

Audit Report

Elundini Municipality

For the Year ended 30 June 2012

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

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

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 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 these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2001) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. 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 audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Elundini 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 and DoRA.

Emphasis of matters

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

Restatement of corresponding figures

8. As disclosed in note 36 to the financial statements, the corresponding figures which relate to the year ended 30 June 2011 have been restated as a result of the expiry of the provisions contained in Directive 4 relating to property, plant and equipment as well as errors and reclassifications discovered during the current financial year.

Unauthorised expenditure

9. As disclosed in note 42.1, unauthorised expenditure amounting to R35 324 576 was incurred during the year ended 30 June 2012. This was due to overspending of budget on certain votes.

Material underspending of the budget

10. The municipality has materially underspent on its capital budget. As disclosed in note 41 to the financial statements, R11 614 840 of the capital budget remained unspent at 30 June 2012.

Additional matter

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

Unaudited supplementary schedules

12. The supplementary information set out on pages 73 and 74 does not form part of the financial statements and is presented as additional information. We have not audited these schedules and, accordingly, we do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

PAA REQUIREMENTS

13. 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

14. 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.
15. 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. 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).

16. The material findings are as follows:

Usefulness of information

Measures taken to improve performance not disclosed

17. 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.

Performance targets not specific

18. The National Treasury *Framework for managing programme performance information* (FMPPI) requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 26% of the targets relevant to service delivery and infrastructure development and financial sustainability and viability were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles.

Performance targets not measurable

19. The National Treasury FMPPI requires that performance targets be measurable. The required performance could not be measured for a total of 26% of the targets relevant to service delivery and infrastructure development and financial sustainability and viability. This was due to the fact that management was aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles.

Performance Indicators not well defined

20. The National Treasury FMPPI requires that indicators/measures should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 26% of the indicators relevant to service delivery and infrastructure development and financial sustainability and viability were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles.

Indicators not verifiable

21. The National Treasury FMPPI requires that it must be possible to validate the processes and systems that produce the indicator. A total of 26% of the indicators relevant to service delivery and infrastructure development and financial sustainability and viability 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 aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles.

Reliability of information

Validity

Reported performance not valid

22. The National Treasury FMPPI requires that processes and systems which produce the indicator should be verifiable. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the validity of the actual reported performance relevant to 29% of service delivery and infrastructure development and financial sustainability. This was due to limitations placed on the scope of my work by the absence of information systems.

Accuracy

Reported performance not accurate

23. The National Treasury FMPPI requires that the indicator be accurate enough for its intended use and respond to changes in the level of performance. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the accuracy of the actual reported performance relevant to 29% of service delivery and infrastructure development and financial sustainability. This was due to limitations placed on the scope of my work by the absence of information systems.

Completeness

Reported performance not complete

24. The National Treasury FMPPI requires that documentation addressing the systems and processes for identifying, collecting, collating, verifying and storing information be properly maintained. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the completeness of the actual reported performance relevant to 29% of service delivery and infrastructure development and financial sustainability. This was due to limitations placed on the scope of my work by the absence of information systems.

In addition to the above material findings, I draw attention to the following matter:

Achievement of planned targets

25. Of the total number of planned targets, only 48 were achieved during the year under review. This represents 54% of total planned targets that were not achieved during the year under review. This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process.

Compliance with laws and regulations

26. 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:

Annual financial statements, performance and annual report

27. 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 current assets, revenue and disclosure items identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Budget

28. Expenditure was incurred in excess of the limits provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

Procurement

29. 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.

Internal control

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

Leadership

31. The accounting officer reviewed the financial statements and the report on predetermined objectives prior to their submission for audit. However, certain audit adjustments needed to be made to the financial statements. Oversight responsibilities were sufficiently discharged but actions can still be improved. The municipality implemented an action plan to address internal control deficiencies and significant improvements have been noted in the overall number of audit findings in the current year; however, additional review of the IDP and SDBIP is still required to ensure compliance with regulations.

Financial and performance management

32. The annual financial statements submitted for audit were subject to material amendments. This was as a result of the additional workload at management level required to finalise property, plant and equipment values. Junior Finance officials are not sufficiently skilled to perform a lower level review of the draft annual financial statements in order to identify casting errors.
33. In addition, non-compliance was noted relating to performance information. Management has not addressed prior year findings relating to how indicators and targets are worded. Non-compliance with laws and regulations could have been prevented had compliance been properly reviewed and monitored.

Auditor - General.

East London

30 November 2012



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence