



AUDITOR - GENERAL
SOUTH AFRICA

The Municipal Manager
Nxuba Local Municipality
Private Bag X350
Adelaide
5760

05 March 2013

Reference: 21301REG11-12

Dear sir

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Nxuba 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. In terms of section 121(3) of the MFMA you are required to include the audit report in the Nxuba Municipality's annual report to be tabled.
3. 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.
4. 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.
5. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.

6. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely,



Shereen Noble

Deputy Business Executive: Eastern Cape

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

Introduction

1. I was engaged to audit the financial statements of Nxuba 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, 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), the requirements of the Municipal Finance Management Act of South Africa, (Act no. 56 of 2003) (MFMA), the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (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

Property, plant and equipment

4. Property, plant and equipment (PPE) amounting to R220,6 million (2011: R207,8 million) is disclosed in the statement of financial position and note 7 to the financial statements. The following are findings which resulted in the understatement of the account balance:
 - Projects under construction were not included in the fixed assets register and in the financial statements as required by GRAP 17: *Property, plant and equipment*. Consequently, property, plant and equipment, as disclosed in note 7, is understated by R8,6 million and general expenditure stated in the statement of financial performance has been overstated by the same amount.
 - Assets included in the fixed asset register were not included in the financial statements. As a result Property, plant and equipment as disclosed in note 7 to the financial statements is understated by R7,9 million. In addition, the closing balance disclosed in note 7 to the financial statements does not agree to the balance per the statement of financial position by an amount of R23,2 million (2011: R166,6 million); management was unable to explain this difference. There was insufficient information available to determine the other account affected by these misstatements.
 - PPE valued at R1,8 million (2011: R8,6 million) was expensed through the statement of

financial performance contrary to the requirements of GRAP 17: *PPE*. Consequently, the amount disclosed in note 7 to the financial statements is understated and expenditure stated in the statement of financial performance is overstated by R1,8million (2011: R8,6million)

5. The adjustments resulting from the implementation of Directive 4: *Transitional provision for medium and low capacity municipalities and trading entities* has been incorrectly disclosed as an error, instead of a change in accounting policy, in note 33.1 of the financial statements. This is contrary to the requirements of GRAP 3: *Accounting policies, changes in accounting estimates and errors*.
6. The municipality did not provide sufficient appropriate audit evidence regarding revaluations, impairments, additions and journal entries passed for the auditing of PPE stated at an amount of R220,6 million (2011: R207,8 million) in the statement of financial position. I was unable to confirm these amounts by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the PPE in the financial statements.

Trade receivables from exchange transactions

7. Trade receivables from exchange transactions of R7,8 million are disclosed in the statement of financial position and note 2 to the financial statements. The following are findings relating to the overstatement of this balance due to non-adherence of the requirements of GRAP 104: *Financial instruments*:
 - Trade receivables are overstated by R2,8 million due to the municipality charging itself for rates. Revenue from property rates stated in the statement of financial performance is also overstated by the same amount
 - Trade receivables disclosed in the financial statement did not agree to the underlying records. As a result trade receivables are overstated by R623 780 and revenue is overstated by the same amount.
 - Trade receivables are overstated by R426 504 due to overcharging of interest on outstanding debtors. Interest revenue is also overstated by the same amount.
8. The municipality was unable to provide sufficient appropriate audit evidence to support journal entries passed against the trade receivables from exchange transactions recognised in the statement of financial position at R7,8 million (2011: R13,5 million). I was unable to confirm this balance by alternative means. Consequently, I was unable to determine whether any further adjustment were necessary to the amount disclosed in the financial statements.
9. The comparative amount for receivables from exchange transactions reflected as R13,5 million in the statement of financial position and in note 2 to the financial statements are understated by R18,8 million.

Unspent conditional Grants

10. GRAP 23: *Revenue from non-exchange transactions* requires that revenue from conditional grants only be recognised when the conditions of the grant have been met. Expenditure funded by conditional grants did not agree to grant revenue. Consequently, unspent conditional grants as disclosed in note 14 to the financial statements are understated by R8,

5 million and grant revenue, disclosed in note 21 to the financial statements, is overstated by the same amount.

11. During 2010-11 I was unable to obtain sufficient appropriate audit evidence concerning Unspent conditional grants, stated at R3,7 million in the statement of financial position. I was unable to obtain sufficient appropriate audit evidence for the above by alternative means. Consequently I was unable to determine whether any adjustments to this amount were necessary

Trade and other Payables

12. Trade payables amounting to R1,1 million were not included in the financial statements. GRAP 104: *Financial instruments*, requires that these trade payables should have been recognised in the financial statements. Consequently, trade payables as disclosed in note 10 to the financial statements are understated by this amount and expenditure included in the statement of financial performance is also understated by the same amount.
13. The municipality did not provide sufficient appropriate audit evidence, in the way of invoices or statements from creditors, for the auditing of the amount of R14,6 million (2011: R18,9 million) for trade and other payables disclosed in note 10 to the financial statements. I was unable to confirm this account balance by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed in the financial statements.
14. During 2010-11 the financial statements contained material misstatements which were included in the basis for the modified audit opinion. The following misstatement in the corresponding figure has not been corrected:
 - Trade and other payables reflected as R18,9 million in the statement of financial position and in note 10 to the financial statements is understated by R51,9 million.

Cash and cash equivalents

15. The municipality did not provide sufficient appropriate audit evidence for the auditing of the amount of cash and cash equivalents included in the financial statements at R997 175 (2011: R3,8 million). This was due to the municipality's inability to explain differences between internal records and statements from the bank. I was unable to confirm this account balance by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed in the financial statements.
16. Cheques which had been received but not yet redeemed by the municipality as at 30 June 2011 were not included in the cash book. This has resulted in cash and cash equivalents for 2010-11, which are reflected at R3,8 million in the statement of financial position, being overstated by R1,2 million and trade receivables from exchange transactions being understated by the same amount.

VAT Receivable

17. The municipality did not provide supporting documentation for journal entries and invoices or statements for VAT Receivable included in the statement of financial position at R3, 5 million (2011: R2,7 million). I was unable to confirm this account balance by alternative means.

Consequently, I was unable to determine whether any adjustments were necessary to the amount disclosed in the financial statements.

Investment Property

18. The investment property balance included in the statement of financial position is understated by R5,8 million because investment properties included in the fixed asset register were not included in the financial statements. This is contrary to the requirements of GRAP 16: *Investment property*. There was insufficient information available to determine the other account affected by this misstatement.
19. Investment property is included in the statement of financial position at an amount of R359 602. I was unable to confirm that the correct accounting policy, as required by GRAP 16, was applied. This is because management could not provide explanations for differences between the statement of financial position, note 9 to the financial statements and the fixed asset register. In addition, the municipality did not provide sufficient appropriate audit evidence regarding impairment losses and revaluations of investment property I was unable to confirm this account balance by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed in the financial statements.

Leave Accrual

20. The municipality did not provide sufficient appropriate audit evidence, regarding differences between the leave accrual schedule and financial statements, for leave accrual disclosed at an amount of R1, 9 million (2011: R1, 1 million) in note 13 to the financial statements. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the amount disclosed in the financial statements.

Contingent Liability

21. The municipality, which operates landfill sites, has an obligation in terms of section 28 of the National Environmental Management Act, 1998 (Act No. 107 of 1998) (NEMA) to restore such sites. In addition, GRAP 19: *Provisions, contingent liabilities and contingent assets*, requires that the municipality account for this contingent liability. Contrary to these requirements, the municipality did not disclose a contingent liability for the rehabilitation of landfill sites. There was insufficient information available to determine the extent of the understatement.

Revenue

22. The municipality has misclassified revenue from licences and permits as other revenue. This has resulted in revenue from licence and permits being understated by R1, 8 million and other revenue being overstated by the same amount.
23. Revenue from exchange transactions as disclosed in the statement of financial performance at R23,7 is overstated by R291 130 because this revenue was earned during the 2010-11 financial year. Consequently, Revenue from the prior period, disclosed at R24,1 million in the statement financial performance, is understated by the same amount.

24. During 2010-11 the financial statements contained material misstatements which were included in the basis for the modified audit opinion. The following misstatements in the corresponding figures have not been corrected:
- Revenue from non-exchange transactions reflected as R27,1 million in the statement of financial performance is understated by R876 348.
 - Revenue from exchange transaction reflected as R24,1 million in the statement of financial performance is understated by R1,9 million.
25. During 2010-11 I was unable to obtain sufficient appropriate audit evidence concerning revenue from exchange transactions, stated at R24,1 million in the statement of financial performance, and revenue from non-exchange transactions stated at R27,1 million in the statement of financial performance.
I was unable to obtain sufficient appropriate audit evidence for the above by alternative means. Consequently I was unable to determine whether any adjustments to these amounts and the accumulated surplus were necessary.

Expenditure

26. The municipality did not have adequate systems in place to maintain records of general expenditure incurred during the year, which resulted in the expenditure being understated by R1 million. In addition, sufficient appropriate audit evidence, such as invoices and supporting documentation for journal entries passed, was not available for general expenditure stated at R10,1 million (2011: R12,9 million) in the statement of financial position. I was unable to confirm this amount by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed in the financial statements.
27. The municipality did not provide sufficient appropriate audit evidence for the auditing of the amount of R17,5 million for expenditure on bulk purchases included in the statement of financial performance. I was unable to confirm this amount by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the amount disclosed in the financial statements.
28. During 2010-11 the financial statements contained material misstatements which were included in the basis for the modified audit opinion. The following misstatements in the corresponding figures have not been corrected:
- Audit fees reflected as R1,5 million in note 31 to the financial statements are understated by R1,2 million.
 - Expenditure on disposal of RDP houses is reflected as R6,7 million in note 31 to the financial statements; this R6,7 million is an overstatement of the expenditure.

Depreciation

29. Depreciation, as disclosed in note 25 to the financial statements at an amount of R8,4 million, is understated by R1 million due to calculation errors. Accumulated depreciation, disclosed in note 7 to the financial statements, is also understated by the same amount. Furthermore, the useful lives of the different classes of assets as contained in the accounting policy note to the financial statements do not agree to the useful lives contained in the fixed asset register. The full extent of this misstatement could not be determined due to a lack of adequate information.

30. No comparative figure has been disclosed for depreciation, as required by Directive 7 *Application of deemed cost on the adoption of GRAP* issued by the Accounting Standards Board. The municipality's records were not adequate for me to confirm the amount which should have been disclosed in the statement of financial performance and in note 25 to the financial statements.

Cash Flow Statement

31. The cash flow statement was not prepared using the direct method, as required by GRAP 2: *Cash Flow Statements*. Consequently the total cash receipts and cash payments are not included in the cash flow statement. I have not determined the adjustments required as it was impracticable to do so.

32. In addition, the following calculation errors were identified in the cash flow statement:

- The change in trade receivables is reflected as an increase in the Cash Flow Statement instead of a decrease and the impact amounts to R16,1 million.
- The increase in the current assets in prior year amounting to R1,6 million could not be confirmed due to errors contained in the financial statements.
- The repayment of operating lease liability was not included under financing activities. The amount could not be determined due to insufficient supporting documentation.

Financial Sustainability

33. The financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months. The municipality is however experiencing significant financial difficulty as it has significant cash flow constraints and it is uncertain if the municipality can settle its current liabilities in the normal course of business. These facts and uncertainty have not been disclosed in the financial statements as required by GRAP 1: *Presentation of financial statements*.

Unauthorised and irregular expenditure

34. The municipality did not have adequate systems in place to identify and disclose all unauthorised and irregular expenditure incurred during the year as required by section 125(2)(d)(i) of the MFMA. Unauthorised expenditure amounting to R15,2 million has not been disclosed in note 34.1 as required by the MFMA.

35. In addition, the irregular expenditure disclosed in note 34.1 to the financial statements is understated by R911 750 (2011: R803 587) in respect of amounts incurred during the year that were identified during the audit process. Due to the lack of systems in place it was impracticable to determine the full extent of the understatement of irregular expenditure disclosed at R116 646 (2011: Rnil) in note 34.1 to the financial statements.

Distribution losses

36. The municipality did not disclose material losses for electricity in the financial statements as required by section 125(2)(d)(i) of the MFMA. I have not determined the correct disclosure for material losses of electricity as it was impracticable to do so.

Commitments

37. The municipality does not have adequate systems in place to account for capital commitments. As a result there was insufficient supporting documentation for the amount disclosed for capital commitments amounting to R4,4 million included in note 36 to the financial statements. I was unable to confirm the disclosure by alternative means. Consequently, I was unable to determine whether adjustments to the commitments disclosure note were necessary.

Corresponding Figures

38. During 2010-11 the financial statements contained material misstatements which were included in the basis for the modified audit opinion. The following misstatement in the corresponding figures has not been corrected:

- Related party transactions are not reflected in note 39 to the financial statements; this is an understatement of related party transactions by R759 113.
- Consumer deposits reflected at R352 007 in the statement of financial position are understated by R807 526.

39. The municipality could not provide sufficient appropriate audit evidence for the 2010-11 corresponding amount disclosed for trade receivables from non-exchange transactions amounting to R3,5 million included in the statement of financial position. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustments to the account balance were necessary.

40. In the 2010-11 financial year, there were inadequate controls to ensure that all deposits paid are included in the municipality's register of consumer deposits. As a result, I was unable to obtain sufficient appropriate audit evidence in respect of consumer deposits reflected at R352 007 in the statement of financial position. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the amount disclosed in the financial statements.

Disclaimer of Opinion

41. 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

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

Restatement of corresponding figures

42. As disclosed in note 33 to the financial statements, the corresponding figures which relate to the year ended 30 June 2011 have been restated as a result of the expiry of the provisions contained in Directive 4 relating to Property, Plant and Equipment as well as errors and reclassifications discovered during the current financial year.

Material losses

43. As disclosed in note 2 to the financial statements, material losses to the amount of R37,6 million (2011: R23,8 million) were incurred as a result of a write-off of irrecoverable trade debtors.

Additional matter

44. The following additional matter paragraph will be included in our auditor's report to draw the users' attention to matters regarding the audit, the auditor's responsibilities and the auditor's report:

Unaudited supplementary schedules

45. The supplementary information set out on pages XX to XX do not form part of the financial statements and is presented as additional information. We have not audited these schedules and, accordingly, we do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

46. 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

47. 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.
48. 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 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.
49. The reliability of the information in respect of the selected programmes is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

The material findings are as follows:

Usefulness of Information

Measures taken to improve performance were not reported in the annual performance report

50. 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 Systems Act. This was due to inadequate internal policies and procedures over the processes pertaining to the reporting of performance information and also that management chose not to apply the principles contained in the FMPPI when preparing and reporting their performance against predetermined objective.

Reported objectives, indicators and targets not consistent compared with planned objectives and targets

51. The Municipal Systems Act, section 41(c) 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 55 % of the reported objectives, 59% of reported indicators, and 70% of reported targets are not consistent with the objectives as per the approved IDP. This is due to the lack of adhering to applicable laws and regulations as the municipality reported on its performance based on the Service Delivery Budget Implementation Plan (SDBIP) which includes additional objectives not included in the IDP.

Performance Indicators not well defined/ verifiable

52. The National Treasury Framework for managing programme performance information (FMPPI) requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use and also requires that it be possible to verify the processes and systems that produce the indicators. A total 26% of the indicators for *Local Economic Development* and *Infrastructure Development and Service Delivery* objectives were not well defined or verifiable in that clear unambiguous data definitions were not available to allow for data to be collected consistently and valid processes and systems that produce the information on actual performance did not exist. This was due to the fact that management was not fully aware of the requirements of the FMPPI.

Performance targets not specific

53. 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. A total of 74% of the targets for *Local Economic Development* and *Infrastructure Development and Service Delivery* were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was not fully aware of the requirements of the FMPPI.

Performance targets not measurable

54. The National Treasury Framework for managing programme performance information (FMPPi) requires that performance targets be measurable. The required performance could not be measured for a total of 74% of the targets relevant to *Local Economic Development*, and *Infrastructure Development* and *Service Delivery*. This was due to the fact that management was not fully aware of the requirements of the FMPPi.

Reliability of information

Reported performance not valid, accurate and complete

55. National Treasury *Framework for managing programme performance information (FMPPi)* requires that processes and systems which produce the indicator should be verifiable. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the validity, accuracy and completeness of the actual reported performance relevant to 45% of *Local Economic Development*. This was due to a lack of monitoring by senior management, an inadequate review process to verify all supporting evidence before the performance report was submitted for audit, as well as a lack of standard operating procedures that are in line with the requirements of the FMPPi for the recording of actual achievements.

Additional matter

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

Achievement of planned Targets

56. Of the total number of 68 targets planned for the year, 32 of targets were not achieved during the year under review. This represents 47% 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.

Compliance with laws and regulations

57. 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:

Budgets

58. Expenditure was incurred that was in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the Municipal Finance Management Act.

59. Quarterly reports were not submitted to the council on the implementation of the budget within 30 days after the end of each quarter, as required by section 52(d) of the Municipal Finance Management Act.

60. Sufficient appropriate audit evidence could not be obtained that monthly budget statements were submitted to the provincial treasury, as required by section 71(1) of the Municipal Finance Management Act.
61. The accounting officer did not, by 25 January 2012, submit the assessment the first half of the financial year performance of the municipality, as required by section 72(1) of the Municipal Finance Management Act.

Financial statements, performance and annual report

62. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act. 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.
63. The 2010-11 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the Municipal Finance Management Act. In addition, a written explanation was not submitted to council setting out the reasons for the delay in the tabling of the 2010-11 annual report in the council, as required by section 127(3) of the Municipal Finance Management Act.

Procurement and contract management

64. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) & (c).
65. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R200 000 were procured by means of inviting competitive bids, as required by SCM regulation 19(a).
66. Bids were not always evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services as required by SCM regulation 28(2).
67. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding and quotations, as required by SCM Regulations 21(b) and 28(1)(a) and Preferential Procurement Regulations.
68. Sufficient appropriate audit evidence could not be obtained that bid adjudication was always done by committees which were composed in accordance with SCM regulation 29(2).
69. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).
70. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and

its regulations.

71. Sufficient appropriate audit evidence could not be obtained that contracts were only extended or modified after tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the MFMA.
72. Sufficient appropriate audit evidence could not be obtained that the performance of contractors or providers was monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
73. Sufficient appropriate audit evidence could not be obtained that construction contracts were awarded to contractors that were registered with the Construction Industry Development Board (CIDB) in accordance with section 18(1) of the CIDB Act.
74. 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.
75. Sufficient appropriate audit evidence could not be obtained that contract and quotations were only awarded to providers whose tax matters have been declared by the South African Revenue Service to be in order as required by SCM regulation 43.
76. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded only to bidders who submitted a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
77. Allegations of failure to comply with the supply chain management system laid against officials were not investigated as required by SCM Regulation 38(1)(b).

Expenditure management

78. 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 .
79. Payments were made without the approval of the accounting officer or a properly authorised official as required by section 11(1) of the Municipal Finance Management Act.
80. 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.
81. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred and accounted for creditors, as required by section 65(2)(b) of the Municipal Finance Management Act.
82. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a system of internal control in respect of creditors and payments.
83. The accounting officer did not take effective steps to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

84. Unauthorised, irregular and fruitless and wasteful expenditure was not recovered from the liable person, as required by section 32(2) of the Municipal Finance Management Act.

Revenue management

85. An adequate management, accounting and information system was not in place which recognised revenue when it was earned, accounted for debtors and accounted for receipts of revenue, as required by section 64(2)(e) of the Municipal Finance Management Act.

86. Revenue received was not always reconciled on a weekly basis, as required by section 64(2)(h) of the Municipal Finance Management Act.

87. The municipality levied rates on property properties of which that municipality is the owner, which contravenes the Section 7 of the Municipal Property Rates Act.

Asset management

88. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the Municipal Finance Management Act.

89. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the Municipal Finance Management Act.

Conditional grants

90. The municipality did not comply with the requirements of the grant framework, as required by section 12(1) of the Division of Revenue Act.

91. The municipality did not report the following to the transferring national officer, the relevant provincial treasury and the National Treasury as part of its monthly budget statement as required by section 12(2)(b) , 12(4) DoRA and section 71 MFMA:

- The amount received by the municipality.
- The amount of funds stopped or withheld from the municipality.
- The extent of compliance with the DoRA and with the conditions of the allocation.
- An explanation of material problems experienced by the municipality and a summary of the steps taken to deal with such problems.

92. The municipality did not submit quarterly performance reports to the transferring national officer, the provincial treasury and the National Treasury, within 30 days after the end of each quarter, as required by section 12(2)(c) of the Division of Revenue Act.

93. The municipality did not evaluate its performance in respect of programmes funded by the allocation and it did not submit the evaluation to the transferring national officer within two months after the end of the financial year, as required by section 12(6) of the Division of Revenue Act.

94. The allocation for Municipal System Improvement Grant were utilised for purposes other than those stipulated in the grant framework in contravention of section 15(1) of the Division of Revenue Act.

95. Unspent conditional grant funds not approved by the National Treasury for retention, were not surrendered to National Revenue Fund, as required by section 20(1) of the Division of Revenue Act.
96. The municipality did not timeously submit project registration forms, for projects it intended implementing in the financial year under review, to the department of local government, as required by the Division of Revenue Grant Framework, Gazette No.34280.
97. The municipality did not submit project implementation plans to the national department (CoGTA), as required by the Division of Revenue Grant Framework, Gazette No.34280.
98. The municipality did not submit MFMA implementation plans to National Treasury to address weaknesses in financial management, as required by the Division of Revenue Grant Framework, Gazette No.34280.
99. The municipality did not submit its signed activity plan to the national department (CoGTA), as required by the Division of Revenue Grant Framework, Gazette No.34280.
100. The municipality did not disclose in its financial statements the purpose and amount of grants received from public entities, as required by section 31 of the Division of Revenue Act.

Audit committee

101. The audit committee did not review the annual financial statements to provide the council with an authoritative and credible view of the financial position of the municipality, its efficiency and effectiveness and its overall level of compliance with the MFMA and DoRA, as required by section 166(2)(b) of the Municipal Finance and Management Act.
102. A performance audit committee was not in place and the audit committee established in terms of MFMA section 166(1) was not used for this function, as required by Municipal Planning and Performance Management Regulation 14(2)(a).
103. The audit committee did not advise the council, political office bearers, accounting officer and management staff on matters relating to risk management, performance management and performance evaluation as required by section 166(2)(a) of the Municipal Finance and Management Act.

Internal Audit

104. The internal audit unit did not audit the performance measurements on a continuous basis and the unit did not submit quarterly reports on its audits to the municipal manager, as required by Municipal Planning and Performance Management Regulation 14(1)(c).

Human Resource Management

105. The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies as required by the Regulations on Minimum Competency Levels reg 14(2)(b).

106. The competencies of the following officials were not assessed, as required by the Regulations on Minimum Competency Levels regulation 13, in the current year in order to identify and address gaps in competency levels:

- Accounting officer;
- Chief financial officer (CFO)
- all financial officials and SCM officials in terms of

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

Leadership

108. Oversight and monitoring were severely hampered by the instability in the municipal manager and chief financial officer positions at the municipality. Consequently, monitoring responsibilities in respect of internal controls over financial reporting, performance reporting and compliance with applicable laws and regulations were not adequately performed.

109. Leadership did not adequately follow up on prior year audit findings to ensure that these are addressed throughout the year. This has resulted in a number of recurring findings being raised.

Financial and performance management

110. The financial statements and annual performance report submitted for auditing contained numerous misstatements. This was due to inadequate supervision and oversight by management over the process of compiling and finalising these reports.

111. Management placed much reliance on external consultants for compiling the financial statements, without ensuring that adequate quality control processes were in place to review the work produced by the consultants.

112. There was a lack of monthly financial disciplines which resulted in inadequate processing and compilation of financial accounts. This also resulted in reconciliation processes not taking place during the year.

113. The municipality's record-keeping systems are inadequate to ensure that information is easily retrievable when needed. This resulted in delays during the audit process and placed limitations on some of the audit work performed.

114. The municipality's Information Technology (IT) controls are inadequate to ensure that information derived from the information systems is valid, accurate and complete. Management did not put control in place to manage this risk to the municipality.

Governance

115. The recommendations of the audit committee and internal audit unit were not adequately addressed by management. This resulted in internal control deficiencies identified not being addressed.

OTHER REPORTS

Investigations

116. An investigation is underway regarding allegations of supply chain irregularities by senior officials within the municipality. This investigation was not finalised at the date of this report.

Auditor - General

East London

5 March 2013



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence