



Audit Report Great Kei Municipality





The accounting officer
Great Kei Local Municipality
Private Bag x2
Komga
4950

30 November 2012

Reference: 21298REG11/12

Dear Sir

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Great Kei Municipality for the year ended 30 June 2012

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

2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.

3. In terms of section 121(3) of the MFMA, you are required to include the audit report in the Municipality's annual report to be tabled.

4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.

5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:

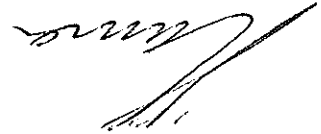
- Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
- The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and

the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.

6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely



Rama Purushothaman:
Senior Manager: ELO3

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**REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL
LEGISLATURE AND THE COUNCIL ON GREAT KEI MUNICIPALITY
REPORT ON THE FINANCIAL STATEMENTS**

Introduction

1. I was engaged to audit the financial statements of Great Kei Municipality, which comprise the statement of financial position as at 30 June 2012, the statements 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 of South Africa, 2003 (Act No. 56 of 2003) (MFMMA) and 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 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

Unauthorised expenditure
4. The municipality overspent on its budget by R4,3 million for the year under review. Furthermore, the municipality budgeted for a deficit of R289 372. Unauthorised expenditure of R4,6 million has not been disclosed in note 33.3 to the financial statements.

5. Due to the various limitations of scope paragraphs reported under the basis for disclaimer of opinion, it was not possible to determine whether any further adjustments to the current or corresponding amounts for unauthorised expenditure were necessary.

Irregular expenditure

6. Amounts of R269 962, which were recorded as irregular expenditure, did not meet the definition of irregular expenditure as set out in the MFMMA. The municipality did not have adequate systems in place to identify and disclose all irregular expenditure incurred during the year, and irregular expenditure of R4,3 million (2011: R8,6 million), which was identified during the audit process, was not identified by management. Sufficient appropriate audit evidence was also not submitted as evidence that all SCM regulations had been complied with during the current and previous years. Furthermore, details of the irregular expenditure for the current year have not been disclosed in note 33.3 to the financial statements.

8. The municipality has not taken adequate steps to investigate and correct irregular expenditure identified during prior years and irregular expenditure of R6 million written off during the prior year was not investigated by a council committee, as required by section 32(2)(b) of the MFMA.
9. Due to the lack of systems and the lack of sufficient appropriate audit evidence, it was impracticable to determine the full extent of the understatement of irregular expenditure. Consequently, I was unable to determine whether any further adjustments were necessary to the current and corresponding figures disclosed in the irregular expenditure disclosure note.
10. The municipality did not have adequate systems in place to identify and disclose all fruitless and wasteful expenditure incurred during the year, and fruitless and wasteful expenditure of R186 747, which was identified during the audit process, was not identified by management.
11. Due to the lack of systems, it was impracticable to determine the full extent of the understatement of fruitless and wasteful expenditure. Consequently, I was unable to determine whether any further adjustments were necessary to the amount of R6 million disclosed as fruitless and wasteful expenditure in note 33.2 to the financial statements.
12. The municipality has not disclosed deemed costs or included a description of the deemed cost determination, as required by paragraph 10 of Directive 7: The application of deemed cost on the adoption of the Standards of GRAP.
13. SA Standard of GRAP 17: Property plant and equipment, paragraphs 19 and 20, identifies that items of property, plant and equipment may be acquired through a non-exchange transaction at nil or nominal amount but requires the measurement and recognition of an item of property, plant and equipment, acquired through a non-exchange transaction, at its fair value. The independent valuer did not value the land portion of land and buildings while compiling the valuation roll. I am unable to perform any alternative procedures to ascertain the fair value of land not valued.
14. In addition, the municipality has identified RDP housing on land which it has title to and control of. Sufficient appropriate audit evidence could not be obtained to determine which SA Standard of GRAP is applicable in order to recognise the asset and apply the recognition and measurement criteria.
15. Infrastructure assets with a carrying value of R74,4 million (2011: R75,4 million) are disclosed in note 3 to the financial statements. I am unable to obtain sufficient appropriate audit evidence for the source data used in the fair valuing of infrastructure assets. It was impracticable to determine the correct value of these assets and it was not possible to confirm these balances by alternative means.
16. As a result of the above findings, I am unable to determine whether any further adjustments relating to property, plant and equipment as disclosed in note 3 to the financial statements, accumulated surplus as disclosed in the statement of changes in net assets, the changes in accounting policy as disclosed in note 31 to the financial statements and the depreciation and amortisation expense as disclosed in note 24 to the financial statements were necessary.

Trade receivables

18. The municipality did not maintain an updated debtors system as debtors accounts were duplicated in the system and details in the debtors system were found to be incorrect. It was not possible to confirm the details relating to ageing and categories of trade receivables, and the details as disclosed in notes 2.2 and 2.3 to the financial statements did not reconcile back to the amounts per the age analysis and the amounts disclosed in note 2.1 to the financial statements. Furthermore, the corresponding figures for trade receivables per age and category were not disclosed in note 2.2 to the financial statements.
19. Paragraph 1.39 of the SA Standards of GRAP 1: Presentation of financial statements states that assets and liabilities shall not be offset unless required or permitted by an SA Standard of GRAP. Debtors with credit balances of R2,2 million and unallocated receipts of R647 024 were set off against trade receivables, which is not allowed. Furthermore, interest was not charged on overdue accounts as required by section 64(2)(g) of the MFMA. Due to the nature of the findings above, it was impracticable to determine the full extent to which trade receivables are misstated.
20. Sufficient appropriate audit evidence was not available for the calculation of the impairment of these trade receivables of R39,5 million (2011: R35,5 million) as disclosed in note 2 to the financial statements.
21. Consequently, it was not possible to determine whether any further adjustments were necessary to the amount disclosed for trade receivables of R46,4 million (2011: R37,4 million) or the related provision of R39,5 million (2011: R35,5 million) as disclosed in note 2 to the financial statements. It was impracticable to determine the impact of these misstatements on accumulated surplus, trade payables, revenue and expenditure.
22. Ex-councilor debts of R935 016 (2011: R935 016) are included in other receivables as disclosed in note 2 to the financial statements. These debts are under investigation by the municipality to determine how they arose and whether or not they are recoverable. Sufficient appropriate audit evidence was not available to support these debtors and the related impairment of R935 016 (2011: R935 016). Consequently, it was not possible to determine whether any further adjustments were necessary to the amount disclosed for other receivables.
- Accumulated surplus**
23. A restatement of prior year balances of R3,7 million during the current year was disclosed in the statement of changes in net assets. As disclosed in notes 3.1 and 3.2 to the financial statements, there were no prior period adjustments or changes in accounting policy which impacted on the current year accumulated surplus.
24. Sufficient appropriate audit evidence was not available for adjustments made to the accumulated surplus account as a result of prior period errors as disclosed in note 3.2 to the financial statements. Consequently, I was unable to determine whether any further adjustments were necessary to the amount of R291,2 million (2011: R299,5 million) disclosed as accumulated surplus in the financial statements.

Correction of prior period errors

26. Included in prior period errors are unsubstantiated balances that were written off. The municipality did not adequately investigate these balances. The municipality did not have sufficient appropriate audit evidence in support of the prior period errors disclosed in note 32 to the financial statements and these amounts did not reconcile with the movement between the amounts per the prior year financial statements and corresponding figures. Consequently, I was unable to confirm or verify these journals and the impact on the classes of transactions, balances and disclosures by alternative means.

Cash and cash equivalents

27. Bank reconciliations were not adequately prepared and differences of R1,1 million were identified between the cash book balance per the bank reconciliation and the amounts per the trial balance. Furthermore, adequate supporting documentation for inter-bank transfers of R2,1 million (2011: R3,3 million) was not provided for audit purposes and the municipality did not provide adequate supporting documentation for outstanding deposits of R752 000 in the prior year. It was not possible to confirm these items by alternative means in the absence of a proper system of internal control over cash and cash equivalents. Therefore I could not confirm the cash and cash equivalents balance of R27,6 million (2011: R16,3 million) as disclosed in the financial statements.

Property rates and service charges

28. The output value added taxation (VAT) on cash sales for prepaid electricity and sundry revenues was incorrectly recorded as revenue, resulting in revenue being overstated by R249 277 (2011: R244 000) and VAT payable being understated by the same amount. The municipality did not maintain an updated debtors system and accounts in the debtors system were duplicated. Properties per the valuation roll were not included in the debtors system and the property valuations per the valuation roll were not reconciled with the debtors system. Furthermore, meter readings were incorrectly captured on the billing system. I was unable to confirm property rates and service charges by alternative means. Consequently, it was not possible to determine whether any adjustments to revenue relating to property rates of R12,2 million (2011: R10,4 million) and service charges of R8,2 million (2011: R11,8 million) as disclosed in the statement of financial performance and notes 16 and 17 to the financial statements were necessary.

Expenditure

30. The municipality did not have adequate controls over the processing of transactions in the general ledger. VAT was incorrectly processed in the accounting system and expenditure was captured in the incorrect period, resulting in expenditure being overstated by R738 607, VAT payable overstated by R539 687, accumulated surplus overstated by R204 887 and trade payables understated by R5 967.

31. The municipality did not classify lease agreements as finance leases where substantially all risks and rewards incidental to ownership were transferred to the municipality, in accordance with SA Standards of GRAP 13: Leases. The municipality is party to a number of lease agreements which constitute finance leases, which have been accounted for as operating leases. Furthermore, lease payments were disclosed in the incorrect periods. I have not determined the value of the misstatement on the current and corresponding figures for property, plant and equipment, long-term liabilities, current portion of long-term liabilities, operating lease expenditure and the accumulated surplus as it was impracticable to do so.

VAT payable

32. VAT was not processed correctly on the accounting system and reconciliations between the amount paid to SARS and the amount per the general ledger were not performed.

33. A reasonability test was performed at year-end by the municipality and journals of R7,5 million were processed against the corresponding figures for VAT payable and general expenditure in order for the general ledger to agree with the amount per the estimate. Reliance could not be placed on this estimate that was performed and sufficient appropriate audit evidence was not provided in support of this adjusted balance. I was unable to confirm the balance by alternative means. Consequently, I was not able to determine whether any further adjustments to VAT payable of R1,4 million (2011: R1,9 million) were necessary.

34. Payments received in advance
Sufficient appropriate audit evidence was not available for payments received in advance of R2,8 million (2011: R2,1 million) as disclosed in note 7 to the financial statements and I was unable to confirm the balance by alternative means. I was unable to determine whether any adjustments to payments received in advance were necessary.

Accruals

35. The municipality did not have adequate systems in place to maintain leave records and not all leave forms were submitted for audit purposes. Furthermore, employees were not all included on the schedule for the provision for leave pay. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any further adjustments to the provision for leave pay of R1,1 million (2011: R1,1 million) as disclosed in note 10 to the financial statements were necessary.

Other current financial liabilities

36. Sufficient appropriate audit evidence was not available for other current liabilities of R1,6 million (2011: R1,6 million) as disclosed in the statement of financial position and note 14 to the financial statements and I was unable to confirm the balance by alternative means. I was unable to determine whether any adjustments to other current financial liabilities were necessary.

Cash flow statement

37. The presentation of a cash flow statement summarising the entity's operating, investing and financing activities is required by SA Standards of GRAP 2: Cash flow statements. The municipality did not provide sufficient appropriate audit evidence in support of the amounts disclosed in the cash flow statement and non-cash items were not always adjusted for. Furthermore, due to the numerous findings on account balances and classes of transactions, the amounts disclosed in the cash flow statement do not fairly present the cash inflows and outflows of the municipality for the current and prior period.

Disclosures in terms of SA Standards of GRAP

38. The financial statements did not comply with the SA Standards of GRAP in the following ways:

- SA Standard of GRAP 1: *Presentation of financial statements* requires the disclosure of a comparison between budgeted expenditure and actual expenditure for each expenditure line item and capital expenditure incurred, including reasons for any significant variances. The disclosures made in note 42 to the financial statements do not meet the requirements set out in SA Standard of GRAP 1.

- IAS 39: *Financial instruments* requires revenue, expenditure, trade and other receivables and trade and other payables from exchange transactions to be disclosed at fair value. The municipality did not fair value these balances or classes of transactions in the financial statements during the year under review. Furthermore, note 7 to the financial statements states that the fair value of trade and other payables approximates their carrying amounts as the municipality pays its major providers of services within 30 days. However, based on audit work performed, trade and other payables were not always paid within 30 days.
 - Provisions for bonus and the provision for leave pay were reclassified. The nature, amount and reasons for reclassifying items as per paragraph 46 of SA Standard of GRAP 1: *Presentation of financial statements* were not disclosed.
 - Receivables from exchange and non-exchange transactions have not been disclosed separately in the financial statements, as is required by SA Standard of GRAP 1: *Presentation of financial statements*.
 - Where an entity has not applied a new statement of SA Standards of GRAP that has been issued but is not yet effective, the entity must disclose this fact as well as known or reasonably estimable information relevant to assessing the possible impact that application of the new SA Standard of GRAP will have on the entity's financial statements in the period of initial application as required by SA Standard of GRAP 3.32. The SA Standards of GRAP disclosed in accounting policy note 1.5 were incorrect and the other information required was not included.
 - Accounting policy note 5 relating to financial instruments has made reference to fair value as initial recognition, however, as per IFRS 9: *Financial instruments*, this is a measurement criterion. In addition no paragraph on de-recognition and gains and losses has been included.
 - Accounting policy note 14 relating to impairment of assets does not include an accounting policy for non-cash generating assets as is required by SA Standard of GRAP 21: *Impairment of non-cash generating assets*.
- Aggregation of immaterial uncorrected misstatements**
39. 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 disclosure notes to the financial statements:
- Related-party transactions of R481 737 are overstated by R481 737
 - Remuneration of individual executive directors of R432 813 is overstated by R189 639
40. In addition, I was unable to obtain sufficient appropriate audit evidence and consequently I was unable to confirm or verify capital commitments of R33,2 million and operating leases of R747 014 as disclosed in disclosure notes 35 and 36 respectively.
41. As a result, I was unable to determine whether any further adjustments to these elements were necessary.

Capital commitments
42. The corresponding figures for capital commitments of R16,4 million as disclosed in note 35 to the financial statements was incorrectly disclosed as approved but not yet contracted for instead of approved and contracted for. Furthermore, sufficient appropriate audit evidence was not provided in the prior year for these commitments and it was not possible to determine whether any further adjustments to the corresponding figures for capital commitments was necessary.

Disclaimer of opinion
43. 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.

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

Material losses
45. As disclosed in note 41 to the financial statements, the municipality suffered material losses of 2,4 million kilowatt hours (28%), amounting to R1,7 million, on its electricity bulk purchases.
46. The municipality is not able to collect its debts and a provision of R40,5 million (2011: R36,5 million), as disclosed in note 2,4 to the financial statements, has been raised against trade and other receivables.

Material underspending of the conditional grants
47. As disclosed in note 12 to the financial statements, unspent conditional grants increased from R1 million at the end of the prior year to R10,6 million at the end of the current financial year. Only 27,9% of the municipal infrastructure grant was spent, which resulted in underspending on infrastructure and lack of service delivery by the municipality.

Additional matters

Material inconsistencies in other information included in the annual report
48. A draft copy of the annual report was not provided for audit purposes. It was therefore not possible to determine whether there were any material inconsistencies in other information included in the annual report at the time of issuing this report.

Prior year audit report not included in annual report
49. The audit report for the 2011 financial year was disclaimed as a result of inadequate supporting documentation. The municipality did not include the 2011 audit report in the annual report for the prior financial year.

Unaudited supplementary information

50. The supplementary information set out on pages ... to ... does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

PAA REQUIREMENTS

51. 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

52. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report of the Great Kei Municipality for the year ended 30 June 2012 as set out on pages ... to ... of the annual report.

53. 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 reporting principles and whether the reported performance is consistent with the planned 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 Framework for managing programme performance information (FMPI).

54. The reliability in respect of the selected development priorities is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

55. The material findings are as follows:

Usefulness of annual performance report

56. Improvement measures in the annual performance report for all of the planned targets not achieved were not disclosed as required by section 46 of the Municipal System Act, 2000 (Act No. 32 of 2000) (MSA). This was due to inadequate internal policies and procedures over the processes pertaining to the reporting of performance information.

57. Section 41(c) of the MSA 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 29% of all planned objectives, 36% of all planned indicators and 59% of all planned targets specified in the integrated development plan for the year under review. This was due to lack of documenting of actual achievements against targets and lack of monitoring of the completeness of reporting documents by management, audit committee and internal audit. The FMPI requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 80% of the targets relevant to KPA 1: Good governance and community participation and KPA4: Basic service delivery and infrastructure development priorities were not specific in clearly identifying the nature and required level of performance. This was due to the fact that management was aware of the requirements of the FMPI but did not receive the necessary training to enable application of the principles.

58. The FMPI requires that performance targets be measurable. The required performance could not be measured for a total of 80% of the targets relevant to KPA 1: Good governance and community participation and KPA4: Basic service delivery and infrastructure development priorities. This was due to the fact that management was aware of the requirements of the FMPI but did not receive the necessary training to enable application of the principles.

59. The FMPI requires that performance targets be measurable. The required performance could not be measured for a total of 80% of the targets relevant to KPA 1: Good governance and community participation and KPA4: Basic service delivery and infrastructure development priorities. This was due to the fact that management was aware of the requirements of the FMPI but did not receive the necessary training to enable application of the principles.

60. The FMPP1 requires that the time period or deadline for delivery be specified. A total of 80% of the targets relevant to KPA 1: Good governance and community participation and KPA4: Basic service delivery and infrastructure development priorities 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 FMPP1 but did not receive the necessary training to enable application of the principles.

61. The FMPP1 requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 67% of the indicators relevant to KPA 1: Good governance and community participation and KPA4: Basic service delivery and infrastructure development priorities 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 FMPP1 but did not receive the necessary training to enable application of the principles.

62. The FMPP1 requires that it must be possible to validate the processes and systems that produce the indicator. A total of 67% of the indicators relevant to KPA 1: Good governance and community participation and KPA4: Basic service delivery and infrastructure development priorities 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 and verification of actual performance information.

Reliability of information

63. The FMPP1 requires that documentation addressing the systems and processes for identifying, collecting, collating, verifying and storing information to be properly maintained. The municipality could not provide sufficient appropriate evidence to support any of the selected development priorities. The municipality's records did not permit the application of alternative audit procedures regarding the validity, accuracy and completeness of the reported performance information. 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 the absence of a performance management system and managements lack of understanding of the requirements of the FMPP1.

Additional matter

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

Achievement of planned targets

65. Of the total number of planned targets, only 16 were achieved during the year under review. This represents 65% of total planned targets that were not achieved during the year under review. This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process and a poor document management system.

Compliance with laws and regulations

66. 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

67. The municipality did not afford the local community at least 21 days to comment on the final draft of its integrated development plan before the plan was submitted to the council for adoption, as required by regulation 15(3) of the municipal planning and performance management regulations.

68. The performance management system was not in line with the priorities, objectives, indicators and targets contained in its integrated development plan, as required by section 38(a) of the MSA.

69. The municipality did not conduct its affairs in a manner that was consistent with its integrated development plan, as required by section 36 of the MSA and municipal planning and performance management regulation 6.

70. The municipality did not establish mechanisms to monitor and review its performance management system, as required by section 40 of the MSA.

71. 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 integrated development plan
- set measurable performance targets with regard to each development priority and objective
- monitor performance, 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.

72. The annual performance report of the municipality did not reflect the performance of the municipality of each external service provider during that financial year as required by section 46(1)(a).

73. The annual performance report of the municipality did not reflect the comparison of the performances of the municipality and each external service provider with targets set for and performances in the previous financial year as required by section 46(1)(b) of the MSA.

Budget

74. The accounting officer did not assess the municipality's performance for the first half of the financial year, as required by section 72(1) and 72(1)(a)(ii) of the MFMMA.

75. Quarterly reports were not submitted to the 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 MFMMA.

Annual financial statements, performance and annual reports

76. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected, which resulted in the financial statements receiving a disclaimer audit opinion.

77. The accounting officer did not make the 2011 annual report public immediately after the annual report was tabled in the council, as required by section 127(5)(a) of the MFMMA.

78. Sufficient appropriate audit evidence was not submitted to confirm that the municipal council adopted an oversight report, containing comments on the annual report, within two months from the date on which the 2011 annual report was tabled, as required by section 129(1) of the MFMA.
79. Sufficient appropriate audit evidence was not submitted to confirm that the accounting officer made public the council's oversight report on the 2011 annual report within seven days of its adoption, as required by section 129(3) of the MFMA.
80. The annual report for the prior year did not include the audit report for the year ending 30 June 2011 as required by section 121(3)(f) of the MFMA. Furthermore, the corrective action taken or to be taken was not disclosed as required by sections 121(3)(g) and 121(4)(e) and the audit report on the results of performance measures for 2011 financial year as required by section 121(3)(f) of the MFMA was not included in the annual report.
- Audit committee**
81. The audit committee did not advise the municipal council, the political office-bearers, the accounting officer and the management staff on matters relating to performance management and performance evaluation as required by section 166(2)(a) of the MFMA.
- Expenditure management**
82. 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.
83. 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.
84. The accounting officer did not take effective steps to prevent unauthorised expenditure, irregular expenditure and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
85. Unauthorised, irregular and wasteful expenditure was not recovered from the liable person, as required by section 32(2) of the MFMA.
86. The accounting officer did not always report to the South African Police Service cases of alleged irregular expenditure that constituted a criminal offence, theft and fraud that occurred in the municipality, losses suffered as a result of criminal conduct, as required by section 32(6) of the MFMA.
- Revenue management**
87. A policy on the levying of rates on rateable property within the municipality was not adopted and implemented, as required by section 3(1) of the Property Rates Act and section 62(1)(f)(ii) of the MFMA.
88. Interest was not charged on all accounts in arrears as, required by section 64(2)(g) of the MFMA.
- Asset management**
89. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
90. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.
- Procurement and contract management**
91. Goods and services with a transaction value of less than R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) and (c).

92. Goods and services of a transaction value of higher than R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
93. Bids were not always evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services or at least one SCM practitioner of the municipality as required by SCM regulation 28(2).
94. Bid adjudication was not always done by committees which were composed in accordance with SCM regulation 29(2).
95. Awards were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b).
96. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
97. Construction projects were not always registered with the Construction Industry Development Board (CIDB), as required by section 22 of the CIDB Act and CIDB regulation 18.
98. Awards were made to providers who are persons in the service of other state institutions or whose directors/principal shareholders are persons in the service of other state institutions, in contravention of SCM regulations 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).
99. 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 councillors issued in terms of the MSA and the code of conduct for staff members issued in terms of the MSA.
100. 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 documentation was not all submitted for audit purposes.
- Human resource management and compensation**
101. It was not possible to determine whether the senior manager: corporate strategic services met the prescribed minimum competency levels and, if not, whether the continued employment in the position was made subject to meeting such requirements by 1 January 2013, as required by section 56(1)(b) of the MSA and regulation 18(2) on Minimum Competency levels.
102. The competencies of financial and supply chain management officials were not assessed promptly in order to identify and address gaps in competency levels as required by the Municipal Regulations on Minimum Competency Levels regulation 13.
103. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury as required by the Regulations on Minimum Competency Levels regulation 14(2)(a).
104. It was not possible to determine whether the annual report of the municipality reflected information on compliance with prescribed minimum competencies as required by the Regulations on Minimum Competency Levels regulation 14(2)(b).

105. The senior manager: corporate strategic services, directly accountable to the municipal manager did not sign performance agreements, as required by section 57(2)(a) of the MSA.

106. Sufficient documentation was not provided to determine whether the municipal manager, chief financial officer, senior managers and head of supply chain management had the minimum competencies and it was not possible to determine whether the performance agreements for those officials who did not have the minimum competencies included the attainment of minimum competencies as a performance target, as required by Municipal Regulations on Minimum Competency Levels regulation 16(1) and (2).

Internal control

107. 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 disclaimer of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

108. 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.

109. An audit action plan has been developed, but it was only implemented towards the end of the financial year. In the limited time, management had made improvements to certain aspects of financial management, however, a significant amount of work still needs to be done in regards to in-year monitoring.

110. 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

111. The municipality did not create an environment where controls over daily and monthly processing and reconciling of transactions was adequately performed and reviewed, resulting in the errors and misstatements identified through the audit process.

112. Controls over compliance with laws and regulations and performance reporting were also not implemented and there was no monitoring and reviews performed over these functions.

Governance

113. Although the municipality had an internal audit function in place during the year, the independence of this function was considered to be impaired.

114. The municipality has not appropriately acted on reports and recommendations issued by internal audit and the audit committee. These governance bodies have therefore not been able to provide the necessary assurances regarding the financial reporting of the municipality.

OTHER REPORTS

Investigations

115. The municipality is currently investigating unauthorised withdrawals totalling R35 000 which were made from the municipality's bank account during the year. An investigation is also being performed to determine how ex-councillors' debt of R935 016 was incurred and determine measures taken to ensure that debt is recoverable from ex-councillors.

Auditor-General
East London

30 November 2012



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence