

# **Audit Report**

## **Inxuba Yethemba Municipality**

For the Year ended 30 June 2012



A U D I T O R - G E N E R A L  
S O U T H A F R I C A

The accounting officer  
Inxuba Yethemba Municipality  
PO Box 24  
Cradock  
5880

15 February 2013

Reference: 21302REG11/12

Dear Sir

**Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Inxuba Yethemba 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 and section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
2. In terms of section 121(3) you are required to include the audit report in the 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



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**REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL  
LEGISLATURE AND THE COUNCIL OF INXUBA YETHEMBA MUNICIPALITY**

**REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS**

**Introduction**

1. I was engaged to audit the consolidated and separate financial statements of the Inxuba Yethemba Municipality, which comprise the consolidated and separate statement of financial position as at 30 June 2012, the consolidated and separate 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 as set out on pages ... to ....

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

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act, 2003 (Act No.56 of 2003) (MFMA) and the Division of Revenue Act, 2011(Act No.6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor-General's responsibility**

3. My responsibility is to express an opinion on the consolidated and separate 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 the disclaimer of opinion**

**Contingent liabilities**

4. Contingent liabilities as disclosed in note 39 to the financial statements are overstated by an amount of R78 million due to rehabilitation of landfill sites incorrectly recorded as contingencies.
5. The municipality did not provide an estimate for the obligations that might arise to pay fines and penalties due to non compliance of section 28 of the National Environment Management Act, 1998 (Act No. 107 of 1998) (NEMA) in respect of landfill sites. Due to insufficient appropriate audit evidence, it was impracticable to determine the full extent of the amount in the financial statements. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any further adjustments relating to contingent liabilities in the financial statements were necessary.

**Trade and other receivables from exchange and non-exchange transactions**

6. Trade and other receivables from exchange transactions, amounting to R154,4 million as disclosed in note 5 to the financial statements are overstated by an amount of R3,1 million due to differences between the age analysis and the general ledger.
7. Trade and other receivables from exchange transactions amounting to R154, 4 million disclosed in note 5 and trade and other receivables from non-exchange transactions amounting to R37,7 million included in note 6 to the annual financial statements are understated by an amount of R3,4 million due to receivables with credit balance not classified as trade and other payables. Consequently trade and other payables disclosed at R22,1 million in note 7 to the financial statements are understated by R3,4 million.

8. I was unable to obtain sufficient appropriate audit evidence for journals passed against trade and other receivables amounting to R1 million in respect of receivables in advance and cheques dishonoured by the bank. I was unable to confirm the amount by alternative procedures. Consequently, I was unable to determine whether any further adjustments relating to trade and other receivables in the financial statements were necessary.

#### **Investment Property**

9. Investment property disclosed as R40,2 million in note 10 to the financial statements is understated by R20 million due to properties registered in the name of the municipality not recorded as investment property.
10. In addition investment property as disclosed in note 10 to the financial statements has not been valued using the fair value model on an annual basis in accordance with accounting policy 1.2 to financial statements on investment property, as required by GRAP 16.

#### **Property plant and equipment**

11. Sufficient appropriate audit evidence was not available for amounts included as per note 8 to the financial statements for property, plant and equipment amounting to R287,3 million (2011 R309, 9 million). I was unable to confirm these assets by alternative means. Consequently, I was unable to determine whether any adjustments relating to these assets were necessary.
12. Cemeteries were found to be overstated by R2,1 million when compared to supporting documentation. It was not practicable to confirm in which account this R2,1 million should have been recognised.
13. The existence of property, plant and equipment amounting to R27,2 million could not be verified as I was unable to find the assets in the locations indicated by the fixed asset register. I was unable to confirm the existence of these assets by alternative means.
14. The additions of property, plant and equipment amounting to R22,5 million as disclosed in note 8 to the financial statements do not agree to the balance of the fixed assets register amounting to R13,2 million. The municipality was unable to provide adequate explanations to reconcile the difference of R9,3 million.
15. Depreciation and amortisation amounting to R44, 6 million (2011:R49,7 million) included in expenditure of R248,4 million, was incorrectly calculated due to assets not depreciated from the date on which they were ready for use, as required by GRAP 17, resulting in an overstatement of R11,3 million (2011:R17,1 million).
16. Property plant and equipment amounting to R287,4 million disclosed in note 8 of the annual financial statements is understated by an of R18,4 million due to expenditure on infrastructure roads not capitalised. As a result expenditure is overstated by the same amount.
17. Sufficient appropriate audit evidence was not provided to validate the valuation and the completeness of the landfill sites amounting to R4,4 million as disclosed in note 8 to the financial statements. In addition, supporting documentation was not provided to validate that initial estimate costs for the restoration of the landfill sites were capitalised in the assets register. Consequently, I was unable to confirm the accuracy and the completeness of the landfill sites by means of alternative procedures.
18. The municipality did not comply with paragraph 10 of Directive seven issued by the Accounting Standards Board (ASB) during December 2009. The directive indicates that if an entity uses deemed cost for an item of property, plant and equipment, an investment property, an intangible asset or a heritage asset, in its first statement of financial position prepared using Standards of GRAP, the entity's financial statements shall disclose for each line item the aggregate of those items valued using deemed cost, the aggregate adjustment to the carrying

amounts previously reported; and a description of whether deemed cost was determined using fair value or depreciated replacement cost for items of property, plant and equipment and investment properties; and using fair value or replacement cost for heritage assets.

#### **Bank Overdraft**

19. The bank overdraft amounting to R22,2 million as disclosed in note 7 to the financial statements is overstated by R6,4 million due to stale cheques not written back and outstanding cheques of R14,9 million not written back.

#### **Cash and cash equivalents**

20. Short term deposits amounting to R11,1 million included in cash and cash equivalents and disclosed in note 7 to the financial statements are understated by an amount of R8,7 million because not all the short term deposits were disclosed in the financial statements.
21. The bank statement as at 30 June 2012 reflected an unfavourable balance of R802 199 and the bank reconciliation reflected a favourable balance of R 26,8 million resulting in a difference of R26 million. Management was unable to provide a satisfactory explanation for this difference. Consequently I was unable to verify the valuation and completeness of cash and cash equivalents amounts disclosed in note 7 to the financial statements.
22. Supporting documentation for journals amounting to R1,9 million were not provided. Consequently, I was unable to determine whether any further adjustments relating to cash and cash equivalents in the financial statements were necessary.

#### **Expenditure**

23. Included in expenditure amounting to R248,4 million is an overstatement of R2,2 million as a result of differences between the general ledger and the amounts disclosed in the annual financial statements.
24. Sufficient, appropriate evidence was not available to support repairs and maintenance amounting to R3,5 million, bulk purchases amounting to R41,5 million, contracted services amounting to R204 900, grants and subsidies paid amounting of R19,1 million and general expenses amounting to R26,2 million included in expenditure recognized at R248,4 million in the statement of financial performance. I was unable to confirm the expenditure by alternative means. Consequently, I was unable to determine whether any adjustments relating to expenditure in the financial statements were necessary.

#### **Irregular Expenditure**

25. The municipality did not have adequate systems in place to identify and disclose all irregular expenditure incurred during the year as required by section 125(2)(d)(i) of the MFMA. The irregular expenditure incurred during the year that were identified during the audit process of R3,5 million (2011: R6,8 million) due to the lack of systems of monitoring non-compliance with supply chain management regulations (SCM), it was impracticable to determine the full extent of irregular expenditure incurred. Consequently, I was unable to determine whether any adjustments relating to irregular expenditure in the financial statements were necessary.

#### **Provisions**

26. The municipality, which operates landfill sites, has an obligation in terms of section 28 of the NEMA, to restore such sites. Sufficient appropriate audit evidence was not available to support the provision for landfill sites of R35,5 million as disclosed in note 20 to the financial statements. Furthermore, I was unable to confirm whether the municipality had permits for these sites as required by section 21(1)(a) of NEMA. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any further adjustments relating to provision for landfill sites in the financial statements were necessary.

### **Budget**

27. In accordance with paragraph 11 of GRAP 1, the municipality needs to include a comparison of budget and actual amounts in their financial statements and provide information on whether resources were obtained and used in accordance with the legally adopted budget. The municipality did not comply with this accounting standard which requires a comparison of budget and actual amounts in their financial statements; this gave rise to a material misstatement to the financial statements.

### **Trade and other payables**

28. Trade and other payables amounting to R25,5 million disclosed in note 14 to the financial statements were understated by R6,4 million due to stale cheques not written back during the year under review.

29. Sufficient, appropriate evidence was not available to support the trade and other payables amounting to R25,5 million disclosed in the statement of financial position. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any further adjustments relating to employee related cost in the financial statements were necessary.

### **Inventory**

30. The municipality did not have a system in place during the financial year under review for the calculation of water inventory. No water inventory was disclosed in the financial statements. Consequently, it was impracticable to determine the full extent of the misstatement. I was unable to quantify the extent of the misstatement by alternative means.

### **Employee related costs**

31. Sufficient, appropriate evidence was not available to support wage payments amounting to R3,5 million. This amount was included in basic salaries and wages amounting to R36 million disclosed in note 29 to the financial statements. I was unable to confirm the expenditure by alternative means. Consequently, I was unable to determine whether any adjustments relating to employee related cost in the financial statements were necessary.

32. The municipal records indicated that payments for pension fund contributions, skills development levy, unemployment insurance fund and medical aid contributions amount to R14,7 million. Only R11,1 million has been disclosed in note 29 to the financial statements resulting in a difference of R4,3 million. I was unable to ascertain the correct figure by alternative means. Consequently, I was unable to validate the accuracy and the completeness of the employee related costs amounting to R56,3 million as disclosed in note 29 to the financial statements.

### **Commitments**

33. No contract management system was in place for the identification and recognition of contracts and there were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that there are no commitments that should have been disclosed.

### **Accumulation of immaterial uncorrected misstatements**

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

- Finance costs reflected as R1,3 million are understated by R1,6 million
- The defined benefit plan obligation reflected as R33, 2 million is overstated by R1, 4 million
- Grant expenditure reflected as R19,1 million is understated by R733 713
- Leave accruals reflected as R2,2 million is understated by R669 063
- Unspent conditional grants reflected as R728 815 are understated by R603 944

- The cash flow statement includes non-cash items of R602 250
- Long term loans reflected as R1,6 million are overstated by R505 568
- Accruals for PAYE reflected as R721 779 are overstated by R342 017

35. In addition, I was unable to obtain sufficient appropriate audit evidence and was unable to confirm or verify the leave accrual reflected as R2,2 million. As a result, I am unable to determine whether any further adjustment to this element was necessary.

#### **Employee benefit Obligation – Disclosure**

36. Disclosed in note 19 to the financial statements is an employee benefit obligation amounting to R33, 2 million; the disclosure requirements in accordance with IAS 19 were not provided. Consequently, I was unable to validate the accuracy and the completeness of the opening and closing balance reconciliation as required by paragraph 140 of IAS 19.

#### **Revenue**

37. Interest charged on trade and other receivables amounting to R6,7 million was included in the Statement of Financial Performance as Interest Received from investment. This was inconsistent with the disclosure in note 31 to the financial statements.

#### **Corresponding figures**

##### **Revaluation Reserve**

38. The closing balance per the annual financial statements for the financial year ended 2010-11, does not agree to opening balance per the 2011-12 financial statements. This amounts to a misstatement of R67,6 million. No explanation was provided for the difference.

##### **Accumulated surplus**

39. The closing balance per the annual financial statements for the financial year ended 2010-11, does not agree to opening balance per the 2011-12 financial statements. This amounts to a misstatement of R60,1 million. No explanation was provided for the difference.

##### **Chris Hani District Municipality Agency account**

40. The Chris Hani District Municipality Agency account disclosed as R25,5 million in note 15 to the financial statements is understated by an amount of R5 million due to a difference between the 2010-11 audited financial statements and the amount disclosed in the municipality's 2011-12 financial statements.

##### **Clearing suspense account**

41. Supporting documentation for a cleared suspense account within trade and other receivables was not provided. Consequently, I was unable to obtain sufficient, appropriate audit evidence for the journal entry of R2,3 million passed in the corresponding figure of accounts receivable.

##### **Cash flow statement**

42. Payments included in cash flows from operating activities are understated by an amount of R2,7 million due to a calculation error. In addition, included in cash flows from investing activities is an amount in respect of defined benefit pension fund actuarial gains amounting to R2,9 million which represents a non-cash flow item.

##### **Trade and other payables**

43. Supporting documentation for journals passed amounting to R3,7 million for unspent conditional grants was not provided and sufficient appropriate audit evidence was not obtained. I was unable to confirm this amount by alternative means. Consequently, I was unable to determine whether any adjustments relating to trade and other payables in the financial statements were necessary.



### **Revenue**

44. The comparative figure is overstated by R2,6 million due to the financial statements not agreeing to the trial balance.

### **Disclaimer of opinion**

45. 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 these financial statements.

### **Emphasis of matters**

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

### **Restatement of corresponding figures**

47. As disclosed in note 42 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.

### **Additional matters**

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

### **Withdrawal from the audit engagement**

49. Due to the limitation imposed on the scope of the audit by management, I have disclaimed my opinion on the financial statements. But, for the legislated requirement to perform the audit of the municipality, I would have withdrawn from the engagement in terms of ISA 705.

### **Material Impairments**

50. As disclosed in notes 5 and 6 to the financial statements, material losses of R172,7 million were incurred as a result of an impairment of trade and other receivables.

### **Unaudited supplementary Schedules**

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

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

52. 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**

53. I performed procedures to obtain evidence about the usefulness and reliability of the information in the Inxuba Yethemba annual performance report as set out on pages ... to ... of the annual report.

54. 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 Framework for managing programme*

*performance information.*

The reliability of the information in respect of the selected objectives/ development priorities or development objectives 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: concerning the usefulness and reliability of the information.

### **Usefulness of information**

#### **Presentation**

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 Systems Act. This was due to inadequate internal policies and procedures over the processes pertaining to the reporting of performance information.

#### **Consistency**

57. The MSA, section 41(c) requires that the integrated development plan 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 34% of the reported objectives are not consistent with the objectives as per the approved integrated development plan. This is due to the lack of monitoring / review for the recording of actual achievements.
58. The MSA section 41(c) requires that the integrated development plan 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 92% of the reported indicators are not consistent with the objectives as per the approved integrated development plan. This is due to the lack of monitoring / review for the recording of actual achievements.
59. The Municipal Systems Act, section 41(c) requires that the integrated development plan should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. All of the reported targets are not consistent with the objectives as per the approved integrated development plan. This is due to the lack of oversight by those charged with governance when preparing the integrated development plan as it did not include planned targets.

#### **Performance targets not specific**

60. 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 relevant to the priorities tested were not specific in clearly identifying the nature and the required level of performance. This is due to the lack of oversight by those charged with governance when preparing the integrated development plan as it did not include planned targets.

#### **Performance targets are not measurable**

61. The National Treasury *FMPPi* requires that performance targets be measurable. The required performance could not be measured for all of the targets selected for testing. This is due to the lack of oversight by those charged with governance when preparing the integrated development plan as it did not include planned targets.

### **Performance targets not time bound**

62. The National Treasury FMPPI requires that the time period or deadline for delivery be specified. All of the targets relevant to the priorities tested were not time bound in specifying a time period or deadline for delivery. This is due to the lack of oversight by those charged with governance when preparing the integrated development plan as it did not include planned targets.

### **Performance indicators not well defined**

63. The National Treasury FMPPI requires that indicators/measures should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 41% of the indicators relevant to the selected priorities 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.

### **Performance indicators not verifiable**

64. The National Treasury FMPPI requires that it must be possible to validate the processes and systems that produce the indicator. A total of 35% of the indicators relevant to the selected priorities 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 of actual performance information.

### **Reliability of information**

#### **Reported performance not valid and accurate**

65. The National Treasury FMPPI requires that processes and systems which produce the indicator should be verifiable and that the indicator should be accurate enough for its intended use so as to respond to changes in the level of performance. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the validity and accuracy of the actual reported performance relevant to 40% of the Waste management priority and 50% of the Tourism priority. This was due to limitations placed on the scope of my work due to the absence of information systems/ the institution's records not permitting the application of alternative audit procedures.

#### **Additional matter**

66. 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**

67. Of the total number of planned targets, only 44 were achieved during the year under review. This represents 57% 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**

68. 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**

69. 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 council for adoption, as required by regulation 15(3) of the municipal planning and performance management regulations.
- 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.
- measure and review performance at least once per year, with regard to each of those development priorities and objectives and against the key performance indicators and targets set.
- take steps to improve performance with regard to those development priorities and objectives where performance targets are not met] as required by section 41 of the Municipal Systems Act.

## **Budget**

70. Expenditure was incurred that was not budgeted for in the votes of the approved budget, in contravention of section 15 of the MFMA

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

71. 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 were not adequately corrected, which resulted in the financial statements receiving a disclaimer of opinion.

## **Audit committees**

72. The audit committee did not advise the council of the municipality on the adequacy, reliability and accuracy of financial reporting and information as required by section 166(2)(a)(iv) of the MFMA.

73. The audit committee did not respond to the council on the issues raised in the audit report of the Auditor-General, as required by section 166(2)(c) of the MFMA.

74. The audit committee did not meet at least four times a year as required by section 166 (4)(b) of the MFMA.

## **Internal audit**

75. Internal audit did not report to the audit committee on matters relating to compliance with the Municipal Finance Management Act, the Division of Revenue Act and other applicable legislation as required by section 165(2)(b) of the MFMA.

76. Internal auditors did not submit quarterly report on their duties to the accounting officer and the audit committee as required by Municipal Planning and Performance Management Regulation Paragraph 14 (c)(ii).

77. The internal audit unit did not prepare a risk-based audit plan and an internal audit programme for the financial year under review as required by section 165(2) of the MFMA.

78. The internal audit did not audit the results of performance measurements, as required by section 45(1)(a) of the Municipal Systems Act and Municipal Planning and Performance Management Regulation 14(1)(a).

### **Procurement and contract management**

79. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulation 17(a) & (c).

### **Expenditure management**

80. 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.

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

### **Asset management**

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

### **Liability management**

83. The accounting officer did not maintain a system of internal control of liabilities, including a liability register as required by MFMA section 63(2)(c).

84. Short-term debt was not repaid within the financial year, as required by section 45(4)(a) of the MFMA.

### **Human Resource Management**

85. Bonuses were awarded to the municipal manager and senior managers directly accountable to the municipal manager, before the annual report for the financial year under review was tabled and adopted by council; this is in contravention with the Municipal Performance Regulations 8 (GNR 805 of 2006).

### **Internal control**

86. I considered internal control relevant to my audit of the financial statements, Inxuba Yethemba 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 Inxuba Yethemba annual performance report and the findings on compliance with laws and regulations included in this report.

### **Leadership**

87. Leadership did not fulfil its oversight responsibility due to the inadequate review the annual financial statements and the annual performance report prior to submission for audit, which resulted in material misstatements and inconsistencies. These reports are not reviewed on a regular basis. The unavailability of key personnel during the course of the audit impacted on the effectiveness of the audit. The accounting officer did not hold performance management and reporting staff accountable for shortcomings identified during the internal and external audit processes.

88. Filling of vacancies needs to improve in order for the municipality to ensure that it functions optimally with people who have the required skills and knowledge.

89. The municipality does not have documented and approved internal policies and procedures to address planning, monitoring and reporting processes and events pertaining to performance management and reporting. Processes are not in place to prevent irregular and fruitless and wasteful expenditure.

90. The municipality developed a plan to address internal and external audit findings, but adherence to the plan was not monitored on a timely basis by the appropriate level of management. This resulted in numerous recurring audit findings.

91. The municipality does not have an information technology (IT) steering committee or an information technology strategic plan in place. This resulted in the leadership of the municipality not addressing IT-related risks.

#### **Financial and performance management**

92. The accounting officer did not formulate and implement a record management policy and related procedures to ensure that all documentation is properly controlled to ensure that information is easily retrievable and available for audit purposes.

93. Daily and monthly controls as designed by the municipality were not implemented. This resulted in errors not being identified and corrected on time.

94. The municipality did not prepare reliable, complete and accurate financial statements; management information and reports on predetermined objectives.

95. Due to the lack of required processes in place, compliance with applicable laws and regulations had not been reviewed and monitored throughout the year.

96. The municipality does not have IT security, change control, security management, user access control and IT service continuity plan for the Pro Mun System to prevent possible unauthorised changes/amendments to the IT system. The risk of fraudulent activities is increased as a result of the lack of controls of the IT system.

#### **Governance**

97. The accounting officer did not conduct a risk assessment as required by the MFMA; this is as a result of an under-resourced internal audit unit.

98. The internal audit function was inadequately resourced and did not function effectively for the majority of the financial year under review. Internal audit did not conduct reviews of performance information systems that focused on compliance aspects as well as the usefulness and reliability of the reported performance information. Internal audit did not review the financial and performance reports prior to submission to the audit committee or external auditors. This lack of capacity also prevented internal audit from following up on previous audit findings.

99. The audit committee did not conduct all its mandatory duties throughout the financial year under audit:

- the fraud prevention plan was not reviewed
- the performance management system was not reviewed
- no reports were issued to council on performance management.

*Auditor-General.*

East London

15 February 2013



AUDITOR GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*