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

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I was engaged to audit the financial statements of the Camdeboo Municipality, which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, and the accounting officer's report, as set out on pages ... to ....

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

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act, 2003 (Act No.56 of 2003) and the Division of Revenue Act of South Africa, 2011 (Act No.6 of 2011 as amended), and for such internal control as the accounting officer determines is 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. My responsibility is to express an opinion on the financial statements based on conducting the 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. 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**

**Property, plant and equipment**

4. The municipality did not review the useful lives and residual values of property, plant and equipment at each reporting date in accordance with GRAP 17: *Property, plant and equipment*. I have not determined the correct net carrying amount of these assets as it was impracticable to do so. Sufficient appropriate audit evidence was not available for the amounts disclosed as property, plant and equipment amounting to R621,37 million (2011: R605,09 million) as disclosed in note 7 and depreciation accounted for therein of R25,08 million (2011: R24,33 million) as disclosed in note 26 to the financial statements. Furthermore, the municipality's asset register for movable assets is incomplete as not all assets belonging to the municipality were recorded. I was unable to confirm these amounts by alternative means. Consequently, I was unable to determine whether any adjustments to property, plant and equipment and depreciation in the financial statements were necessary.

**Investment property**

5. Investment property of R4,68 million (2011: R5,04 million) is disclosed in note 8 to the financial statements. Sufficient appropriate audit evidence was not available to confirm this value and the basis for identifying investment property. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustments to investment property were necessary.

### **Change in accounting policy**

6. The municipality has not correctly disclosed the change in accounting policy in note 33 to the financial statements in accordance with GRAP 3: *Accounting policies, changes in accounting estimates and errors*. Sufficient appropriate audit evidence was not available to confirm the correctness of the change in accounting policy note disclosure for property, plant and equipment of R621,37 million (2011: R605,09 million) as disclosed in note 7 to the financial statements and investment property of R4,68 million (2011: R5,04 million) included in note 8 to the financial statements. As a result, I was unable to confirm the amount and extent of the adjustments made by alternative means. Consequently, I was unable to determine whether any adjustments to investment property were necessary.

### **Unspent conditional grants and receipts**

7. Sufficient appropriate audit evidence was not available to confirm unspent conditional grants and receipts of R4,7 million, included in note 12 to the financial statements. The associated conditional grant revenue recognised was not inclusive of value added tax (VAT) as required by Municipal Circular 48, issued in March 2009. As a result, the associated revenue of R39,85 million disclosed in note 18 to the financial statements is understated due to a lack of systems in place. It was impracticable for me to determine the extent of the understatement due to a lack of systems in place. I was unable to confirm the revenue recognised. As a result, I was unable to confirm the unspent conditional grants and receipts balance and the related government grants and subsidies revenue by alternative means. Consequently, I was unable to determine whether any adjustments to unspent conditional grants and receipts and government grants and subsidies revenue received in the financial statements were necessary.

### **Receivables from non-exchange transactions**

8. Assessment rates debtors of R9,63 million included in receivables from non-exchange transactions as disclosed in note 4 to the financial statements of R25 million is understated by R1,09 million and payables are understated by the same amount. In addition, the provision for impairment of R7,57 million as disclosed in note 4 to the financial statements, which is based on the assessment rates debtor balance, has not been provided for correctly in terms of the International Accounting Standard, IAS 39: *Financial instruments: recognition and measurement*. It was impracticable for me to determine the extent of the misstatement as the calculations provided could not be verified. I was unable to confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustments to receivables from non-exchange transactions and the provision for impairment were necessary.
9. In addition, sufficient appropriate audit evidence was not available to confirm an amount of R3,55 million included in government subsidies of R22,24 million as disclosed in receivables from non-exchange transactions of R32,57 million in note 4 to the financial statements. I was unable to confirm this amount by alternative means. Consequently, I was unable to determine whether any adjustments to receivables from non-exchange transactions were necessary.

### **Receivables from exchange transactions**

10. Receivables from exchange transactions as disclosed in note 3 to the financial statements of R15,45 million is understated by R765 021 and payables are understated by the same amount. The provision for impairment of R15,97 million as disclosed in note 3 to the financial statements, which is based on the receivables from exchange transactions balance, has not been provided for correctly in terms of the International Accounting Standard, IAS 39: *Financial instruments: recognition and measurement*. It was impracticable for me to determine the extent of the misstatement as the calculations provided could not be verified. I was unable to confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustments to receivables from

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non-exchange transactions and the provision for impairment were necessary.

### **Corresponding figures**

11. I was unable to obtain sufficient appropriate audit evidence for the restatement in the corresponding figures of revenue from exchange and non-exchange transactions. As described in note 34 to the financial statements, the restatement of R1,85 million was made in order to rectify a prior year misstatement. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustments to the corresponding figures for revenue from exchange and non-exchange transactions were necessary.

### **Impairment losses**

12. Sufficient appropriate audit evidence was not available to confirm impairment losses of R7,89 million included in note 27 to the financial statements, as this amount is impacted by the receivables from exchange and non-exchange transaction balances. It was impracticable for me to determine the extent of the misstatement as it was not possible to verify the calculations. I was unable to confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustments to impairment losses were necessary.

### **Non-current provisions**

13. The municipality did not measure the provision for the rehabilitation of land-fill sites as the best estimate of the expenditure required to settle the present obligation resulting from a past event, at the reporting date, in accordance with GRAP 19: Provisions, contingent liabilities and contingent assets. Sufficient appropriate audit evidence was not available to confirm the provision of R8,5 million (2011: R9,3 million) disclosed in note 16 to the financial statements. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustments to the non-current provisions were necessary.

### **General expenses**

14. General expenditure of R38,26 million as disclosed in note 31 to the financial statements is overstated by R11,39 million and revenue is overstated by the same amount as a result of the inclusion of indigent grant funding in the statement of financial performance.

### **Accumulated surplus**

15. Sufficient appropriate audit evidence could not be provided to confirm the accumulated surplus balance of R642,73 million (2011: R630,85 million) in the statement of changes in net assets to the financial statements. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments to accumulated surplus in the financial statements were necessary.

### **Cash flow statement**

16. The municipality did not prepare the cash flow statement in accordance with GRAP 2: Cash flow statements, by applying the direct method. In addition, sufficient appropriate audit evidence was not available to confirm the net cash flow movement of R24,47 million (2011: R40,67 million) as a result of the misstatement of the statement of financial position and financial performance and an inability to confirm the amounts in the preceding paragraphs which form the basis of the cash flow statement. I was unable to determine the full extent of the misstatement by alternative means. Consequently, I was unable to determine whether any adjustments to the cash flow statement were necessary.

### **Disclosure - Material losses**

17. Sufficient appropriate audit evidence was not available for electricity losses of R5,83

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million (2011: R4,84 million) as disclosed in note 37.9 to the financial statements. In addition, the municipality did not have adequate systems in place during the current and prior financial year for the calculation of water losses. Due to the lack of the system, it was impracticable to determine the full extent of the material losses. I was unable to confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustments to material losses disclosure were necessary.

### **Commitments**

18. The municipality did not have a contract management system in place for the identification and recognition of contracted commitments, disclosed as R321 847 in note 38 to the financial statements. I was unable to determine the value of capital commitments which were not included in the disclosure and it was not possible to confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustments to the commitments disclosure note were necessary.

### **Unauthorised expenditure**

19. Sufficient appropriate audit evidence was not available to confirm the value of unauthorised expenditure incurred. This is as a result of misstatements identified in the statement of financial performance and a difference of R2,06 million between the budgeted amounts contained therein and the approved budget. I was unable to confirm this amount by alternative means. Consequently, I was unable to determine whether any adjustments to unauthorised expenditure were necessary.

### **Disclaimer of opinion**

20. 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.

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

21. 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**

22. 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.
23. 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 annual reporting principles and whether the reported performance is consistent with the planned development objectives. 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). The reliability of the information in respect of the selected development objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

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24. The material findings are as follows:

### **Usefulness of information**

#### **Consistency**

25. Section 41(c) of the Municipal Systems Act, Act 32 of 2000 (MSA) section 41(c) requires that the actual achievements against all planned indicators and targets must be reported annually. The annual performance report submitted for audit purposes did not include the actual performance of all planned indicators specified in the integrated development plan (IDP) for the year under review. This was due to the lack of information systems recording and documenting actual achievements against targets and the lack of review and monitoring of the completeness of reporting documents by management.

#### **Measurability**

26. The National Treasury Framework for managing programme performance information (FMPPI) requires that performance targets be specific in clearly identifying the nature and required level of performance. All of the targets tested were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was aware of the requirements of the National Treasury's FMPPI but did not receive the necessary training to enable application of the principles.
27. The FMPPI requires that performance targets be measurable. The required performance could not be measured for all targets tested. This was due to the fact that management was aware of the requirements of the National Treasury's FMPPI but did not receive the necessary training to enable application of the principles.
28. The FMPPI requires that the time period or deadline for delivery be specified. All the targets tested were not time bound in specifying a time period or deadline for delivery. This was due to the fact that management was aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles.
29. The FMPPI requires that indicators/measures should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. All of the indicators tested 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 aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles.
30. The FMPPI requires that it must be possible to validate the processes and systems that produce the indicator. All of the indicators tested were not verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to the lack of key controls in the relevant systems of collection, collation, verification and storage of actual performance information.

#### **Reliability of information**

##### **Completeness**

31. The FMPPI requires that documentation addressing the systems and processes for identifying, collecting, collating, verifying and storing information be properly maintained. Sufficient appropriate evidence was not available to support the selected objective. The municipality's records did not permit the application of alternative audit procedures regarding the validity, accuracy and completeness of the reported performance information.
32. I was unable to obtain sufficient, appropriate audit evidence to satisfy myself as to the

validity, accuracy and completeness of the actual performance reported in the annual performance report. This was due to a lack of a document management system.

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

33. 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**

34. The municipality did not 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 as required by section 41(1)(a) of the MSA and regulation 13(2)(b) and (c) of the Municipal Planning and Performance Management Regulations 3(2)(b and c) (GNR 796 of 24 August 2001) (MPPMR).
35. The municipality did not establish a performance management system that is in line with the priorities, objectives, indicators and targets contained in its IDP, as required by section 38 (a) of the MSA and MPPMR 7(2)(c).

### **Financial statements, performance and annual reports**

36. 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 in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer of audit opinion.

### **Internal Audit**

37. The internal audit unit did not function as required by section 165(2) of the MFMA, in that it did not audit the performance measurements on a continuous basis and submit quarterly reports on their audits to the municipal manager and the performance audit committee, as required by the MPPMR 14(1)(c).

### **HR management**

38. 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 within one month after the beginning of the financial year (31 July).
39. Job descriptions were not established for all posts in which appointments were made in the current year, in contravention of section 66(1)(b) of the MSA.
40. The municipal manager has not regularly evaluated the staff establishment and if necessary reviewed it in accordance with an established process/mechanism as required by MSA section 66(1)(d).
41. There is inadequate evidence to confirm that the competencies of financial officials were assessed promptly in order to identify and address gaps in competency levels as required by the Municipal Regulations on Minimum Competency Levels regulation 13.

### **Internal control**

42. I considered internal controls 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 disclaimer of opinion, the findings on the annual performance

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

### **Leadership**

43. 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, performance information and compliance with laws and regulations, thus not setting the correct tone for the credibility of all reports of the administration. There was insufficient monitoring over the readiness of the full implementation of the SA Standards of GRAP, which resulted in the regression of the audit outcome.
44. There is inadequate oversight by management due to a lack of regular reviews by management on monthly reporting. Certain staff members within the finance department do not understand the applicable financial reporting framework and there is also a lack of capacity at management level within the municipality.
45. The municipality's organogram has not been updated since 2008 as this was not prioritised by management, thereby creating a situation where there is limited segregation of duties and a lack of resources in the asset management unit. Adequate and sufficiently skilled resources were not in place and the performance of municipal officials was not monitored by those charged with governance and leadership.
46. The established and communicated policies and procedures of the municipality were outdated and did not adequately support the municipality in complying with laws, regulations and reporting requirements of SA Standards of GRAP.
47. Although the municipality developed an audit action plan, it was not monitored by leadership to ensure management were addressing internal control deficiencies.
48. There are no formally approved policies and procedures to address the information technology (IT) function and associated risks, as these have not been reviewed and prioritised.

### **Financial and performance management**

49. The municipality did not prepare interim financial statements as a tool to measure their readiness with full SA Standards of GRAP implementation. This is as a result of the loss of a critical staff member and a lack of immediate contingency measures in place. Consultants were appointed to draft the financial statements as management and officials did not understand the requirements of the applicable reporting framework. The financial statements were materially inaccurate and not all Standards of SA GRAP were correctly applied, with management not sufficiently monitoring the work performed by the consultants. The working paper files produced did not in all cases support the disclosures made in the financial statements. In addition, monthly reconciliations are not performed for all major business cycles, as this had not been identified as a key control by management.
50. The financial statements submitted for audit contained a significant number of material errors as they were not subject to timeous and detailed review.
51. The municipality's controls over daily and monthly processing and reconciling of transactions were not sufficient. Reconciliations were performed for external audit purposes and not for managements monitoring and decision making purposes.
52. The reports in support of pre-determined objectives were incomplete and there were no proper processes in place to monitor the collation, verification and reporting of targets and indicators as a result of limited resources. This has resulted in the significant deficiencies and information which is neither useful nor reliable.

## **Governance**

53. The risk assessment process is hindered by a lack of adequate follow up of action taken and resulted in the ineffective implementation of the risk assessment.
54. The internal audit functioned throughout the year, however did not complete all assignments per their audit plan as this was not monitored throughout the period with a focus on assignments that were not completed. In addition, the internal audit assignments did not focus on the significant risk areas at the municipality, such as the full implementation of the SA Standards of GRAP. Furthermore, there is inadequate follow up of management's implementation of recommendations emanating from reports issued by internal audit. As a result, not all key risks pertaining to the municipality were addressed, which impacted on the completeness, accuracy and validity of information included in the financial statements and the annual performance report.
55. The audit committee performed a review of the financial statements, however due to time pressures imposed by management, it was not possible for all review findings to be applied to the financial statements. As a result, not all material errors were corrected before the financial statements were submitted for audit purposes. The internal audit plan considered by the audit committee did not include a timeous assessment of the readiness of the full implementation of the SA Standards of GRAP.

*Auditor-General.*

East London

30 November 2012



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*