

# **Audit Report**

## **Buffalo City Metropolitan Municipality**

For the Year ended 30 June 2012

**REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL  
LEGISLATURE AND THE COUNCIL ON THE BUFFALO CITY METROPOLITAN  
MUNICIPALITY**

**REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the consolidated and separate financial statements of the Buffalo City Metropolitan Municipality and its subsidiaries set out on pages ... to ..., which comprise the consolidated and separate statement of financial position as at 30 June 2012, the consolidated and separate statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

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

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated and separate 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, 2011 (Act No. 6 of 2011) (as amended) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor-General's responsibility**

3. My responsibility is to express an opinion on these consolidated and separate financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate 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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

**Basis for qualified opinion**

**Property, plant and equipment**

6. Disclosed in the statement of financial position and note 14 is property, plant and

equipment of R11,3 billion. The following are findings that relate to this balance:

7. Property, plant and equipment totalling R3 billion (2011: R401,9 million) that meets the recognition criteria of GRAP 17: *Property, plant and equipment* was incorrectly omitted from the amounts recorded in the financial statements, resulting in an understatement of R3 billion. Furthermore, in prior years, the municipality had not determined reasonable depreciated replacement costs for infrastructure assets in accordance with Directive 7: *The application of deemed cost on the adoption of Standards of GRAP*, nor had it determined reasonable fair values in respect of land in accordance with GRAP 17: *Property, plant and equipment*. No adjustments were made to these amounts in the current year and, as a result, property, plant and equipment is understated by R517,2 million (2011: R517,2 million). Consequently, property, plant and equipment and the accumulated surplus are understated by R3,5 billion (2011: R919,1 million).
8. The municipality did not correctly apply the recognition and measurement requirements set out in GRAP 17: *Property, plant and equipment*. Assets totalling R450,2 million (2011: R131,4 million), which were not owned or under the control of the municipality, were incorrectly recognised, resulting in an overstatement of R450,2 million in property, plant and equipment. Furthermore, the municipality did not recognise impairments against items of property, plant and equipment where it was found to have been impaired and additions to property, plant and equipment were recorded at the incorrect cost, resulting in an overstatement of R586,2 million. Consequently, property, plant and equipment is overstated by R1 billion (2011: R131,4 million), the accumulated surplus is overstated by R450,2 million (2011: R131,4 million) and expenditure is understated by R586,2 million.
9. Included in property, plant and equipment for the prior year is work in progress and infrastructure assets made up of water, waste water network and roads. The municipality incorrectly classified certain work in progress as infrastructure assets resulting in an overstatement of infrastructure assets and an understatement of work in progress of R112,4 million in the comparative amounts of note 14 to the financial statements.
10. The municipality did not provide sufficient appropriate audit evidence for land and buildings of R4,3 billion (2011: R4,3 billion) and infrastructure assets of R6,4 billion (2011: R 6,4 billion) as disclosed in note 14 under property, plant and equipment in the statement of financial position. I was unable to confirm these balances by alternative means. Consequently, it was not possible to determine whether any adjustments to these amounts were necessary.

#### **Investment property**

11. The municipality used the fair value model as described in GRAP 16: *Investment property* to value investment properties. The size and value per square metre of a number of properties were incorrectly captured in the financial records, resulting in an understatement of R391,1 million (2011: R391,1 million). In addition, the asset register supporting the disclosure in the financial statements incorrectly included investment properties of R30,5 million (2011: R13,2 million) that are not owned by the municipality, and excluded properties of R288,1 million (2011: R67,5 million) that are owned by the municipality. Consequently, investment property as disclosed in note 12 and the accumulated surplus in the statement of changes in net assets are understated by R648,7 million.

### **Irregular expenditure**

12. The municipality did not have adequate systems in place to identify and disclose all irregular expenditure incurred during the year as required by section 125(2)(d)(i) of the MFMA. The irregular expenditure disclosed in note 54 to the financial statements is understated by R161,8 million (2011: R122,4 million) in respect of amounts incurred during the year that were identified during the audit process. Due to the lack of systems to identify non-compliance with the supply chain management regulations, it was impracticable to determine the full extent of the understatement of irregular expenditure disclosed as R663 million (2011:227 million) in note 54 to the financial statements. Consequently, I was unable to determine whether any further adjustments to the irregular expenditure in the financial statements were necessary.
13. In addition, the municipality could not provide sufficient appropriate audit evidence to confirm that the SCM requirements had been adhered to for the procurement of all goods and services. The records of the municipality did not permit the application of alternative procedures. Consequently, I was unable to confirm whether any further adjustments relating to irregular expenditure in the financial statements were necessary.

### **Depreciation**

14. Depreciation and amortisation of R513 million is disclosed in the statement of financial performance and note 38 to the financial statements. GRAP 17: *Property, plant and equipment* requires that items of property, plant and equipment be carried at cost less any accumulated depreciation and accumulated impairment losses. The municipality incorrectly recognised depreciation on items of property, plant and equipment that did not meet the recognition criteria of an asset. Consequently, depreciation and accumulated depreciation are overstated by R28 million.
15. Sufficient appropriate audit evidence could also not be provided to substantiate depreciation, as it was not possible to confirm the existence of all assets to which the depreciation charge relates. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any further adjustments relating to depreciation disclosed as R513 million in the financial statements were necessary.

### **Service charges**

16. Due to inaccurate record keeping, the municipality did not bill for certain electricity, water and sewerage services rendered during the 2010-11 financial year. As a result, the comparative service charges of R1,5 billion as disclosed in note 29 to the financial statements is understated by R47,8 million. Similarly, the comparative for receivables from exchange transactions as disclosed in the statement of financial position is understated by the same amount.

### **Aggregation or accumulation of immaterial uncorrected misstatements**

17. The financial statements as a whole are materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following elements making up the statement of financial position and the disclosure notes to the financial statements:

#### **Statement of financial position – comparative figures**

- Receivables from non-exchange transactions for the prior year reflected as R91,3 million in the statement of financial position and note 7 to the financial statements is understated by R32,2 million.

- VAT receivable for the prior year reflected as R37,5 million in the statement of financial position and note 8 to the financial statements is understated by R4,1 million.

#### **Disclosure notes**

- Commitments reflected as R381,1 million in note 45 to the financial statements is overstated by R7,2 million.
- Fruitless and wasteful expenditure reflected as R1 million in note 53 to the financial statements is understated by R4,4 million.
- Contingent liabilities reflected as R173,5 million in note 60 to the financial statements are overstated by R24,8 million.

In addition, I was unable to obtain sufficient appropriate audit evidence and confirm or verify the following elements by alternative means:

- Payables from exchange transactions of R8,2 million included in the disclosed amount R369,6 million in the statement of financial position and note 21 to the financial statements for the 2011 financial year.
- Contingent liabilities of R5,8 million included in the disclosed amount of R173,5 million in note 60 to the financial statements.

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

#### **Qualified opinion**

18. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraphs, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the Buffalo City Metropolitan Municipality and its subsidiaries as at 30 June 2012 and their 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**

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

#### **Restatement of corresponding figures**

20. As disclosed in note 48 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of errors discovered during the year ended 30 June 2012 in the financial statements of the municipality at, and for the year ended, 30 June 2011.

#### **Material losses and impairments**

21. Disclosed in note 6 to the financial statements are impairments of R343,9 million that were recognised in respect of trade and other receivables from exchange transactions.
22. Disclosed in note 7 to the financial statements are impairments of R185 million that were recognised in respect of trade and other receivables from non-exchange transactions.
23. As disclosed in note 56 to the financial statements, material water losses of 47,28% and material electricity distribution losses of 12,61% to the amount of R202,7 million have not been recovered from consumer debtors.

### **Material underspending of the budget**

24. As disclosed in note 61 the municipality materially underspent the operating expenditure budget to the amount of R1,3 billion and the capital budget to the amount of R494,3 million.
25. As disclosed in note 22 to the financial statements, the municipality materially underspent conditional grants to the amount of R787,7 million.

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

26. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

### **Predetermined objectives**

27. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.
28. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development priorities. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury's *Framework for managing programme performance information* (FMPPi).
29. The reliability of the information in respect of the selected development priorities or objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
30. The material findings are as follows:

### **Usefulness of information**

31. Improvement measures in the annual performance report for a total of 28% of the planned targets not achieved were not disclosed, as required by section 46 of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA). This was due to inadequate internal policies and procedures for the processes pertaining to the reporting of performance information.
32. A total of 83% of the measures taken to improve performance in the annual performance report were not supported by adequate and reliable corroborating evidence, as required by section 46 of the MSA. This was due to inadequate internal policies and procedures for the processes pertaining to the reporting of performance information.
33. Section 41(c) of the MSA requires that the integrated development plan (IDP) should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. A total of 27% of the reported indicators and 51% of the reported targets were not consistent with the indicators and targets as per the approved IDP. This was due to no, or limited, review

and monitoring of the completeness of reporting documents by management, the audit committee and the internal audit unit.

34. The FMPPI requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 47% of the targets were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was not aware of the requirements of the FMPPI and did not receive the necessary training to enable application of the principles.
35. The FMPPI requires that performance targets be measurable. The required performance could not be measured for a total of 45% of the targets. This was due to the fact that management was not aware of the requirements of the FMPPI and did not receive the necessary training to enable application of the principles.
36. The FMPPI requires that the time period or deadline for delivery be specified. A total of 93% of the targets were not time bound in specifying a time period or deadline for delivery. This was due to the fact that management was not aware of the requirements of the FMPPI and did not receive the necessary training to enable application of the principles.
37. The FMPPI requires that indicators should have clear, unambiguous data definitions so that data can be collected consistently and is easy to understand and use. A total of 95% of the indicators were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was not aware of the requirements of the FMPPI and did not receive the necessary training to enable application of the principles.
38. The FMPPI requires that it must be possible to validate the processes and systems that produce the indicator. A total of 33% of the indicators were not verifiable in that valid processes and systems that produced the information on actual performance did not exist. This was due to a lack of key controls in the relevant systems of collection, collation, verification and storage of actual performance information. In addition, management was not aware of the requirements of the FMPPI and did not receive the necessary training to enable application of the principles.

#### **Reliability of information**

39. The FMPPI requires that the indicator be accurate enough for its intended use and respond to changes in the level of performance and that systems producing the indicator be verifiable. A total of 77% of the actual reported performance relevant to KPA 2: basic service delivery and infrastructure development, KPA 3: local economic development and KPA 4: municipal financial viability and management was not accurate and valid when compared to source information. This was due to a lack of monitoring, review and standard operating procedures for the recording of actual achievements by senior management.
40. I was unable to obtain sufficient, appropriate audit evidence to satisfy myself as to the completeness of the actual performance reported in the annual performance report. This was due to a lack of a document management system.

#### **Additional matter**

41. I draw attention to the matter below. This matter does not have an impact on the audit findings on predetermined objectives reported above.

### **Achievement of planned targets**

42. Only 40% of the planned targets were achieved during the year under review. This was due to the fact that indicators and targets were not suitably developed during the strategic planning process and the budget that was not aligned to the IDP. In addition there was a lack of review and monitoring in respect of performance reporting.

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

43. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA are as follows:

### **Strategic planning and performance management**

44. The municipal council did not consult with the local community in the drafting and implementation of the municipality's IDP by means of a municipal-wide structure for community participation or through a forum that enhances community participation, as required by section 28 of the MSA and Local Government: Municipal Planning and Performance Management Regulation 15(1)(a)(i).
45. The municipality did not conduct its affairs in a manner that was consistent with its IDP, as required by section 36 of the MSA and Local Government: Municipal Planning and Performance Management Regulation 6.
46. The municipality's performance management system was not in line with the priorities, objectives, indicators and targets contained in its IDP and did not provide for procedures by which the system is linked to the municipality's integrated development planning processes, as required by section 38(a) of the MSA and Local Government: Municipal Planning and Performance Management Regulation 7(2)(e).
47. The municipality did not perform or implement the following in respect of performance management:
- Set appropriate key performance indicators as a yardstick for measuring performance, including outcomes and impact, with regard to the municipality's development priorities and objectives set out in its IDP.
  - Monitor performance with regard to each of those development priorities and objectives and against the key performance indicators and targets set.
  - Measure and review performance at least once per year with regard to each of those development priorities and objectives and against the key performance indicators and targets set.
  - Take steps to improve performance with regard to those development priorities and objectives where performance targets are not met, as required by section 41 of the MSA.

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

48. The annual performance report for the year under review did not include the performance of the municipality and external service providers, a comparison of the performance with set targets, and measures taken to improve performance, as required by section 46(1)(b) of the MSA.



49. 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 of non-current assets, current assets, liabilities, revenue and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

#### **Audit committee**

50. An audit committee was not in place for the full year, as required by section 166(1) of the MFMA. As a result, the audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA. A performance audit committee was not in place for the full year and the audit committee established in terms of section 166(1) of the MFMA was not used for this function, as required by Local Government: Municipal Planning and Performance Management Regulation 14(2)(a).
51. The audit committee did not review the municipality's performance management system and make recommendations to the council, as required by Local Government: Municipal Planning and Performance Management Regulation 14(4)(a)(ii).
52. The audit committee did not review the quarterly internal audit reports on performance measurement, as required by Local Government: Municipal Planning and Performance Management Regulation 14(4)(a)(i).
53. The audit committee did not submit an audit report on the review of the performance management system to the council at least twice during the financial year, as required by Local Government: Municipal Planning and Performance Management Regulation 14(4)(a)(iii).

#### **Internal audit**

54. The internal audit unit did not audit the results of performance measurements, as required by section 45(1)(a) of the MSA and Local Government: Municipal Planning and Performance Management Regulation 14(1)(a).
55. The internal audit unit did not assess the functionality of the performance management system, as required by Local Government: Municipal Planning and Performance Management Regulation 14(1)(b)(i).
56. The internal audit unit did not audit the performance measurements on a continuous basis and did not submit quarterly reports on their audits to the municipal manager and the performance audit committee, as required by Local Government: Municipal Planning and Performance Management Regulation 14(1)(c).

#### **Expenditure**

57. 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.
58. An effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, was not in place, as required by section 65(2)(a) of the MFMA.
59. An adequate management, accounting and information system was not in place to recognise expenditure when it was incurred and account for creditors and payments made, as required by section 65(2)(b) of the MFMA.

60. The accounting officer did not take effective steps to prevent irregular as well as fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
61. Fruitless and wasteful expenditure was not recovered from the liable person, as required by section 32(2) of the MFMA.

#### **Asset management**

62. An adequate management, accounting and information system that accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
63. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

#### **Financial misconduct**

64. Disciplinary hearings did not commence within three months of the resolution to institute disciplinary action, as required by Disciplinary Regulation for Senior Managers 10(1)(a).
65. All instances of financial misconduct where sanctions were imposed were not reported to the member of the executive council for finance, as required by Disciplinary Regulation for Senior Managers 12(3).

#### **Conditional grants**

66. The municipality did not submit a draft performance framework by 30 March 2011, the final approved performance framework by 7 June 2011, and the human settlement and built environment performance framework prior to receipt of its first instalment of the grant allocation, as required by the DoRA framework issued in Gazette No. 34280.
67. The municipality did not submit the 2010-11 annual report to the national Department of Human Settlement on or before 30 September 2011 and to the National Treasury by 15 December 2011, as required by the DoRA framework issued in Gazette No. 34280.
68. The municipality did not certify to the National Treasury that it had made public the conditions of the schedule for allocation, as required by section 11(2)(a) of DoRA.

#### **Human resource management**

69. The municipal council did not consult with, and obtain approval from, the member of the executive committee for local government before awarding salary adjustments, as required by section 7(3) of the Remuneration of Public Office Bearers Act of South Africa, 1998 (Act No. 20 of 1998).
70. The council did not obtain the accounting officer's input regarding the organogram, as required by section 66(1) of the MSA.
71. The competencies of financial and SCM officials were not assessed promptly in order to identify and address gaps in competency levels, as required by Municipal Regulation on Minimum Competency Levels 13.
72. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and the relevant provincial treasury, as required by Regulation on Minimum Competency Levels 14(2)(a).
73. The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies, as required by Regulation on Minimum Competency Levels 14(2)(b).

74. The municipal manager and senior managers directly accountable to the municipal manager did not sign performance agreements, as required by section 57(2)(a) of the MSA.

#### **Procurement and contract management**

75. Goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, as required by SCM Regulation 17(a) and (c).
76. Quotations were accepted from prospective providers who are not registered on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy, in contravention of SCM Regulations 16(b) and 17(b).
77. The performance of contractors and providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
78. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.
79. Awards were made to providers who are persons in the service of the municipality or whose directors are persons in the service of the municipality, in contravention of SCM Regulation 44. Furthermore, providers failed to declare that they were in the service of the municipality, as required by SCM Regulation 13(c).
80. Persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by SCM Regulation 46(2)(e) and the code of conduct for staff members issued in terms of the MSA.
81. Persons in the service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by SCM Regulation 46(2)(e) and the code of conduct for staff members issued in terms of the MSA.
82. SCM officials and other SCM role players who or whose close family members/ partners/associates had a private or business interest in contracts awarded by the municipality participated in the process relating to that contract, in contravention of SCM regulation 46(2)(f).
83. Allegations of fraud or corruption and improper conduct and failure to comply with the supply chain management system laid against role players in the SCM system were not investigated as required by SCM Regulation 38(1)(b).
84. Appropriate action was not taken against role players in the supply chain management system where investigations proved fraud or corruption and improper conduct and failure to comply with the supply chain management system, as required by SCM regulation 38(1)(b).
85. The municipality did not implement an SCM policy as required by section 111 of the MFMA.
86. Sufficient appropriate audit evidence could not be obtained that all contracts and quotations were awarded in accordance with the legislative requirements and a procurement process which is fair, equitable, transparent and competitive, as some of the requested information was not submitted for audit purposes and some information submitted was incomplete.

### **Internal control**

87. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations.

### **Leadership**

88. The political and administrative leadership did not take full ownership of the internal control environment and did not insist on daily disciplines to ensure efficiency and effectiveness in financial management, service delivery execution and compliance with laws and regulations, thus not setting the correct tone for the credibility of all reports of the administration.
89. There was a lack of integration within the municipality, as the different directorates planned, worked and reported in isolation. This has been reported for the past three years; however, the leadership and top management had not yet addressed this critical barrier towards ensuring alignment and cohesion. This has a negative impact on the performance of the municipality and its ability to prepare financial statements and an annual performance report that are free of misstatements.
90. Top and middle management positions were vacant for extended periods. This included the chief financial officer's position, which has been vacant for 33 months, while the accounting officer's position was only filled in March 2012, after 29 months. The continued absence of a permanent finance professional to lead and guide the municipality compromises sound financial management, as well as the effective implementation of the audit turnaround strategy.
91. The leadership has not addressed the challenges faced by the municipality's SCM unit during the past four financial years and has not implemented its SCM policy. This is largely as a result of inadequate capacity within the unit to implement the SCM policy, which is further aggravated by inadequate planning by the different directorates within the municipality. This is evidenced by the large amount of irregular expenditure incurred and the amount by which the budget was underspent.
92. The council has not acted on a resolution to reconstitute Buffalo City Development Agency (BCDA), as evidenced by the fact that a board of directors and no staff have been appointed. The BCDA incurred expenditure and is not regarded as dormant and must therefore comply with all applicable laws and regulations.
93. The information technology plan was not revised to reflect its alignment to the municipality's overall objectives and an information technology governance management framework had not been documented and adopted to ensure compliance with best practices.

### **Financial and performance management**

94. The municipality did not introduce all the appropriate daily and monthly processes, procedures and controls to ensure that transactions were accurately recorded, classified, reconciled, approved and reported on in accordance with the GRAP framework and the FMPPI. These omissions hindered effective financial and performance management, reporting and oversight and if not appropriately addressed by the municipality it will impact the sustainability of the reported opinion.
95. The lack of financial discipline and monitoring throughout the financial year resulted in a

large amount of reconciliations and processing being performed after year-end. In addition, corrective measures to address prior period audit findings by management only took full effect after year-end, once the appointment of consultants was confirmed.

96. An audit turnaround strategy was approved by the council, but was not fully implemented before year-end, as evidenced by the recurring nature of material misstatements reported. The audit committee exercised oversight over the audit turnaround strategy, but management did not correct serious flaws identified by the committee before year-end.
97. SCM compliance awareness among officials across all functional areas was not at the desired level, as evidenced by the abnormal amount of irregular expenditure incurred.
98. Challenges still remain in ensuring that sufficient, appropriate audit evidence is available in the areas of SCM and property, plant and equipment, mainly as a result of inadequate documentation systems.

### **Governance**

99. The effectiveness of the audit committee was compromised, as it did not meet four times during the year as required by legislation.
100. Management conducted a risk assessment and established risk registers, but these activities occurred too late in the financial year. As a result, insufficient strategies were devised by management to address significant risks, as confirmed by the audit committee.
101. Insufficient audit coverage by the internal audit unit on the critical areas of GRAP compliance and system assurance further challenged the municipality. This mainly stemmed from staff capacity constraints experienced by the internal audit unit.

### **OTHER REPORTS**

#### **Investigations**

102. An independent organisation has been appointed to conduct investigations into alleged irregularities in procurement, contract management and payments made. The investigations were still ongoing at the reporting date.

*Auditor-General*  
East London

7 December 2012



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*