

# **Audit Report**

## **Amathole District Municipality**

For the Year ended 30 June 2011

**REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL  
LEGISLATURE AND THE COUNCIL ON THE AMATOLE DISTRICT MUNICIPALITY  
REPORT ON THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the accompanying consolidated and separate financial statements of the Amathole District Municipality, which comprise the consolidated and separate statement of financial position as at 30 June 2011, and the consolidated and separate statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, as set out on pages xxx to xxx.

**Accounting officer's responsibility for the consolidated financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of 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, as amended) (DoRA), and for such internal control as management determines necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate 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 consolidated and separate 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 consolidated and separate financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my unqualified audit opinion.

## **Opinion**

7. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the Amatole District Municipality and its subsidiaries as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with SA Standards of 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. Restatements in the corresponding figures were identified during my audit of the financial statements of the current year relating to the following:
  - Commitments as reported in note 39 to the financial statements were restated by an amount of R49,7 million in the current year. This increase was due to incorrect contract values reported in the prior year.
  - Investment properties as reported in note 39 to the financial statements were restated by an amount of R49,8 million in the current year. This was due to recognition in the current year of previously unreported investment properties.
  - Property, plant and equipment as reported in note 39 to the financial statements was restated by an amount of R1,241 billion. This was due to recognition in the current year of previously unreported investment properties.

## **Irregular expenditure**

10. As reported in note 29 to the financial statements, the municipality incurred irregular expenditure amounting to R546 238, as the expenditure incurred was in contravention of the supply chain management (SCM) process.

## **Fruitless and wasteful expenditure**

11. As reported in note 29 to the financial statements, the municipality incurred fruitless and wasteful expenditure amounting to R374 420, as a result of payments for goods not received.

## **Material impairments**

12. As reported in note 7 to the financial statements, the municipality had material impairments totalling R91,75 million related to receivables not considered recoverable.

## **Material losses**

13. As disclosed in note 35 to the financial statements, the municipality incurred losses totalling R60,41 million. This was due to water losses in distribution and unmetered water points. In addition, losses from inventory as well as property, plant and equipment amounted to R726 394 and R1,8 million, respectively.

### **Additional matter**

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

### **Unaudited supplementary schedules**

15. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these appendices and accordingly I do not express an opinion thereon.

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

16. 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**

#### **Reliability of information**

17. 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**

18. For the following reported targets that are material by nature, the validity, accuracy and completeness of the reported targets could not be established, as sufficient appropriate audit evidence could not be provided:

- 921 384 people with access to water
- 40% households with adequate sanitation

### **Compliance with laws and regulations**

#### **Annual financial statements, performance report and annual report**

19. 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 in capital assets, current assets, equity, liabilities, expenditure and disclosure items identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.
20. The performance report for the financial year under review was not prepared in accordance with the requirements of section 46 of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and section 121(3)(c) of the MFMA.
21. 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.

### **Procurement and contract management**

22. Awards were made to providers whose members were persons in the service of other state institutions, in contravention of the requirements of SCM Regulation 44.

### **Expenditure management**

23. The accounting officer did not take reasonable steps to prevent irregular as well as fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

### **Conditional grants**

24. The municipality did not always submit quarterly reports to the transferring national officer on non-financial performance in respect of the allocation received for the municipal infrastructure grant, financial management grant and water services operating subsidy grant, as required by sections 11(2)(c) and 12(2)(c) of DoRA.

### **Asset management**

25. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system that accounted for the assets of the municipality, as required by section 63(2)(a) of the MFMA.
26. 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.

### **INTERNAL CONTROL**

27. 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 the annual performance report and the findings on compliance with laws and regulations included in this report.

### **Leadership**

28. Senior management members did not adequately exercise their oversight responsibility over financial and performance reporting, compliance and related internal controls. This was the result of the leadership not ensuring that vacant positions were filled timeously and adequately monitoring the functioning of internal controls. This situation resulted in deficiencies in the systems going undetected and the required corrective actions not being enforced. As a result, the asset register was incomplete for movable assets relating to property, plant and equipment, investment properties and commitments; infrastructure projects were incorrectly classified as work in progress; completed projects remained as work in progress; and depreciation was incorrectly calculated. In addition, the capital commitments and investment properties registers were not kept up to date during the year.
29. Irregular as well as fruitless and wasteful expenditure was not prevented and detected, resulting in expenditure incurred due to non-adherence to SCM prescripts and incurring expenditure that was avoidable.

## **Financial and performance management**

30. The financial statements submitted for audit purposes were incomplete. This was as a result of the inadequate review by management and over-reliance on the consultants appointed to assist in the preparation of the financial statements. Furthermore, the consultants did not adequately transfer skills to the municipal officials as they were engaged full time during the completion of the audit.
31. A number of balances and disclosures in the financial statements had to be re-audited a number of times to ensure fair presentation. The excessive reliance by management on both the consultants and the audit process to achieve fair presentation did not create a sustainable platform for achieving clean administration. The system for capital commitments and accounts receivable impairment was not kept up to date during the year and was only completed during the preparation of the financial statements. This process was inadequate and the amounts had to be recalculated during the audit. With regard to property, plant and equipment, the fixed asset register was not appropriately maintained and reconciled throughout the year, resulting in the asset register being resubmitted several times for auditing. Furthermore, the information supplied to the expert infrastructure valuers by management was inaccurate to the extent that the valuation had to be adjusted during the audit.
32. The entity did not have adequate processes and assignment of responsibilities to ensure compliance with all applicable laws and regulations. As a result, there were numerous instances of non-compliance with the MFMA, the MSA, SCM Regulations and Municipal Planning and Performance Management Regulations.

## **Governance**

33. Despite an adequate risk assessment process, the municipality did not respond to and adequately monitor the risks identified. As a result, there were numerous instances of non-compliance with the MFMA, the MSA, SCM Regulations and Municipal Planning and Performance Management Regulations.

*Auditor - General*

East London

20 December 2011



AUDITOR - GENERAL  
SOUTH AFRICA

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