

# REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON ENGCOBO LOCAL MUNICIPALITY

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I have audited the financial statements of the Engcobo Local Municipality set out on pages ... to ... , which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, and the accounting officer's report, as set out on pages..... to ..

### Accounting officer's responsibility for the financial statements

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

### Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing (ISAs). Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

### Basis for qualified opinion

#### Irregular expenditure

6. The municipality did not have adequate systems in place to identify and disclose all irregular expenditure incurred during the year as required by section 112(1) of the MFMA. The irregular expenditure disclosed in note 28.3 to the financial statements is understated in respect of amounts incurred during the year, as identified by the audit process, of R48,9 million (2011: R1,2 million). Due to the lack of systems and of sufficient appropriate audit evidence for all awards, it was impracticable to determine the full extent of the understatement of irregular expenditure disclosed at R34 million (2011: R8,4 million). I was unable to confirm irregular

expenditure by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the irregular expenditure disclosure note.

### **Unauthorised expenditure**

7. The municipality could not provide sufficient appropriate audit evidence supporting unauthorised expenditure of R36,6 million disclosed in note 28.1 to the financial statements. Due to an inadequate budgeting system it was impracticable to determine the full extent of the misstatement. I was unable to confirm the disclosure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the amount disclosed as unauthorised expenditure.

### **Commitments**

8. The municipality did not have a contract management system in place for the identification and recognition of contracted commitments and did not include all commitments of the municipality in the amounts disclosed in note 30 to the financial statements. Due to the lack of systems in place, it was impracticable to determine the full extent of the understatement. In addition, sufficient appropriate audit evidence was not available for the commitments that were disclosed, totalling R 33,6 million, in disclosure note 30 to the financial statements. I was unable to confirm the disclosure by alternative means. Consequently, I was unable to determine whether any adjustments to the commitments disclosure note were necessary.

### **VAT receivable**

9. VAT receivable of R4,5 million disclosed in the financial statements could not be confirmed. The absence of adequate reconciliations between the accounting records and the VAT returns and the absence of supporting documentation and explanations for variances prohibited confirmation of the balance by alternative means. Consequently, I was unable to determine whether any VAT corrections on expenditure disclosed in the financial statements were necessary.

### **Debt impairment**

10. The municipality did not have adequate systems in place for the calculation and recognition of impairment losses on receivables. Impairment losses on receivables were not recognised and disclosed in the financial statements. Due to the lack of systems and of sufficient appropriate audit evidence in support of receivables, it was impracticable to determine the extent of the understatement of the debt impairment expense. Consequently, I was unable to determine whether any adjustments were necessary to the impairment expenses and debt impairment provision recognised.

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

11. SA Standards of GRAP, GRAP 17, *Property, plant and equipment* requires the financial statements to disclose the reconciliation of the carrying amount at the beginning and end of the period for each class of property, plant and equipment. Included in note 5 of the financial statements under infrastructure acquisitions is a landfill site to the value of R 7 million. In addition, property, plant and equipment and depreciation is understated by R1,3 million and R0,9 million respectively, due to the cumulative effect of numerous uncorrected misstatements.

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

12. Sufficient appropriate audit evidence was not available for trade and other receivables from exchange transactions amounting to R4,5 million (R4.3 million) and trade and other receivables from non-exchange transactions amounting to R2,2 million (R0.5 million) as disclosed in the financial statements. Due to the lack of sufficient appropriate audit evidence, I was unable to confirm these balances. Furthermore, inadequate management of debtor accounts prohibited confirmation through alternative means. Consequently, I was unable to determine whether any adjustments to trade and other receivables were necessary.

### **Water services**

13. Accounts receivable relating to water and sanitation services and consumer deposits amounting to R2,3 million included in note 2 to the financial statements were incorrectly transferred at carrying value from Chris Hani District Municipality to Engcobo Municipality. The municipality did not recognise the transferred balances at fair values, as required. In addition, sufficient appropriate audit evidence was not available supporting the amount disclosed in note 2 to the financial statements as the Chris Hani District Municipality debtor, amounting to R1,9 million. This was due to contradictions noted between accounts at the District Municipality and a confirmation received in support of the closing balance. I was unable to confirm the valuation of these debtors and consumer deposits by alternative means. Consequently, I was unable to determine whether any adjustments to these debtors and consumer deposits were necessary.

### **Fruitless and wasteful expenditure**

14. Payments for procurement transactions amounting to R0,5 million were made to suppliers with multiple bank accounts. Sufficient appropriate audit evidence was not available to confirm the authenticity of bank accounts that payments were transferred to. These payments were not classified as fruitless and wasteful expenditure in note 28.2 to the financial statements. A lack of information and documentation prohibited confirmation of the bank accounts through alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the fruitless and wasteful disclosure note contained in the financial statements.
15. In addition to the above, as disclosed in note 28.2 material losses to the amount of R2,8 million were reported by the municipality as a result of fraudulent transactions discovered during the financial year.

### **Budget information**

16. The municipality did not present budget information as required by SA Standards of GRAP, GRAP 1, *Presentation of financial statements*. Actual revenue amounting to R206 million in note 39 does not agree to total revenue of R209,1 million disclosed in the statement of financial performance. Similarly, expenditure per note 39 amounting to R155 million does not agree to R 149,2 million disclosed for total expenditure in the statement of financial performance.

### **Cash flow statement**

17. The municipality included non cash movements in the cash flow statement. This is contrary to the requirements of SA Standards of GRAP, GRAP 2, *Cash flow statements*. Comparative amounts disclosed for asset additions were also inappropriately adjusted and do not agree with amounts disclosed in the audited financial statements from the prior year.

### **Water distribution losses**

18. The municipality does not have adequate systems in place to identify, monitor and disclose water distribution losses. Sufficient appropriate audit evidence was not available and I was unable to confirm the water losses by alternative means. Consequently, I was unable to determine whether any adjustments relating to distribution losses were necessary.

### **Corresponding figures**

19. During 2010-11 I was unable to obtain sufficient appropriate audit evidence concerning:

- Revenue from property rates - R 3,4 million;
- Revenue from licences, permits and fines – R3,4 million;
- Accumulated surplus – R 3,2 million.

I was unable to obtain sufficient appropriate audit evidence for the above by alternative means. Consequently I was unable to determine whether any adjustments to these amounts and the accumulated surplus were necessary. 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.

### **Aggregation of immaterial uncorrected misstatements**

20. 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 performance, statement of financial position and the statement of changes in net assets:

- Revenue reflected as R206,9 million is overstated by R0,4 million;
- Interest income reflected as R2,2 million is understated by R0,5 million;
- General expenses reflected as R79,1 million is overstated by R0,5 million;
- Employee cost reflected as R27,7 million is understated by R0,5 million;
- Unspent conditional grants reflected as R43,5 million is understated by R0,7 million;
- Accumulated surplus reflected as R295,2 million is overstated by R1 million.

### **Qualified opinion**

21. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Engcobo Local Municipality as at 30 June 2012 and its financial performance and cash flows for the year then ended, in accordance with GRAP and the requirements of the MFMA.

### **Emphasis of matters**

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

### **Restatement of corresponding figures**

23. As disclosed in note 36 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of errors discovered during the year ending 30 June 2012.

### **Material under-spending of conditional grants**

24. As disclosed in note 10.1 to the financial statements, the municipality has materially under-spent the allocated Municipal Infrastructure Grant and other grants by an amount of R10,6 million and R32,9 million respectively. The majority of this under-spending relates to capital expenditure for infrastructure development and maintenance.

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

### **PAA REQUIREMENTS**

25. 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**

26. 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.
27. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned development priorities or objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

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

28. The material findings are as follows:

#### **Usefulness of information**

##### **Presentation**

29. 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 (MSA). This was due to inadequate internal policies and procedures over the processes pertaining to the reporting of performance information.
30. Section 46 of the MSA requires the disclosure of measures taken to improve performance in the annual performance report where planned targets were not achieved. Adequate and reliable corroborating evidence could not be provided for 32% of measures taken to improve performance as disclosed in the annual performance report. This was due to the absence of information systems. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy ourselves as to the validity, accuracy and completeness of the measures taken to improve performance.

## Consistency

31. Section 41(c) of the MSA requires the integrated development plan to form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the reported indicators were not consistent between the approved integrated development plan and the annual performance report. A total of 75% of the reported targets were not consistent as per the approved integrated development plan and the annual performance report. This was due to the lack of adequate internal policies and procedures over the processes pertaining to the reporting of performance information. This was also due to a lack of review of and oversight over the development of the annual performance report.

## Measurability

32. The National Treasury *Framework for managing programme performance information (FMPPI)* requires that performance targets be measurable. The required performance could not be measured for a total of 36% of the targets relevant to the following objectives:

- Spatial Development
- Local Economic Development
- Financial Viability
- Community Services

This was due to the fact that management was not aware of the requirements of the FMPPI.

33. The FMPPI requires that indicators or measures should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 40% of the indicators relevant to the following objectives were not well defined as clear, unambiguous data definitions were not available to allow for data to be collected consistently:

- Spatial Development
- Local Economic Development
- Financial Viability
- Community Development

This was due to the fact that management was aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles.

34. The FMPPI requires that it must be possible to validate the processes and systems that produce the indicator. A total of 40% of the indicators relevant to the following objectives were not verifiable in that valid processes and systems that produce the information on actual performance did not exist:

- Spatial Development
- Local Economic Development
- Financial Viability
- Community Development

This was due to the lack of key controls in the relevant systems of collection, collation, verification and storage of actual performance information.

## **Relevance**

35. The FMPPI requires that the indicator should relate logically and directly to an aspect of the institution's mandate, the realisation of strategic goals and objectives. A total of 28 % of indicators did not relate logically and directly to an aspect of the institution's mandate and realisation of strategic goals and objectives as per the three-year integrated development plan. This was due to the lack of development and implementation of proper performance planning and management practices to provide for the development of performance indicators and targets included in the annual performance plan. The details of the relevant indicators are relevant to the following:

- Financial viability

## **Reliability of information**

### **Validity**

36. The FMPPI requires that processes and systems which produce the indicator should be verifiable. I was unable to obtain all the information and explanations I considered necessary to satisfy ourselves as to the validity of the actual reported performance relevant to 100% of the following objectives:

- Spatial Development
- Local Economic Development
- Financial Viability
- Community Services
- Service Delivery and Engineering Services

This was due to limitations placed on the scope of my work due to the absence of information systems and the institution's records not permitting the application of alternative audit procedures.

## **Accuracy**

37. The FMPPI requires that the indicator be accurate enough for its intended use and be responsive to changes in the level of performance. I was unable to obtain all the information and explanations we considered necessary to satisfy myself as to the accuracy of the actual reported performance relevant to 100% of the following objectives:

- Spatial Development
- Local Economic Development
- Financial Viability
- Community Services
- Service Delivery and Engineering Services

This was due to limitations placed on the scope of my work by the absence of information systems and the institution's records not permitting the application of alternative audit procedures.

## **Completeness**

38. The FMPPI requires that documentation addressing the systems and processes for identifying, collecting, collating, verifying and storing information be properly maintained. The municipality could not provide sufficient appropriate evidence to support any of the following objectives:

- Spatial Development
- Local Economic Development
- Financial Viability
- Community Development
- Service Delivery and Engineering Services

This was due to limitations placed on the scope of our work by the absence of information systems and the institution's records not permitting the application of alternative audit procedures.

## **Compliance with laws and regulations**

39. 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**

40. The municipal council did not consult with the local community in the drafting and implementation of the municipality's IDP, through a forum that enhances community participation, as required by section 28 of the Municipal Systems Act and Local Government: Municipal Planning and Performance Management Regulations 15(1)(a)(i).
41. The municipality did not afford the local community at least 21 days to comment on the final draft of its integrated development plan before the plan was submitted to council for adoption, as required by regulation 15(3) of the Municipal Planning and Performance Management Regulations.
42. 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.
43. The municipality's performance management system was not in line with the priorities, objectives, indicators and targets contained in its integrated development plan, did not relate to the municipality's performance management processes and did not provide for procedures by which the system is linked to the municipality's integrated development planning processes, as required by section 38(a) of the MSA and Municipal Planning and Performance Management Regulation 7(2)(g).
44. The municipality did not :
- set appropriate key performance indicators as a yardstick for measuring performance, including outcomes and impact, with regard to the municipality's development priorities and objectives set out in its integrated development plan;
  - set measurable performance targets with regard to each development priority and objective;
  - monitor performance, with regard to each of those development priorities and objectives and against the key performance indicators and targets set;



- Take steps to improve performance with regard to those development priorities and objectives where performance targets are not met as required by section 41 of the Municipal Systems Act.

### **Budgets**

45. 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.
46. Revisions to the service delivery and budget implementation plan were not approved by the council after the approval of the adjustments budget, as required by section 54(1)(c) of the MFMA.
47. Monthly budget statements were not prepared and submitted to the mayor, as required by section 71(1) of the MFMA.

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

48. 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 of non-current assets, current assets, current liabilities, net assets, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.
49. The annual performance report for the year under review does not include the performance of the external service providers:
  - a comparison of the performance with set targets;
  - a comparison with the previous financial year and measures taken to improve performance, as required by section 46(1)(c) of the MSA.

### **Audit committee**

50. 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.
51. The audit committee did not review the municipality's performance management system or make recommendations to the council, as required by Municipal Planning and Performance Management Regulation 14(4)(a)(ii).
52. The performance audit committee did not submit at least twice during the financial year a 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).
53. The audit committee did not advise the council, 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.
54. The audit committee did not advise the council, accounting officer and the management staff on matters relating to compliance with the MFMA, DoRA and other applicable legislation, as required by section 166(2)(a)(vii) of the MFMA.
55. The audit committee did not advise the accounting officer on matters relating to internal financial control and internal audits, risk management, accounting policies, effective governance, performance management and performance evaluation as required by section 166(2)(a) of the MFMA.

### **Internal audit**

56. The internal audit unit did not function as required by section 165(2) of the MFMA, in that it did not advise the accounting officer and report to the audit committee on matters relating to internal audit, accounting procedures and practices, risk and risk management and loss control.
57. 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 Municipal Planning and Performance Management Regulation 14(1)(c).
58. The internal audit unit did not assess the functionality of the performance management system and 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 Municipal Planning and Performance Management Regulation 14(1)(b) (i) ,(ii) and (iii).

### **Procurement and contract management**

59. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) & (c).
60. 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).
61. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).
62. Bid specifications for procurement of goods and services through competitive bids were drafted in a biased manner that did not allow all potential suppliers to offer their goods or services, in contravention of SCM regulation 27(2)(a).
63. Contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding, in contravention of SCM Regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations.
64. Bid adjudication was not always performed by committees which were composed in accordance with SCM regulation 29(2).
65. 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).
66. The preference point system was not applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).
67. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
68. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders that scored the highest points in the evaluation process, as required by of section 2(1)(f) of Preferential Procurement Policy Framework Act.
69. Construction contracts were awarded to contractors that did not qualify for the contract, in accordance with section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A).
70. Construction projects were not always registered with the CIDB, as required by section 22 of the CIDB Act and CIDB regulation 18.

71. Sufficient appropriate audit evidence could not be obtained that contracts were only awarded to providers whose tax matters have been declared by the South African Revenue Service to be in order as required by SCM regulation 43.
72. 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).
73. Awards were made to providers who are persons in service of other state institutions or whose directors and principal shareholders 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).
74. Persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by SCM regulation 46(2)(e).
75. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by SCM regulation 46(2)(e) and the code of conduct for staff members issued in terms of the Municipal Systems Act.

#### **Human resource management and compensation**

76. An acting municipal manager was appointed for a period of 9 months, in contravention of section 54A(2A)(a) of the MSA.
77. The chief financial officer directly accountable to the municipal manager did not sign a performance agreement, as required by section 57(2)(a) of the MSA.

#### **Expenditure management**

78. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.
79. Payments were made without the approval of the accounting officer or a properly authorised official as required by section 11(1) of the MFMA.
80. An effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, was not in place as required by section 65(2)(a) of the MFMA.
81. The accounting officer did not take effective steps to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

#### **Conditional grants**

82. Sufficient appropriate audit evidence could not be obtained that monthly budget statements included:
  - the amount received by the municipality;
  - the amount of funds stopped or withheld from the municipality;
  - the extent of compliance with the DoRA and with the conditions of the allocation;
  - an explanation of material problems experienced by the municipality and a summary of the steps taken to deal with such problems;

as required by section 12(2)(b) of the DoRA.

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

### **Revenue management**

85. Interest was not charged on all accounts in arrears as, required by section 64(2)(g) of the MFMA.
86. A credit control and debt collection policy was not implemented, as required by section 96(b) of the Municipal Systems Act and section 62(1)(f)(iii) of MFMA.
87. An adequate management, accounting and information system was not in place which recognised revenue when it was earned, accounted for debtors and accounted for receipts of revenue, as required by section 64(2)(e) of the MFMA.
88. Revenue received was not always reconciled on a weekly basis, as required by section 64(2)(h) of the MFMA.
89. An adequate management, accounting and information system was not in place which accounted for debtors and accounted for receipts of revenue, as required by section 64(2)(e) of the MFMA.

### **Asset management**

90. 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.

### **Internal control**

91. 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 the qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

### **Leadership**

92. Management did not adequately exercise oversight over external audit findings and implement the recommendations as contained in the prior year management report as evidenced by the re-occurrence of audit findings.
93. The internal control environment was not reviewed for deficiencies in order to implement and monitor the necessary policies and procedures necessary to prevent, detect and correct material misstatements.
94. Compliance with laws and regulations was not adequately monitored throughout the year, resulting in non-compliance being undetected, therefore no corrective action or control was implemented in order to prevent the reoccurrence of compliance findings.
95. Management did not promote the establishment of an IT governance framework that would support and enable service delivery and improve and monitor financial performance.

## **Financial and performance management**

96. The financial statements submitted for audit purposes were not appropriately reviewed for accuracy and completeness resulting in the identification of numerous material audit adjustments. Pertinent information was not captured timeously and in a form which supports accurate financial reporting.
97. The municipality did not have sufficient and appropriate monthly controls and processes in place to support accurate and complete interim and final financial statement reporting. Extensive reconciliations of accounting records and supporting schedules were performed at year end.
98. The municipality did not have sufficient controls surrounding the collection, corroboration and reporting of information pertaining to predetermined objectives. The weak control environment resulted in non submission of documentation to support information reported in the annual report.
99. The municipality did not design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

## **Governance**

100. The municipality did not perform an annual risk assessment do not have a risk management strategy in place and did not implement a fraud prevention plan. IT risk and fraud prevention processes were inadequate to prevent and detect, fraudulent and irregular transactions incurred.
101. The audit committee is in place and meets regularly however the shortcomings in risk management and internal audit within the municipality seriously hamper the ability of the audit committee to dispense with its duties contained in the MFMA.
102. The audit committee failed to fulfil their legislative and mandated purpose. The committee's inability to drive the internal audit function and the inability to obtain adequate responses from management limited the effectiveness of the committee and their impact on the strengthening of the overall governance within the municipality.

## OTHER REPORTS

### Investigations

103. The following investigation, which relates to the municipality, is in progress.

- During the year fraudulent transactions were discovered at the municipality which resulted in the suspension of employees in the finance department subsequent to year end. Fraudulent payments to the value of R2,8 million were identified during this investigation. Fruitless and wasteful expenditure was incurred by the municipality for goods and services that were never received. The investigation is still underway and disciplinary procedures have been instituted against the officials. No outcome of the investigations can be determined at the date of this report.

*Auditor - General*

East London

30 November 2012



AUDITOR - GENERAL  
SOUTH AFRICA

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