeable and unavoidable expenditure was appropriated in the adjustment budget as required by section 29(2)(d) of the MFMA.
78. Sufficient appropriate audit evidence was not provided to confirm that the mayor did not approve as unforeseen and unavoidable, expenditure which would contravene any existing council policy and/ or was intended to ratify irregular or fruitless and wasteful expenditure in contravention of Municipal Budget and Reporting Regulation 71.
79. Sufficient appropriate audit evidence was not provided to confirm that the total unforeseen and unavoidable expenditure incurred for which no provision was made in the approved budget didn't exceed the limit in contravention of Municipal Budget and Reporting Regulation 72.

Annual financial statements, performance and annual report

80. The performance report for the financial year under review was not prepared as required by section 46 of the MSA read with section 121(3)(c) of the MFMA.
81. 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 by the auditors were not adequately corrected, which resulted in the financial statements receiving a disclaimed audit opinion.
82. The mayor did not table, in council, the 2009/2010 annual report of the municipality within seven months after the end of the financial year as required by section 127(2) of the MFMA.
83. Sufficient appropriate audit evidence was not provided to confirm that the mayor submitted a written explanation to the council setting out the reasons for the delay in the tabling of the 2009/10 annual report in council as required by section 127(3) of the MFMA.
84. Sufficient appropriate audit evidence was not provided to confirm that the accounting officer made public the oversight report referred to in subsection 129(1) of the MFMA within seven days of its adoption.

Audit committees

85. 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 Division of Revenue Act (DoRA) and other applicable legislation as required by section 166(2)(a) of the MFMA.
86. The audit committee did not advise the council of the municipality on the adequacy, reliability and accuracy of financial reporting and information as required by section 166(2)(a)(iv) of the MFMA.
87. 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.

Procurement and contract management

88. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulation 17(a) & (c).
89. Quotations were accepted from prospective providers who are not on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy in contravention of SCM regulation 16(b) and 17(b).
90. 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).
91. Sufficient appropriate audit evidence could not be obtained that 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).
92. 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 were stipulated in the original bid documents as per the requirements of SCM regulation 21(b) and 28(1).
93. Sufficient appropriate audit evidence could not be obtained that all invitations for competitive bidding were advertised for a required minimum period of days as per the requirements of SCM regulation 22(1) & 22(2).
94. 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).
95. 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).
96. 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 SCM regulation 29(2).
97. 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.
98. 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).
99. The preference point system was not 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).
100. 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.

101. 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.
102. Sufficient appropriate audit evidence was not provided to confirm the performance of contractors or providers was monitored on a monthly basis as required by section 116(2)(b) of the MFMA.
103. Sufficient appropriate audit evidence was not provided to confirm that the contract performance measures and methods whereby they are monitored were sufficient to ensure effective contract management as per the requirements of section 116(2)(c) of the MFMA.
104. The municipality did not implement a SCM policy as required by section 111 of the MFMA.
105. Awards were made to providers who are persons in service of other state institutions in contravention of the requirements of SCM regulations 44. Furthermore the provider failed to declare that he/she is in the service of the state as required by SCM regulation 13(c).
106. Sufficient appropriate audit evidence was not provided to confirm that persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality disclosed such interest, as required by SCM regulation 46(2)(e), the code of conduct for councillors issued in terms of the MSA, the code of conduct for staff members issued in terms of the MSA, and that the providers declared their relationship to persons employed by the municipality as per the requirements of Municipal SCM regulation 13(c).
107. Sufficient appropriate audit evidence was not provided to confirm that SCM officials/ other SCM role players who or whose close family members/ partners/ associates had a private or business interest in contracts awarded by the municipality did not participate in the process relating to that contract contrary to the requirements of SCM regulation 46(2)(f).
108. Sufficient appropriate audit evidence could not be obtained that contracts and/ or quotations to the value of R 6.9 million was procured in accordance with legislative requirements and the SCM policy.

Expenditure management

109. 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.
110. 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.
111. 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 expenditure when it was incurred, accounted for creditors of the municipality, accounted for payments made by the municipality, as required by section 65(2)(b) of the MFMA.
112. The accounting officer did not take reasonable steps to prevent unauthorised expenditure and irregular expenditure as required by section 62(1)(d) of the MFMA.
113. The municipality did not recover unauthorised expenditure or irregular expenditure from the liable person, as required by section 32(2) of the MFMA.

Revenue management

114. Sufficient appropriate audit evidence could not be obtained to confirm that all revenue received by the municipality, including revenue received by any collecting agent on its behalf, was reconciled at least on a weekly basis as required by Section 64(2)(h) of the MFMA.
115. The council did not adopt a tariff policy on the levying of fees for municipal services provided by the municipality, contrary to section 74(1) of the MSA.
116. The council did not adopt a policy on the levying of rates on rateable property within the municipality as required by section 3(1) of the Property Rates Act.
117. A credit control and debt collection policy was not adopted as required by section 96(b) of the MSA.
118. 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 revenue when it is earned, accounted for debtors and accounted for receipts of revenue, as required by section 64(2)(e) of the MFMA.

Asset management

119. 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 as required by section 63(2)(a) of the MFMA.
120. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of internal control for assets (including an asset register) as required by section 63(2)(c) of the MFMA.

Financial misconduct

121. Sufficient appropriate audit evidence was not provided to confirm that all allegations of financial misconduct against officials of the municipality were investigated, as required by section 171(4)(a) of the MFMA.
122. Sufficient appropriate audit evidence was not provided to confirm that disciplinary proceedings were instituted against officials of the municipality, when investigations warranted such a step, as required by section 171(4)(b) of the MFMA.

INTERNAL CONTROL

123. 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 [qualified/adverse/disclaimer of] opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

124. A lack of monthly monitoring and oversight was noted resulting in additional interventions 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 management did not exercise effective oversight over reporting, compliance with laws and regulations and internal control. A key indicator at this level is the fact that the external audit findings of the prior year have not all been addressed, resulting in repetitive findings and unattended weaknesses in the control environment. An audit action plan has been developed, but the implementation of it as agreed between management and MPAC did not occur.

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

Financial and performance management

126. 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. It was evident during the audit process that important information was not identified and captured in a form and time frame to support financial and performance reporting. This resulted in delays to provide requested information in a timely manner and material amendments to the financial statements resulting from the audit. These shortcomings are further indicative that the financial statements were not adequately reviewed prior to the submission for audit.
127. The municipality relies heavily on computerised information systems to perform their statutory, financial management, reporting and administrative functions. The fact that some 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. It was also noted that some manual and automated controls have not been designed at all. In addition, it should be noted that systems are inappropriate in all instances to facilitate the preparation of financial statements and performance reports.

Governance

128. The governance control objective relates mainly to the involvement of the audit committee and internal audit in the identification and management of risk (including information technology) and fraud prevention. The work performed by both the internal audit unit and audit committee is acknowledged, however the material misstatements in the financial statements and the findings on reporting against predetermined objectives shows that there is still much room for improvement and enhancing effectiveness.

Auditor General

East London

30 November 2011



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence