



AUDITOR - GENERAL
SOUTH AFRICA

The accounting officer
Inkwanca Local Municipality
PO Box 1
Molteno
5000

30 November 2012

Reference: 21304REG11-12

Dear Sir

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Inkwanca Local 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.



AUDITOR-GENERAL
SOUTH AFRICA

- 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

Signed

.....
Rodger Hill CA(SA)

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

Introduction

1. I was engaged to audit the financial statements of the Inkwanca Local Municipality set out on pages ... to ... 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 the notes, comprising a summary of significant accounting policies and other explanatory information.

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, 2003 (Act No. 56 of 2003) (MFMA) and 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. In both the current and prior year, properties registered in the name of the municipality are not included in the fixed asset register or financial statements. There are also certain assets which are listed on the fixed asset register and financial statements but could not be located by the municipality or are properties that are not registered in their name. I have not determined the correcting entries for property, plant and equipment in this regard as it was impracticable to do so.
5. The municipality applied Directive 7 – *The application of Deemed Cost on the Adoption of Standards of GRAP* in order to value their property, plant and equipment. Sufficient appropriate audit evidence was not available to support the cost, accumulated depreciation, related depreciation expense and carrying values of these assets as no supporting documentation was submitted to evidence the process that was followed by the municipality to determine the deemed costs of the assets. I was unable to confirm these amounts by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to property, plant and equipment of R126 090 953 (2011: R134 924 743) as disclosed in note 6 and Appendix B, or to Depreciation expense of R10 298 868 (2011: R10 061 212) as disclosed in note 23 to the financial statements.
6. Furthermore, the municipality did not disclose all the relevant information as required by Directive 7 regarding the value of deemed costs and aggregate adjustments for each line item, or the method of determining the deemed costs.
7. The disclosure in note 6 and appendix B of the carrying value of infrastructure assets is overstated by R610 736 and community assets is understated by R610 736 due to a misclassification between the two categories. Furthermore, included in finance lease assets category on note 6 to the financial statements is a casting error of R376 521. The carrying value of finance lease assets is understated by this amount in note 6 to the financial statements.

Accumulated surplus/(deficit)

8. The municipality recorded the deemed cost adjustment to a revaluation reserve instead of adjusting accumulated surplus/(deficit), as required by Directive 7. The adjustment of R113 702 478 (2011: R131 354 616) is reflected as a revaluation reserve in the statements of financial position and changes in net assets. Accumulated surplus/(deficit) is consequently understated by this amount. In addition I was unable to obtain sufficient appropriate audit evidence for this balance or to confirm it by alternative means. Consequently, I was unable to determine whether any further adjustments to accumulated surplus/(deficit) were necessary.

Service charges

9. The municipality recognised items that did not meet the definition of revenue as per GRAP 9 – Revenue from Exchange Transactions, and also did not measure revenue at the fair value of the consideration received or receivable as required by the standard as a result of:
- revenue from indigent debtors being incorrectly recorded,
 - incorrect tariffs used to calculate service charges,
 - revenue recorded in the incorrect period,
 - no consumption adjustment at year end for meter readings performed before year end and prepaid electricity sold before year end.
10. Consequently service charges revenue is overstated by R4 910 680, general expenses are overstated by R5 726 336, specifically related to the indigent debtor revenue, and other receivables are understated by R815 509 (2011: R1 008 559). In addition, sufficient appropriate audit evidence was not available as documentation in support of service charges was either not submitted for audit purposes or that which was submitted, was incomplete. I was unable to confirm the revenue by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to service charges of R15 897 649 (2011: R7 927 648) as disclosed in note 15 to the financial statements.

Interest earned

11. Interest earned on outstanding receivables and the gross balance of trade and other receivables from exchange transactions as disclosed in note 18 and note 2 respectively to the financial statements are understated by R1 797 790 as a result of incorrect interest rates being used to calculate interest on outstanding receivables during the year.

Government grants and subsidies - Revenue

12. Government grants and subsidies revenue is overstated by R992 316 as a result of incorrect recording of entries related to conditional grants. In addition, sufficient appropriate audit evidence was not available and documentation in support of grant revenue was either not submitted for audit purposes or that which was submitted, was incomplete. I was unable to confirm the revenue by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to government grants and subsidies revenue of R32 094 602 as disclosed in note 19 to the financial statements.

Other income

13. Sufficient appropriate audit evidence was not available to support other income disclosed in note 20 to the financial statements. Supporting documentation was either not submitted for audit purposes or that which was submitted, was incomplete. I was unable to confirm the revenue by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to other income of R2 778 490 (2011: R2 013 992) as disclosed in note 20 to the financial statements.

Trade and other receivables from exchange transactions

14. The municipality has recorded revenue that does not meet the definition of revenue as per GRAP 9. Inter-departmental charges were recorded when there was no actual inflow of revenue to the municipality. Consequently, gross trade and other receivables as disclosed in note 2 to the financial statements, and revenue on the statement of financial performance are overstated by R1 623 025 (2011: R1 182 773), while the accumulated deficit is understated by the same amounts.
15. The municipality has included property rates revenue in the trade and other receivables from exchange transactions note instead of disclosing the balances as receivables from non-exchange transactions as required by GRAP 23 - *Revenue from Non-exchange Transactions*.
16. The municipality did not disclose receivables that are past due but not impaired as required by the International Financial Reporting Standards – IFRS 7, *Financial instruments: Disclosures*.

Bad debts impairment

17. Bad debts impairment of R12 552 413 (2011: R10 117 936) as disclosed on the statement of financial performance, and included in the provision for doubtful debts of trade and other receivables of R41 422 505 (2011: R40 776 480) as disclosed in note 2 to the financial statements, was not calculated in accordance with GRAP 104 – Financial Instruments as the present value of estimated future cash flows was not determined by the municipality. I have not determined the correct amount of bad debts impairment as it was impracticable to do so.

General expenses

18. General expenditure is overstated by R745 505 as a result of errors in capturing of grants, misclassification of expenditure, duplicate orders incorrectly raised as liabilities and other misstatements. In addition, sufficient appropriate audit evidence was not available as documentation in support of general expenditure was either not submitted for audit purposes or that which was submitted, was incomplete. I was unable to confirm the expenditure by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to general expenses of R17 219 680 (2011: R13 212 545) as disclosed in note 28 to the financial statements, or whether adjustments were required to the detailed note 27 for grants and subsidies expensed of R9 745 964 (2011: R9 528 580).

Current portion of unspent conditional grants and receipts

19. Sufficient appropriate audit evidence was not available and documentation in support of grant revenue and expenditure was either not submitted for audit purposes or that which was submitted, was incomplete. As a result I could not determine whether conditional grant funding was utilised for its intended purpose or alternatively for operational expenditure. I was unable to confirm the current portion of unspent conditional grants by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the unspent grant liability of R2 995 801 as disclosed in note 11 to the financial statements.

Trade and other payables

20. The municipality did not maintain adequate records of outstanding payments for goods and services received but not yet paid at year-end, and did not include all outstanding amounts meeting the definition of a liability as per GRAP 1 - *Presentation of Financial Statements*, in the financial statements, resulting in an understatement of trade and other payables as disclosed in note 8 to the financial statements by at least R684 120 (2011: R125 928), while expenditure and VAT receivable are also understated as a result. Due to the lack of systems in place, it was impracticable for me to determine the full extent of the understatement in trade and other payables.

Irregular expenditure

21. The municipality did not have adequate systems in place to identify and disclose all irregular expenditure incurred during the year as required by section 125(2)(d)(i) of the MFMA. The irregular expenditure disclosed in note 31 to the financial statements is understated in respect of amounts incurred during the year that were identified during the audit process of R4 899 421 (2011: R 3 839 391), while the opening balance for 2010/11 is also understated by R1 695 304 in this regard. Due to the lack of systems, and non-availability of sufficient appropriate audit evidence for all awards, it was impracticable to determine the full extent of the understatement of irregular expenditure disclosed at R 647 646. I was unable to confirm the disclosure by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the irregular expenditure disclosure note.

Material losses

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

Cash flow statement

23. Included in the Cash flow statement is an amount of R8 882 021 relating to purchases of property, plant and equipment for which supporting documentation could not be provided. I was unable to confirm this amount by alternative means. Consequently I was unable to determine whether any adjustment relating to the cash flow statement was necessary.

GRAP 1 disclosures

24. Actual versus budget for revenue and expenditure is included in Appendix E to the financial statements. GRAP 1 requires entities to provide information on whether resources were obtained and used in accordance with the legally adopted budget. The disclosed budget for revenue is overstated by R948 208, while the disclosed budget for expenditure is understated by R869 794 when compared to the approved budget. The disclosure of explanations for significant variances is also not complete.
25. The Statement of Financial Performance indicates that the municipality incurred a deficit of R8 825 395 during the year ended 30 June 2012 and, as of that date, the municipality's liabilities exceeded its current assets by R15 955 154. It is therefore materially uncertain whether the municipality is able to settle short term debts timeously and the financial statements do not disclose this uncertainty or planned mitigating actions in this regard, as required by GRAP 1.
26. During the year the municipality assumed responsibility for the water services function from the district municipality. The financial statements do not disclose details to enable users to understand the impact of this transfer of function on the financial statements as required by GRAP 1.

Aggregation of immaterial uncorrected misstatements

27. 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:
- Repairs and maintenance expense as disclosed on the statement of financial performance is understated by R296 472
 - Property rates revenue as disclosed in note 14 is understated by R529 945
 - Current provisions as disclosed in note 10 are understated by R303 759
 - Consumer deposits as disclosed in note 9 and other receivables from non-exchange transactions as disclosed in note 3 are understated by R125 639.

28. The following elements contain both immaterial uncorrected misstatements and I was also unable to obtain sufficient appropriate audit evidence due to individually immaterial amounts that were unsubstantiated:

- Employee costs as disclosed in note 21 is understated by R352 953
- Inventories as disclosed in note 4 is overstated by R146 202
- As a result of the unsubstantiated amounts included in these two items and since I was unable to confirm them by alternative means, I was unable to determine whether any further adjustments to these elements were necessary.

Other corresponding figures

29. During 2010/11, I identified the following misstatements which are still included in the corresponding figures disclosed in the current period's financial statements:

- Property rates as disclosed in note 14 and gross trade and other receivables as disclosed in note 2 are understated by R1 968 599 as a result of errors made and incomplete billings
- Current provisions disclosed in note 10 and employee related costs disclosed in note 21 are overstated by R551 582 due to errors in the calculation of bonus and leave pay provisions.

30. In addition during 2010/11 I was unable to obtain sufficient appropriate audit evidence concerning:

- Employee costs disclosed in note 21
- Grant expenditure disclosed in note 27
- Accumulated surplus/(deficit) disclosed on the statement of changed in net assets
- Trade and other receivables disclosed in note 2

31. I was unable to obtain sufficient appropriate audit evidence for the corresponding figures of the above items or to confirm them by alternative means. Consequently I was unable to determine whether any adjustments to these amounts were necessary. My audit opinion on the financial statements for the period ended 2010/11 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of these matters on the comparability of the current period's figures.

Disclaimer of opinion

32. 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 matter

33. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Restatement of corresponding figures

34. As disclosed in note 38 to the financial statements, the corresponding figures for 30 June 2011 have been restated during the current financial period.

Additional matter

35. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedule

36. The supplementary information set out in Appendix E (2) – *Actual versus Budget (Acquisition of property, plant and equipment)* does not form part of the financial statements and is presented as additional information. This schedule has not been audited and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

37. 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 thereon.

Predetermined objectives

38. 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.
39. 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 (FMPPI).
40. The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
41. The material findings are as follows:

Usefulness of information

Measures taken to improve performance not disclosed

42. There were no improvement measures included in the annual performance report for those planned targets that were not achieved, as is required by section 46 of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA).

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

43. Section 41(c) of the MSA requires that the annual performance 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 32% of the reported objectives, 28% of the reported indicators and 67% of the reported targets are not consistent with the objectives, indicators and targets as per the approved annual performance plan.

Performance targets not measurable or specific

44. The FMPPI requires that performance targets be measurable and specific in clearly identifying the nature and required level of performance. None of the performance targets could be measured and they were not specific in clearly identifying the nature and the required level of performance.

Performance Indicators not well defined

45. The FMPPI 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 30% of the indicators were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently.

Reliability of information

Annual performance report not supported by sufficient appropriate evidence

46. The National Treasury FMPPI requires that processes and systems which produce the indicator should be verifiable, accurate enough for its intended use and respond to changes in the level of performance and that documentation addressing the systems and processes for identifying, collecting, collating, verifying and storing information be properly maintained. The documentation I did receive indicated that 28% of the selected objectives were not reliable, however 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 due to documentation that was not available for audit.

Additional matter

Achievement of planned targets

47. Of the total number of 113 targets planned for the year, 63 targets were not achieved during the year under review. This represents 56% of total planned targets that were not achieved.

Compliance with laws and regulations

48. 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

49. The municipal council did not consult with the local community in the drafting and implementation of the municipality's IDP, by means of a municipal wide structure for community participation or through a forum that enhances community participation, as required by section 28 of the MSA and the Local Government: Municipal planning and performance management regulations, 2001 (MPPM regulations) 15(1)(a)(i).
50. 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 MPPM regulations.
51. The performance management system was not in line with the priorities, objectives, indicators and targets contained in its integrated development plan and did not relate to the municipality's performance management processes, as required by section 38 (a) of the MSA and MPPM Regulation 7(2)(c)
52. The municipality did not establish mechanisms to monitor and review its performance management system, as required by section 40 of the MSA.
53. 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 as required by section 41 of the MSA.

Budgets

54. Quarterly reports were not submitted to the council on the implementation of the budget and financial state of affairs of the municipality within 30 days after the end of each quarter, as required by section 52(d) of the MFMA.
55. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.
56. Monthly budget statements were not submitted to the mayor or provincial treasury, as required by section 71(1) of the MFMA.
57. The annual budget of the municipality is not based on the development priorities and objectives as well as the performance targets set by the municipality in its IDP as required by regulation 6 of the MPPM Regulations.

Financial statements, performance and annual reports

58. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer of audit opinion.
59. The accounting officer did not make public the council's oversight report on the 2011/12 annual report within seven days of its adoption, as required by section 129(3) of the MFMA.

Internal audit

60. The internal audit unit did not function as required by section 165(2) of the MFMA, in that:
 - it did not prepare a risk-based audit plan and an internal audit programme for the financial year under review.
 - it did not report to the audit committee on the implementation of the internal audit plan.
 - it did not advise the accounting officer and report to the audit committee on matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management or loss control.
61. The internal audit unit did not report to the audit committee on matters relating to compliance with the MFMA, the DoRA and other applicable legislation, as required by section 165(2)(b) of the MFMA.
62. The internal audit did not audit the results of performance measurements, as required by section 45(1)(a) of the MSA and MPPM Regulation 14(1)(a).
63. The internal audit unit did not assess the functionality of the performance management system / whether the performance management system complied with the requirements of the MSA / the extent to which the performance measurements were reliable in measuring the performance of the municipality on key and general performance indicators, as required by MPPM Regulation 14(1)(b) (i), (ii) and (iii)
64. The internal audit unit did not audit the performance measurements on a continuous basis and submit quarterly reports on their audits to the municipal manager and the performance audit committee, as required by MPPM Regulation 14(1)(c).

Audit committee

65. The audit committee did not advise the council or accounting officer and management staff on matters relating to internal financial control and internal audits, risk management, accounting policies, effective governance, performance management or performance evaluation as required by section 166(2)(a) of the MFMA.
66. The audit committee did not advise the council or accounting officer and the management staff on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA or relating to compliance with applicable legislation as required by section 166(2)(a)(vii) of the MFMA.
67. The audit committee did not respond to the council on the issues raised in the audit reports of the Auditor-General, as required by section 166(2)(c) of the MFMA.
68. The audit committee was not constituted of at least three persons with appropriate experience, as required by section 166(4)(a) of the MFMA.
69. The performance audit committee did not meet at least twice during the financial year, as required by MPPM Regulation 14(3)(a).
70. The audit committee did not review the municipality's performance management system and make recommendations to the council, as required by MPPM Regulation 14(4)(a)(ii).
71. The audit committee did not submit at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by Municipal Planning and Performance Management Regulation 14(4)(a)(iii).

Procurement and contract management

72. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by Municipal Supply Chain Management (SCM) regulation 17(a) & (c).
73. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).
74. Sufficient appropriate audit evidence could not be obtained that bid specifications for procurement of goods and services through competitive bids were drafted in an unbiased manner that allowed all potential suppliers to offer their goods or services, as required by SCM regulation 27(2)(a).
75. Sufficient appropriate audit evidence could not be obtained that bid specifications were drafted by bid specification committees which were composed of one or more officials of the municipality as required by SCM regulation 27(3).
76. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for the required minimum period of days, as required by SCM regulation 22(1) & 22(2).
77. Sufficient appropriate audit evidence could not be obtained that bids were evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services and at least one SCM practitioner of the municipality as required by SCM regulation 28(2).
78. 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).
79. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
80. 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.
81. A list of accredited prospective providers was not in place for procuring goods and services through quotations as required by SCM regulation 14(1)(a).
82. The prospective providers list for procuring goods and services through quotations was not updated at least quarterly to include new suppliers that qualify for listing, and prospective providers were not invited to apply for such listing at least once a year as per the requirements of SCM regulation 14(1)(a)(ii) and 14(2).
83. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements and a procurement process which is fair, equitable, transparent and competitive, as tender documentation was not provided for all tenders as required for specific procurement testing.

Human resources

84. An acting chief financial officer was appointed for a period of more than 6 months, in contravention of section 56(1)(c) of the MSA.
85. Appointments were made in posts which were not provided for in the approved staff establishment of the municipality, in contravention of section 66(3) of MSA.
86. The municipality was unable to provide sufficient appropriate evidence that the Accounting Officer was appointed having met the prescribed minimum competency levels, as required by section 54A(2) of the MSA and regulation 18(2) on Minimum Competency Levels.
87. 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 Municipal Regulation on Minimum Competency Levels 13.
88. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and provincial treasury as required by Municipal Regulation on Minimum Competency Levels 14(2)(a).
89. The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies as required by Municipal Regulation on Minimum Competency Levels 14(2)(b).
90. The municipal manager did not sign a performance agreement, as required by section 57(2)(a) MSA.

91. The performance agreements of the Chief Financial Officer and Head of the Supply Chain Management Unit who did not have the minimum competencies, did not include the attainment of minimum competencies as a performance target, as required by Municipal Regulations on Minimum Competency Levels reg 16(2).

Expenditure management

92. 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.
93. 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 MFMA.
94. 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.
95. Unauthorised, irregular and fruitless and wasteful expenditure was not recovered from the liable person, as required by section 32(2) of the MFMA.

Conditional grants

96. The municipality did not comply with the requirements of the grant framework, as required by section 12(1) of the DoRA.
97. Monthly budget statements did not include all the information as required by section 12(2)(b) of the DoRA.
98. The municipality did not submit quarterly performance reports to 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 DoRA.
99. The municipality did not evaluate its performance in respect of programmes funded by the allocation and 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 DoRA.
100. 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.
101. The municipality did not submit project implementation plans to the national department of cooperative governance and traditional affairs (CoGTA), as required by the Division of Revenue Grant Framework.
102. 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.
103. The municipality did not submit its signed activity plan in the prescribed format to CoGTA, as required by the Division of Revenue Grant Framework.
104. The municipality did not submit, within 20 days after the end of each month, its monthly expenditure reports to CoGTA, as required by the Division of Revenue Grant Framework.
105. Sufficient appropriate audit evidence could not be obtained that the allocations for Land Development, Updating Fixed Asset Register, Updating Valuation Roll and Municipal Infrastructure were utilised for the purposes as stipulated in the grant framework as required by section 15(1) of the DoRA.
106. Unspent conditional grant funds not committed to identifiable projects and not approved by the National Treasury for retention, were not surrendered to the National Revenue Fund, as required by section 20(1) of the DoRA.

Revenue management

107. A credit control and debt collection policy was not maintained, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of MFMA.
108. An adequate management, accounting and information system was not in place which recognised revenue when it was earned, accounted for debtors or accounted for receipts of revenue, as required by section 64(2)(e) of the MFMA.
109. Revenue received was not always reconciled on a weekly basis, as required by section 64(2)(h) of the MFMA.

Asset management

- 110. 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.
- 111. 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 MFMA.
- 112. All investments were not made in accordance with the requirements of the investment policy as required by Municipal Investment Regulation 3(3).

Liability management

- 113. A management accounting and information system which adequately accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.
- 114. Short-term debt was incurred without a resolution of the municipal council approving the debt agreement, in contravention of section 45(2) of the MFMA.

Internal control

- 115. 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

- 116. Leadership does not exercise effective oversight responsibility regarding financial and performance reporting and compliance and related controls
- 117. Management does not implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.
- 118. Management disregarded its oversight responsibilities regarding the implementation and monitoring of internal controls and compliance with laws and regulations. This resulted in inaccurate, incomplete and inadequate financial and performance reporting.
- 119. Failed execution of internal control objectives, processes and responsibilities has resulted in unauthorised, irregular and fruitless and wasteful expenditure not being prevented and detected.
- 120. Policies are not adhered to and management does not ensure that they are widely circulated and that staff are properly trained on all policies and procedures.
- 121. Management did not perform a detailed review on the financial statements prior to submitting it for audit. Management has put too much reliance on the work performed by consultants without performing a proper review.

Financial and performance management

- 122. Management does not implement proper record keeping in a timely manner to ensure that complete relevant and accurate information is accessible and available to support financial and performance information. Record management is inadequate and not systematically and regularly monitored to ensure that information is easily retrievable and available for audit purposes.
- 123. Management does not implement controls over daily and monthly processing and reconciling of transactions and undue reliance is placed on the system. They do not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information. Undue reliance is placed on the work of consultants.
- 124. Management does not review and monitor compliance with applicable laws and regulations or ensure that all staff are trained on the various laws and legislations or on the relevant GRAP requirements. Ongoing monitoring and supervision is not undertaken to determine whether internal control over financial reporting is present and functioning.

125. There are inadequate internal policies and procedures over the processes pertaining to the reporting of performance information and undue reliance was placed on the consultants who prepared the annual performance report. Management did not ensure compliance with the requirements of the FMPPI.

Governance

126. There was ineffective implementation of the risk assessment process and no risk assessment was made for the current financial year.
127. The internal audit function was inadequately resourced and did not function effectively for the majority of the financial year. The focus of the unit was not based on an internal audit plan approved by the audit committee.
128. The audit committee's effectiveness is impaired by the absence of a functioning internal audit unit and credible information for discussion at the audit committee meetings. Furthermore the audit committee did not have the minimum amount of three members for the entire financial year.

Auditor - General

East London
30 November 2012



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence