REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON INTSIKA YETHU MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the financial statements of the Intsika Yethu 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, a summary of significant accounting policies and other explanatory information, and the accounting officer's report as set out on pages ... to ....

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of General Recognised Accounting Practise (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, (Act no. 56 Of 2003) (MFMA) and Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010 as amended) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Because of the matters described in the Basis for disclaimer of opinion paragraphs, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Cash and cash equivalents

4. Supporting documentation for transfers between the bank accounts as well as journals amounting R8.2 million and R3.9 million respectively was not provided for audit purposes. I was unable to obtain sufficient appropriate audit evidence to confirm the valuation and allocation of cash and cash equivalents, stated at R15.7 million in note 2 of the financial statements. Furthermore, I could not determine the effect on the other account balances or classes of transactions contained in the financial statements.

5. The cash book balance per bank reconciliation statement did not agree with the cash book balance as disclosed in the annual financial statements with a difference of R1.6 million for which no explanation could be provided. This resulted in the balances on the bank reconciliations at year end not agreeing to the balances per the bank confirmations received from the financial institutions.

6. The municipality has disclosed additional bank accounts to the value of R531,476 in note 2 to the financial statements. These bank accounts did not appear on the bank confirmations received from the financial institutions and therefore we were unable to confirm the existence and valuation of these bank accounts.

7. Suspense accounts with a net value of R7.1 million have been incorrectly classified as cash and cash equivalents resulting in the overstatement of cash and cash equivalents by this amount and the understatement of Trade receivables from exchange transactions to the value of R10.9 million and Payables from exchange transactions to the value of R3.8 million in the financial statements.

8. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness, valuation, rights and presentation and disclosure pertaining to cash and cash equivalents of R15.7 million disclosed in note 2 to the financial statements.

Other receivables from non-exchange transactions

9. Other receivables from non-exchange transactions of R9.0 million, as disclosed on the statement of financial position and note 4 to the financial statements, includes credit balances amounting R7.1 million which relate to payments received from debtors which have been allocated to suspense accounts. Supporting documentation to support these transactions could not be provided for audit purposes, and the records of the municipality did not permit the application of alternative procedures.

10. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, completeness, valuation, rights and obligations of other receivables from non exchange transactions of R9.0 million disclosed on the statement of financial position and in note 4 to the financial statements.

11. The municipality did not adequately recognise an allowance for doubtful debts in accordance with IAS 39 – *Financial Instruments: Recognition and Measurement*. The municipality had not classified groups of debtors according to similar credit risk characteristics when considering the impairment of debtors' balances. The municipality was not able to provide us with an assessment of doubtful debts in terms of the requirements of the applicable standard and the municipality's records did not permit the application of alternative procedures. Consequently other receivables from non exchange transactions as disclosed in note 4 have been understated by R1.1 million which was the provision for impairments.

Trade receivables from exchange transactions

12. The municipality did not adequately recognise an allowance for doubtful debts in accordance with IAS 39 – *Financial Instruments: Recognition and Measurement*. The municipality had not classified groups of debtors according to similar credit risk characteristics when considering the impairment of debtors' balances. The municipality was not able to provide us with an assessment of doubtful debts in terms of the requirements of the applicable standard and the municipality's records did not permit the application of alternative procedures. Consequently Trade and other receivables from exchange transactions as disclosed in note 5 have been understated by R4.8 million which was the provision for impairments.

13. Further, the provision for debt impairment of R4.8 million included in note 5 to the financial statements does not agree with the reconciliation of debt impairment provision of R5.9 million also disclosed in note 5 to the financial statements. No explanation could be provided for the difference of R1.1 million.

14. IAS 39 – *Financial instruments: Recognition and measurement* requires that trade receivables should be recorded at fair valued on initial recognition. However, water debtors of R2.6 million transferred from Chris Hani District Municipality to Intsika Yethu Municipality in terms of the Water Services Agreement were not recorded at fair value.

15. The municipality did not present key information in a manner which provides relevant, reliable, comparable and understandable information as required by GRAP 1 – *Presentation of Financial Statements*. The financial statements did not detail the impact of the contract change on accounts receivable, accounts payable, revenue, expenditure and water inventory. The note furthermore failed to describe the change in the role of the municipality from a water services agent to a principal water services provider.

16. Trade receivables from exchange transactions of R1.9 million, as disclosed on the statement of financial position and note 5 to the financial statements, includes credit balances amounting R921,748. This is not permitted in terms of GRAP 1 – *Presentation of Financial Statements*. Trade receivables from exchange transactions, as well as Payables from exchange transactions, are therefore understated by R921,748.

17. Interest on outstanding debts was not charged in all instances or was charged at incorrect amounts. This has resulted in Trade receivables from exchange transactions disclosed in note 5 to the financials, and interest earned on outstanding debtors disclosed in note 12 to the financials being understated by R356,198 respectively.

VAT receivable

18. The municipality failed to reverse vat output of R590,130 and R136,410 on the provision for debt impairment of R4.8 million and R1.1 million as disclosed in notes 5 and 4 to the financial statements,as this was recognised as VAT output on initial recognition of the revenue and receivable. This results in the understatement of the VAT receivable as well as the overstatement of provision for impairment by R720,540 respectively.

19. The outstanding VAT receivable was recalculated using the VAT output and VAT input amounts declared as per VAT 201 forms submitted by the municipality. After taking into account the refunds received from the South African Revenue Service (SARS), an expected receivable of R1.1 million was calculated. This balance however does not agree with the VAT receivable of R3.4 million as disclosed on the statement of financial position and in note 6 to the financial statements. The difference of R2.3 million was not reconciled by the municipality resulting in the VAT receivable being overstated by R2.3 million.

20. Further, the VAT output declared as per VAT 201 forms amounting to R106,296, as well as VAT input declared per these forms of R9.4 million, did not agree with the outputs and inputs per the VAT control. A net unexplained difference of R6 million was identified and no supporting documentation could be provided for the difference.

21. VAT refunds received from SARS amounting R2.8 million were not allocated against the VAT control account to reduce the VAT receivable but were incorrectly allocated as revenue. This results in the VAT receivable being overstated by R2.8 million and revenue being overstated by the same amount.

22. The municipality claimed input VAT on purchases from non-VAT vendors. Consequently, the VAT receivable disclosed in the statement of financial position and in note 6 to the financial statements is overstated by R620,660.

23. Consequently, I was unable to satisfy myself regarding the valuation, allocation of and existence of the VAT receivable amounting to R3.4 million disclosed in the statement of financial position and in note 6 to the financial statements.

Property, plant and equipment

24. Supporting documents for journals amounting R548.2 million that were processed during the year could not be produced for audit purposes. The weaknesses in the internal controls over the capturing of journals in the accounting system of the municipality did not permit the application of any alternative procedures.

25. The property, plant and equipment additions to work in progress of R10.3 million as disclosed in note 7 to the annual financial statements incorrectly includes completed projects to the value of R3 million. Work in progress is therefore overstated by R3 million and completed asset additions understated by the same amount. Further, the work in progress balance of R10.3 million did not agree to the balance of R11 million per the Municipality's listing of projects in progress. The difference of R761,661 was not reconciled and supporting documentation could not be provided to support this difference.

26. In addition, work in progress assets to the value of R3.5 million were not included in the disclosed figure per the annual financial statements resulting in work in progress being understated by this amount the financial records of the municipality did not allow me to perform other alternative procedures to determine which other accounts are affected by this amount.

27. The municipality could not provide sufficient appropriate audit evidence to support the difference of R839,748 between the work in progress projects in the financial statements to the value of R6 million and the underlying accounting records to the value of R5.1 million.

28. Included in note 7 to the annual financial statements are additions, excluding work in progress, of R20.2 million. The municipality could not provide supporting documentation for additions to infrastructure assets amounting R770,935 as well as other assets amounting to R279,563. Further, asset additions to the value of R8.8 million could not be physically verified.

29. Infrastructure assets amounting to R20.7 million were not included in the disclosed figure per note 7 to the financial statements therefore infrastructure assets are understated by this amount. In addition, infrastructure assets amounting R1.9 million were selected from the fixed asset register but could not be physically verified. There were no satisfactory alternative procedures that could be performed to obtain reasonable assurance that infrastructure assets of R1.9 million exit.

30. Furthermore, the municipality could not provide sufficient appropriate audit evidence to support the difference of R1.2 million between the financial statements to the value of R3.1 million and the underlying accounting records to the value of R2.6 million on infrastructure asset additions as disclosed in note 7.

31. As disclosed in note 7 to the financial statements, assets amounting to R33.6 million were transferred to Engcobo Local Municipality. This balance however does not agree with the balance of R39.8 million confirmed by the recipient municipality. The municipality did not reconcile the difference of R6.2 million and could also not provide an explanation for this. In addition, the transfers balance of R33.6 million per note 7 to the financials did not agree with the value of transfers of R33.7 million as disclosed in note 23 to the financial statements resulting in an unexplained difference of R125,440.

32. The municipality fully adopted GRAP 17 – *Property, Plant and Equipment* for the first time during the current year under review which required the municipality to correctly value its assets. As disclosed in note 7 to the financial statements, municipal property

was revalued with an amount of R22.8 million. Adequate supporting documentation for the revaluation was not provided for audit purposes. The municipality's records did not permit the application of alternate audit procedures.

33. It was further identified that assets with a net book value of R66.5 million per the fixed asset register did not agree with the recalculated net book value of R75 million resulting in an unexplained difference of R8.5 million. This results in the understatement of property, plant and equipment as disclosed in note 7 of the financial statements and accumulated depreciation to the value R8.5 million.

34. The municipality failed to provide supporting documentation or reasons for differences identified in accumulated depreciation for Transport assets, Road transport assets and Vehicles amounting to R78 million, R80 million and R1.9 million respectively between the underlying accounting records and note 7 of the financial statements.

35. GRAP 17 – *Property, plant and equipment* states that assets should be recognised at their cost. Assets amounting R198,315 were incorrectly capitalised as the asset is not yet completed and available for use. In addition, assets are overstated by R81,248 as assets were capitalised at incorrect values when compared to the source documentation.

36. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness, existence, valuation and allocation, rights and obligations and presentation and disclosure of the property, plant and equipment balance of R512.6 million as disclosed on the Statement of Financial Position and in note 7 to the annual financial statements.

Payables from exchange transactions

37. The municipality could not provide sufficient appropriate evidence to support payables from exchange transactions amounting to R8.7 million as disclosed in note 10 to the financial statements. The municipality's records did not permit the application of alternate audit procedures.

38. Included in payables from exchange transactions are suspense accounts to the value of R3.4 million which were not cleared timeously resulting in overstatement of payables from exchange transactions. Furthermore, included in the R3.4 million is a suspense account for an intercompany balance of R1.6 million which relates to an amount owed by the water services section to the municipality which was not eliminated when the financials were prepared by the municipality.

39. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, valuation and allocation, rights and obligations of the payables from exchange transaction balance of R12.1 million as disclosed on the Statement of Financial Position and in note 10 to the annual financial statements.

Current provisions

40. Short term employee benefits to the value of R6.6 million have been incorrectly classified as Current provisions instead of accruals. This results in the overstatement of Current provisions and the understatement of Payables from non-exchange transactions by R6.6 million respectively.

41. An unexplained difference of R824,977 was identified between the amount for provision of performance bonus of R1.6 million included within the bonus provision in note 11 to the financial statements and the underlying records of R743,168. This results in the bonus provision being overstated by R824,977.

42. A further difference of R378,509 was identified between the movement for leave provision amount of R719,714 disclosed in note 11 to the financial statements and the leave pay provision charge of R1.1 million per note 17 to the financial statements. The difference of R378,509 was not reconciled and no supporting documents could be provided for this amount.

43. The municipality could not provide sufficient appropriate audit evidence to support differences identified between amounts disclosed in the financial statements and amounts recalculated by auditors of R154,401 relating to performance bonuses, R159,665 relating to long service bonuses, and R191,146 relating to thirteenth cheques respectively.

44. The municipality could not provide sufficient appropriate evidence for the provision for landfill sites of R498,161 disclosed in note 11 to the annual financial statements. There were no satisfactory alternative procedures that I could perform to obtain reasonable assurance that the provision of R498,161 is fairly stated.

Other non-distributable reserves (NDR)

45. The municipality could not provide sufficient appropriate evidence for a decrease of R35.4 million in Other NDR as disclosed on the statement of financial position as net assets. The municipality's records did not permit the application of alternate audit procedures.

46. Further, the Other NDR balance of R450.5 million as disclosed on the statement of financial position, and in the statement of changes in net assets, does not agree to the balance of R451.6 million per the underlying accounting records. The difference of R1.2 million was not reconciled by management nor was an explanation for this difference provided.

47. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness, existence and valuation of Other NDR amounting R450.5 million as disclosed on the statement of financial position and statement of changes in net assets.

Revenue

48. Supporting documentation for other income amounting R4.6 million could not be provided for audit purposes which the underlying records showed it as income from CHDM to the value of R5.2 million and VAT reconciling items to the value of R596,505. There are no satisfactory alternative procedures that could be performed to obtain reasonable assurance that Other Income of R5.7 million as disclosed on the statement of financial performance and in note 14 to the annual financial statements was accurately and completely recorded.

49. Furthermore, a difference was identified between Other income of R7.4 million per note 12 and the total of the analysis of Other income amounting R5.7 million per note 14. The difference of R1.7 million was not reconciled and an explanation for the difference could not be provided.

50. The property rates income of R3.7 million as disclosed on the statement of financial performance and in note 16 to the financial statements does not agree with the

underlying accounting records of R3.4 million. The municipality did not reconcile the difference of R358,848 and could not provide sufficient appropriate audit evidence to support this amount. Further, property rates of R729,197 were charged on properties which do not appear in the municipality's valuation roll. Revenue and receivables from exchange transactions are therefore overstated by this amount.

51. Further, the Municipality misclassified VAT refunds of R3.1 million received from South African Revenue Services (SARS) as other income, and further offset this with payments of R3 million made to the VAT consultants. These payments included invoices relating to the prior year to the value of R320,166 as well as invoices amounting R491,864 which were duplicated in the general ledger. This results in an overstatement of VAT receivable by R3.1 million, an understatement of general expenditure of R2.7 million and an overstatement of accumulated surplus by R320,166.

52. Included in note 12 to the financial statements is R1.8 million for sewerage services revenue. Sufficient and appropriate audit evidence could not be provided due to the municipality not maintaining building plans or other supporting documentation which can be used to determine the sewerage points per erf on which revenue is calculated. The municipality's records did not permit the application of alternative audit procedures in order to obtain reasonable assurance that all sewerage revenue was accurately and completely recorded.

53. Personnel cost expenditure of R676,049 was incorrectly allocated to revenue resulting in both revenue and personnel costs being understated by R676,049.

54. Supporting documentation for revenue amounting to R1.1 million was not provided for audit purposes. There were no satisfactory alternative procedures that could be performed to obtain reasonable assurance that Other income of R5.7 million as disclosed on the statement of financial performance and note 14 to the financial statements was accurately and completely disclosed.

55. Stale cheques issued in previous years were incorrectly written back to revenue in the current year instead of to accumulated surplus. Further, the journal passed by management amounting to R1.7 million did not agree with the underlying council resolution which approved an amount of R 983,373. Management could not provide an explanation or supporting documents for the difference of R720 777. Therefore revenue is overstated by R1.7 million and accumulated surplus is understated by the same amount.

56. Property rates of R3.7 million as disclosed in note 12 to the financial statements does not agree with the balance of R3.4 million per the underlying accounting records provided by the municipality resulting in the overstatement of revenue to the value of R358,850. Further the trial balance submitted for audit purposes of R3.4 million did not agree with the figure as per the valuation roll reconciliation of R9 million resulting in an unexplained difference of R5.5 million.

57. Revenue from rental of facilities and equipment as disclosed in note 12 of the financial statements to the value of R647,405 includes the rentals received from expired lease contracts amounting to R120,457, as well as rental income of R275,915 which was in excess of the rentals stipulated in the lease contracts. Furthermore, lease rental income of R83,660 was not included in the disclosed figures per note 12 to the financial statements. This results in the net overstatement of revenue from rental of facilities and equipment R312,712.

58. Consequently, I was unable to satisfy myself regarding completeness, occurrence, accuracy and classification of revenue disclosed in the statement of financial performance and in note 12 to the annual financial statements.

Government grants and subsidies

59. As disclosed in note 15 to the financial statements, CHDM Water and Sanitation grant of R31.6 million includes an amount of R2.9 million which relates to the prior year and is therefore not grant revenue for the year under review, as well as an amount of R1.1 million which relates to other deposits received. This results in grant revenue being overstated by R4 million.

60. The Standards of Generally Recognised Accounting Practice (GRAP) 23 – *Revenue from Non-Exchange Transactions* requires that revenue is recognised as the goods and services are provided. Supporting documentation for expenditure of R8 million incurred against conditional grants was not provided for audit purposes resulting in obligations under transfer arrangements being understated and government grants and subsidies within revenue from non-exchange transactions being overstated. The municipality's records did not permit the application of alternate audit procedures.

61. Invoices amounting R138,079 for expenditure relating to conditional grants were found to be duplicated in the municipality's accounting records. This results in the overstatement of revenue from non-exchange transactions, as well as obligations under transfer arrangements being understated.

62. The municipality did not have goods received notes, or other supporting documentation, to confirm that expenditure amounting R601,435 incurred against conditional grants was actually for goods and services received. The municipality's records did not permit the application of alternative audit procedures and I was unable to confirm whether this expenditure actually occurred.

63. MISG grant expenditure to the value of R790,000 as disclosed in note 15 of the financial statements includes an amount of R146,953 which relates to prior year expenditure. In addition, there is an unexplained difference of R317,541 between the amount of R790,000 as disclosed in note 15 of the financial statements and the underlying supporting documents amounting R358,172. This results in the overstatement of grant revenue recognised by R464,494.

64. Furthermore, it was noted that the MIG grant had a closing balance of R1 3 million as per the bank statements inspected for the relevant grant. This unspent portion has not been included as a liability but has been incorrectly recognised as revenue in note 15 to the financial statements as part of the MIG grant received of R25.9 million. This results in government grant revenue being overstated by R1.3 million and Obligations under transfer arrangements payable being understated by the same amount.

65. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of obligations under transfer arrangements and the occurrence, accuracy, classification and presentation and disclosure of government grants and subsidies revenue of R138.4 million disclosed on the statement of financial performance and in note 15 to the financial statements.

Personnel costs

66. Employee related costs of R62 million as disclosed in note 17 to the annual financial statements were not reconciled to the underlying accounting records resulting in an unsupported difference of R2 million. In addition, wage payments amounting to R5.7 million and allowances paid amounting to R4.1 million included in employee related costs were not supported by adequate documentation. I was unable to verify these payments made through alternate procedures.

67. Differences amounting to R467,347 were noted when recalculating overtime payments made. I was unable to obtain sufficient explanations for these differences. In addition, supporting documentation for the payment of overtime amounting to R131,060 could not be provided by the municipality. I was unable to perform alternate procedures to verify these payment differences.

68. Overtime paid of R660,929 exceeded 30% of the employees' basic salary in contravention of Basic Conditions of Employment Act. This has resulted in irregular expenditure which is not disclosed in the annual financial statements.

69. Section 57 managers received performance bonuses without the municipality deducting PAYE from the amounts. The overpayment of R122,843 remains uncollected at year end resulting in fruitless and wasteful expenditure which was not disclosed in the annual financial statements. In addition, an unexplained difference of R96,531 was identified between the amounts paid as performance bonuses and the underlying accounting records.

70. Payroll journals processed during the year amounting to R1.3 million were not supported by adequate documentation. In addition, differences of R1.1 million were noted between payroll journals processed and the related supporting documentation. I was unable to verify this total difference of R2.4 million through alternate procedures.

71. Further, supporting documentation could not be provided for allowances paid to employees amounting R4. million. No satisfactory alternative procedures could be performed to obtain sufficient appropriate audit evidence for these payments.

72. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness, accuracy and occurrence of personnel costs of R62 million as disclosed on the statement of financial performance and in note 17 to the annual financial statements.

Depreciation and amortisation

73. Depreciation and amortisation of R36.5 million disclosed on the statement of financial performance does not agree to the depreciation amount in note 7 of the financial statements of R33.0 million added with the amortisation of intangible assets of R90,500 as disclosed in note 8 of the financial statements. Sufficient appropriate audit evidence was not provided to support the difference of R3.4 million between the statement of financial performance and the amount disclosed in the notes to the annual financial statements.

74. GRAP 17 – *Property, Plant and Equipment* requires the municipality to review the residual values and useful lives of its assets at each reporting date. Assets with a value of R602 million are overstated as incorrect useful lives and costs of assets were used when calculating depreciation on these assets. Consequently, depreciation and accumulated depreciation in the current year is understated by R48,190, the corresponding figures for the 2010/11 financial year are understated by R3.1 million as

well as the 2009/10 financial year being understated by R2 million. Property, plant and equipment is overstated by the same amounts with the effect on the accumulated depreciation. It was further identified that there is an unexplained difference of R1.6 million between the accumulated depreciation for the prior year as disclosed in note 7 to the financial statements and the recalculations of the accumulated depreciation which results in a further overstatement of accumulated depreciation and understatement of property plant and equipment.

75. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the occurrence, accuracy and completeness of depreciation and amortisation.

Bad debts

76. Bad debts of R1.7 million as disclosed on the statement of financial performance and in note 20 to the annual financial statements were not reconciled to the underlying accounting records resulting in an unsupported difference of R937,223. I was unable to verify this variance through alternate procedures.

77. Bad debts recovered during the year amounting to R2.2 million were offset against the bad debts expense per note 5 to the financial statements. This is not permitted by GRAP 1 – *Presentation of Financial Statements*. As a result, revenue is understated by R2.2 million and the bad debts expense is understated by the same amount.

78. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness, accuracy and occurrence of bad debts of R1.7 million as disclosed on the statement of financial performance and in note 20 to the annual financial statements.

Expenditure

79. Expenditure payments amounting to R10.7 million included in general expenditure per the Statement of Financial Performance were not supported by adequate documentation. I was unable to verify these payments through alternate procedures.

80. In addition, expenditure payments of R1.9 million accounted for as current year expenditure incurred related to the previous financial year and R3.3 million of current year expenditure payments were not recorded in the general ledger. Expenditure and payables from exchange transactions are therefore understated by R1.4 million.

81. A further R2.2 million in general expenditure was duplicated in the general ledger resulting in expenditure being overstated by this amount.

82. Misclassifications amounting to R1.8 million between expenditure accounts on the statement of financial performance as well as in note 23 to the financial statements were identified, as well as misclassifications relating to VAT of R620,660 were also noted.

83. Bank details of suppliers to whom R1.4 million was paid could not be traced to supporting documentation. I was unable to confirm these details through alternate procedures and consequently cannot confirm if these payments constitute irregular or fruitless and wasteful expenditure.

84. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness, accuracy, classification, cut-off and occurrence of expenditure as disclosed on the Statement of Financial Performance.

Cash flow statement

85. Sufficient appropriate audit evidence was not available to confirm the net cash flow movement of R4.3 million (2011: R13 million) as a result of the misstatement of the statement of financial position and the statement of financial performance, and an inability to confirm the amounts in the preceding paragraphs which form the basis of the cash flow statement. I was unable to determine the full extent of the misstatement by alternative means. Consequently, I was unable to determine whether any adjustments to the cash flow statement were necessary.

Irregular expenditure

86. Section 125 of the MFMA requires the entity to disclose particulars of any material losses and any material irregular or fruitless and wasteful expenditure, including in the case of a municipality, any material unauthorised expenditure that occurred during the financial year, and whether these are recoverable. The municipality has included limited disclosure in the annual financial statements but this does not meet all the disclosure requirements.

87. Irregular expenditure of R31.7 million, disclosed in note 37 to the financial statements, was incurred due to contravention of the supply chain management policy which was not identified by management. Prior to disclosing this irregular expenditure, management failed to perform a review of the entire population of expenditure to determine the full extent of irregular expenditure incurred by the municipality. Consequently, the disclosure made by management is an unauthorised adjustment to the financial statements. Due to the lack of systems and processes at the municipality relating to the identification of irregular expenditure, it was impracticable to determine the full extent of the understatement of irregular expenditure.

88. In addition, note 37 to the financial statements indicates that this irregular expenditure has been condoned, however evidence of such condoning by the relevant authority, being Provincial Treasury, could not be provided for audit purposes.

89. Consequently, irregular expenditure has not been appropriately disclosed as required.

Unauthorised expenditure

90. Section 125 of the MFMA requires the entity to disclose particulars of any material losses and any material irregular or fruitless and wasteful expenditure, including in the case of a municipality, any material unauthorised expenditure that occurred during the financial year, and whether these are recoverable. The municipality has included limited disclosure in the annual financial statements for unauthorised expenditure but this does not meet all the disclosure requirements.

91. Unauthorised expenditure of R117.2 million, relating to overspending on the budget, has been disclosed in note 27 to the financial statements. There is an unexplained difference of R106,419 between the amount disclosed in note 27 to the financial statements and the expected difference between the approved budgeted expenditure amount of R80.7 million and the actual expenditure as per financial performance of R198 million. No supporting documents or explanations could be provided for this difference.

92. In addition, note 27 to the financial statements indicates that this unauthorised expenditure has been condoned, however evidence of such condoning by the relevant authority, being Provincial Treasury, could not be provided for audit purposes.

93. Consequently, unauthorised expenditure has not been appropriately disclosed as required.

Commitments

94. Commitments of R10.3 million as disclosed in note 30 to the annual financial statements does not agree with the underlying accounting records balance of R12.2 million. The municipality did not reconcile the difference of R1.9 million and no sufficient appropriate audit evidence could be provided for this difference.

95. Commitments of to the value of R7.3 million were not included in the commitments balance as disclosed in note 30 to the annual financial statements. Further, a difference of R419,771 was identified between the underlying accounting records with a value of R6.1 million and the related supporting documents which amounted to R6.6 million. Commitments is therefore understated by R7.7 million.

Financial instruments

96. The municipality failed to comply with the provisions of the International Accounting Standards (IAS) 32 and 39 relating to the disclosure, recognition and measurement of financial instruments. It was not possible to assess the impact of such non-disclosure on the financial statements. Furthermore, the municipality did not comply with the disclosure requirements of the International Financial Reporting Standard (IFRS) 7, either in the statement of financial position or in the notes to the annual financial statements.

Budget versus Actual

97. GRAP 1 – *Presentation of financial statements* requires that a full set of financial statements includes a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statements, when the entity makes its approved budget publicly available. The municipality included limited budget versus actual disclosure in note 35 to the financial statements but not all items of revenue and expenditure as per the statement of financial performance were included in the comparison. Consequently, the disclosure of the budget versus actual comparison is not appropriate or complete in terms of the requirements.

Journals

98. Supporting documents for all year end journals amounting to R81.6 million, as well as other journals totalling R26.6 million that were processed during the year affecting various classes of transactions and account balances, could not be provided for audit purposes. The municipality's records did not permit the application of alternate audit procedures.

99. Consequently, I was unable to satisfy myself as to completeness, occurrence and accuracy of journals processed by the municipality and therefore unable to determine the impact on classes of transactions and account balances included in the financial statements.

Change in accounting policy

100. GRAP 3 – *Accounting policies, changes in accounting estimates and errors* requires the entity to disclose for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected and the amount of the adjustment relating to periods before those presented, to the extent practicable. The municipality did not account for the expiration of Directive 4, *Transitional Provisions for Medium and Low Capacity Municipalities*, correctly and also did not disclose this change in accounting policy, and the effect thereof, appropriately in the financial statements.

101. A difference of R2.8 million was identified between accumulated depreciation of R76 million per note 36 to the financial statements and accumulated depreciation of R78,7 million, relating to the prior year, per note 7. Further, the depreciation adjustment of R34.9 million per note 36 does not agree with the corresponding depreciation charge per the statement of financial performance of R35.3 million. Additionally, the depreciation adjustment to opening retained earnings of R41 million could not be traced to the Statement of changes in net assets. Management could not provide explanations or supporting documentation for these differences. The municipality's records did not permit the application of alternate audit procedures.

102. Consequently, I was unable to obtain sufficient, appropriate audit evidence to satisfy myself as to the valuation, allocation of and rights pertaining to the accumulated surplus opening figure of R65.7 million as disclosed on the statement of changes in net assets, as well as the completeness, existence, valuation and disclosure of the property, plant and equipment opening carrying value of R525.9 million per the Statement of financial position and note 7 to the financial statements.

Accounting policies

103. GRAP 1 – *Presentation of financial statements* requires that a summary of significant accounting policies be disclosed within the financial statements. The municipality had no accounting policy dealing with Funds and reserves, Inventories and Commitments.

Prior year adjustments

104. As described in note 38 to the financial statements, restatements to prior year amounts were made in order to rectify prior year misstatements. These misstatements were however not appropriately presented as required in terms of GRAP 3 – *Accounting policies, changes in accounting estimates and errors.*

105. Further, the municipality was unable to provide sufficient appropriate supporting documentation for these restatements and the municipality's records did not permit the application of alternate audit procedures. I was thus unable to obtain sufficient appropriate audit evidence for the accuracy of the restatement of the corresponding figures of the items mentioned below or whether any further adjustments to these corresponding figures were necessary.

- Trade receivables from exchange transactions R3 million
- Investments R2.4 million
- Property, Plant & Equipment R451 million
- Payables from exchange transactions R6.6 million
- Other NDR R486 million
- Government grant and subsidies R4.5 million
- Bad debts R3.2 million

- Depreciation R35 million
- Net cash flows from the operating activities R5 million
- Net cash flows from investing activities R4.6 million
- Receipts R9.7 million

106. Consequently, I was unable to determine the impact, if any, on current year balances.

Other corresponding figures

107. The auditor's report for the year ended 30 June 2011 contained a disclaimer of opinion on the financial statements as a whole due to a limitation on the scope of the audit. The matters and related amounts which gave rise to the limitation in the prior year, as described below, remain unresolved in the current year.

The municipality could not provide sufficient appropriate evidence regarding:

- Cash and cash equivalents of R26.4 million as disclosed in note 2
- Other receivables from non-exchange transactions of R9 million as disclosed in note 4
- Trade receivables from exchange transactions of R9 million as disclosed in note 4
- Investments of R3.7 million as disclosed in note 2
- Property plant and equipment of R100.8 million as disclosed in note 7
- Trade and other payables from exchange transactions of R11.5 million as disclosed in note 10
- Provisions of R2.5 million as disclosed in note 11
- Accumulated surplus of R79.9 million as disclosed in the statement of changes in net assets
- VAT receivable of R4.1 million as disclosed in note 6
- Revenue of R30.2 million as disclosed in note 12
- Government grants and subsidies expenditure of R19.9 million
- General expenditure of R26.8 million as disclosed in note 23
- Personnel costs of R4.6 million as disclosed in note 17
- Unauthorised expenditure of R7.9 million
- Irregular expenditure of R18.1 million as disclosed in note 37
- Employee benefits of R7 million as disclosed in note 26
- Contingent liabilities of R1.9 million as disclosed in note 31
- Commitments of R0.4 million as disclosed in note 30

108. I was unable to confirm or verify these amounts by alternative means and, as a result, could not confirm the accuracy, existence, valuation, completeness of or rights and obligations to the above amounts included in the corresponding figures or determine the impact, if any, on current year balances.

Management representation letter

109. In terms of paragraph 39 and 40 of the signed engagement letter between Intsika Yethu Municipality and the Auditor-General it was stated that the auditors will request a written confirmation from the Accounting Officer and the Chief Financial Officer of the representations that the auditors have received during the course of the audit from management. In addition, a further request for written confirmation of the responsibilities of management and those charged with governance will be required stating that the municipality has disclosed all known instances of fraud or suspected fraud affecting the municipality. The municipality has failed to provide these written representations as they had committed to per the signed engagement letter. Consequently, this limitation is

pervasive to the financial statements as a whole and I could not determine the effect, if any, on the classes of transactions and account balances disclosed in the financial statements.

Disclaimer of opinion

110. 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

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

Unauthorised expenditure

112. As disclosed in note 27 of the financial statements, the municipality incurred unauthorised expenditure of R117.1 million as a result of exceeding the total amount of the budgeted expenditure.

Restatement of corresponding figures

113. As disclosed in note 38 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 discovered during the prior financial year.

Material losses

114. As disclosed in note 20 to the annual financial statements, material losses to the amount of R1.7 million (2010/11: R10.3 million) were incurred as a result of provisions for irrecoverable trade receivables.

Additional matter

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

Unaudited supplementary schedules

116. 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.

ON OTHER LEGAL AND REGULATORY REQUIREMENTS

PAA REQUIREMENTS

117. 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

118. 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.

119. 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.*

120. 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).

121. The material findings are as follows:

Usefulness of information

Presentation

Measures taken to improve performance not disclosed

122. Improvement measures in the annual performance report for a total of 100% 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 objectives.

Consistency

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

123. The Municipal Systems Act (MSA), 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 79% of the reported objectives, 49% of reported indicators and 100% of reported targets are not consistent with the objectives, indicators and targets 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.

Measurability

Performance Indicators not well defined

124. 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. A total 24% of the indicators for Local Economic Growth and Planning and Basic Service Delivery and Infrastructure Investment objectives were not well defined in that clear, unambiguous data definition were not available to allow for data to be collected consistently. This was due to the fact that management was not fully aware of the requirements of the FMPPI.

Performance Indicators not verifiable

125. The National Treasury FMPPI requires that it must be possible to validate the processes and systems that produce the indicator. A total of 24% of the indicators for Local Economic Growth and Planning and Basic Service Delivery and Infrastructure Investment objectives were not verifiable in that 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 and there were no documented processes on how the source of information is collected, collated, recorded and analysed for each indicator set.

Performance targets not specific

126. The National Treasury FMPPI requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 58% of the targets for Local Economic Growth and Planning and Basic Service Delivery and Infrastructure Investment objectives 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

127. The National Treasury FMPPI requires that performance targets be measurable. The required performance could not be measured for a total of 70% of the targets relevant to Local Economic Growth and Planning and Basic Service Delivery and Infrastructure Investment objectives. This was due to the fact that management was not fully aware of the requirements of the FMPPI.

Performance targets not time bound

128. The National Treasury FMPPI requires that the time period or deadline for delivery be specified. A total of 49% of the targets for Local Economic Growth and Planning and Basic Service Delivery and Infrastructure Investment objectives were not time bound in specifying a time period or deadline for delivery. This was due to the fact that management was not fully aware of the requirements of the FMPPI and used an assumed time period based on the financial year for all planned targets.

Reliability of information

Validity and Accuracy

Reported performance not valid or accurate

129. The National Treasury FMPPI requires that processes and systems which produce the indicator should be verifiable, and that the indicators be accurate enough for its intended

use and respond to changes in the level of performance. A total of 80% of the actual reported performance relevant to Local Economic Growth and Planning development priorities were not valid and accurate when compared to the evidence provided. Further, no supporting evidence was provided for 89% of the actual reported performance relevant to Basic Service Delivery and Infrastructure Investment development priorities. 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.

Completeness

Reported performance not complete

130. The National Treasury FMPPI requires that documentation addressing the systems and processes for identifying, collecting, collating, verifying and storing information be properly maintained. Source information for 85% of the actual reported performance relevant to Local Economic Growth and Planning development priorities and 94% of actual reported performance relevant to Basic Service Delivery and Infrastructure Investment development priorities was not completely recorded. This was due to a lack of an adequate document management system with regard to actual performance achievements.

Additional matter

131. 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

132. The municipality failed disclosed the planned targets that were achieved during the year under review. This was due to the fact that the reporting template the municipality used did not have a column that showed actual performance as well as planned performance. Therefore it did not have the reasons for variances between planned performance against actual performance and actions to be taken to improve.

Compliance with laws and regulations

133. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial material 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

134. 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.

135. The municipality did not set measurable performance targets with regard to each development priority and objective

136. The municipality did not monitor performance, with regard to each of those development priorities and objectives and against the key performance indicators and targets set

137. The municipality did not 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 (MSA).

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

Budgets

139. The municipality incurred expenditure in excess of the limits of the amounts provided for in the votes in the approved budget, in contravention of section 15 of the MFMA.

140. The accounting officer did not assess the first half of the financial year performance of the municipality, as required by section 72(1) and 72(1)(a)(ii) of the MFMA.

Annual financial statements, performance and annual report

141. 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.

142. The municipal council did not adopt an oversight report, containing comments on the annual report, within two months from the date on which the 2010/11 annual report was tabled, as required by section 129(1) of the MFMA.

143. The accounting officer did not make public the council's oversight report on the 2010/12 annual report within seven days of its adoption, as required by section 129(3) of the MFMA.

Procurement and contract management

144. Quotations were accepted from prospective providers who are not registered on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy in contravention of SCM regulation 16(b) and 17(b).

145. 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) and (c).

146. 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 per required by SCM regulation 27(2)(a).

147. 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).

148. Invitations for competitive bidding were not always advertised for a required minimum period of days, as required by SCM regulation 22(1) and 22(2).

149. 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).

150. 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).

151. Awards were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b).

152. 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 18.79.

153. Contracts and quotations were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.

154. Contracts and quotations were awarded to bidders who did not submit 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).

155. Awards were made to providers who are persons in service of other state institutions, in contravention of SCM regulations 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).

Expenditure management

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

157. Unauthorised and irregular expenditure was not recovered from the liable person, as required by section 32(2) of the MFMA.

158. 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.

159. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred , accounted for creditors and accounted for payments made as required by section 65(2)(b) of the MFMA.

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

Revenue management

161. 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.

162. Interest was not charged on all accounts in arrears as, required by section 64(2)(g) of the MFMA.

163. Revenue received was not always reconciled on a weekly basis, as required by section 64(2)(h) of the MFMA.

Transfer of funds and/or conditional grants

164. Sufficient appropriate audit evidence could not be obtained that unspent conditional grant funds were committed to identifiable projects or were approved by the National Treasury for retention as they were not surrendered to National Revenue Fund, as required by section 20(1) of the Division of Revenue Act.

Asset management

165. 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.

166. 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.

Liability management

167. 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.

Financial Misconduct

168. Investigations were not instituted into all allegations of financial misconduct against officials of the municipality, as required by section 171(4)(a) of the MFMA.

Internal control

169. 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

170. Although there was no change in leadership, the municipality has remained with minimal improvement from prior year to current year. Notwithstanding the consistency in leadership, there was a lack of oversight and accountability, together with management's failure to respond to prior year internal and external audit findings adequately, which has resulted in a number of repeat audit findings.

171. Oversight responsibilities regarding the monitoring of internal controls over financial reporting and compliance with applicable laws and regulations were not adequately performed. This resulted in material misstatements in the annual financial statements that were submitted for audit, non compliance with applicable laws and regulations as well as information presented in the report on predetermined objectives not being valid, accurate and complete.

172. Further, leadership failed to take disciplinary action against officials who caused or allowed irregular and fruitless and wasteful expenditure to be incurred by the municipality, as well as against officials who failed to comply with the policies, processes and procedures of the municipality.

Financial and performance management

173. The municipality remains reliant on the use of consultants to perform financial administration and reporting functions that should be performed by the staff employed by the municipality. A poor control environment over financial reporting exists as extensive manual reconciliation of accounting records and supporting schedules is required at year end as these controls are not performed on a regular ongoing basis during the year. As a result, material misstatements are identified through the audit process cannot be substantially corrected by management at that stage, thereby having a negative impact on the audit outcome. Should adequate monitoring, supervision and controls be implemented, these misstatements should be able to be identified and corrected by management on a timeous basis.

174. Information requested for audit was not obtained without delays and supporting documents were not obtained for a number of account balances and classes of transactions. This is due to weaknesses identified in the record keeping of the municipality in that recorded transactions do not always have adequate supporting documentation, or the supporting documentation is not readily available for audit purposes. This is evidenced by five non-acceptance letters issued to the municipality as the municipality was unable to provide the relevant supporting documentation for transactions within assets, receivables, payables, cash and cash equivalents, compensation of employees, revenue, expenditure, commitments and subsequent events, as well as portfolios of evidence to support the audit of predetermined objectives.

175. The municipality did not prepare reliable and accurate monthly and quarterly financial statements. This is due to the municipality's policies and procedures that are not updated to support compliance with the GRAP reporting framework, the officials not understanding the requirements of the applicable reporting framework as well as the instability that existed in key positions in the finance department. Further, there is a lack of segregation of duties as reliance is placed on a few key personnel to perform crucial functions. This has the impact of limiting supervision and monitoring.

176. The financial statements submitted for audit purposes contained numerous misstatements, some of which were corrected by management. Other misstatements could not be corrected as adequate supporting documentation could not be provided. Further, a number of errors between the financial statements, general ledger and underlying supporting documents were identified. This is as a result of a lack of review of the financial statements and supporting documentation prior to submission of the annual financial statements for audit purposes.

177. The systems or processes for the preparation and reporting of performance against predetermined objectives are not adequate or sufficient as the municipality does not comply with the reporting requirements as prescribed by National Treasury. Detailed interactions have been held with management during the audit process on the reporting against predetermined objectives, however, management has a different interpretation of the National Treasury FMPPI and therefore disagree with the findings.

178. The municipality has not implemented adequate review mechanisms to ensure that the report on predetermined objectives and the annual financial statements are reviewed for accuracy and completeness prior to submission for audit.

Governance

179. The municipality has an audit committee and internal audit unit in place. However, insufficient action was taken by the governance structures within the municipality during the year under review to ensure that risks relating to the monitoring and reporting of financial information as well as performance objectives were addressed.

180. Management failed to implement the recommendations made by the audit committee, internal audit and external audit which resulted in a number of repeat audit findings in the current year.

181. The financial statements submitted for audit were submitted late for review to the audit committee which limited the extent of their review. Further, the recommendations made by the audit committee were not fully implemented before being submitted for audit purposes.

182. The audit committee failed to ensure that the internal audit unit has functioning senior personnel to head the section. This has contributed to the internal audit unit not being taken seriously by management and a weak control environment at the municipality.

Auditor-General.

East London

21 December 2012

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence