

Audit Report

Senqu Municipality

For the Year ended 30 June 2012



AUDITOR - GENERAL
SOUTH AFRICA

The accounting officer
Senqu Municipality
19 Murray Street
Lady Grey
9755

30 November 2012

Reference: 21290REG11-12

Dear Mr Yawa

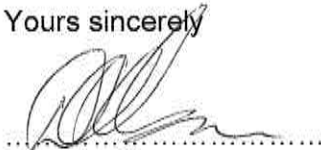
Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Senqu Municipality for the year ended 30 June 2012.

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA)
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the audit report in the Municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.

- The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
 7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely



Dereck Ollsson
Senior Manager: ELO2

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

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

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation of these financial statements in accordance with South African Standard of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2011 (Act No. 6 of 2011) (DoRA) and for such internal control as management determines 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 2004) (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 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 Senqu 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 39 to the financial statements, the corresponding amounts included in the financial statements for the financial year ended 30 June 2012 have been restated for the purposes of corrections of errors in the prior year. These corrections arose as a result of the indication of the discontinuation of water services provided by the district municipality, as well as compliance with GRAP 13, *Leases* in regard to the classification of the three year lease contract; and the value added taxation (VAT) implication on prior year debts written off by the council in the current year.

Material losses

9. As disclosed in note 45.4 to the financial statements, the municipality suffered an electricity loss of 3,7 million kilowatts in the current year (2011: 5,6 million kilowatts) amounting to R2,2 million (2011: R3 million).

Irregular expenditure

10. Irregular expenditure amounting to R1,46 million was incurred in the current financial year as a result of contravention of the MFMA, TR and SCM policy as disclosed in note 45.3 to the financial statements. Irregular expenditure was identified by the auditors during the audit process conducted on procurement and contract management testing.

Additional matter

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

Unaudited Supplementary Schedules

11. The supplementary information set out on pages xx to xx 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

12. 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

13. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages xx to xx of the annual report.
14. 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's 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 and relevant as required by the National Treasury *Framework for managing programme performance information (FMPPI)*.

The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts.

The material findings are as follows:

Usefulness of information

Presentation

Measures taken to improve performance not disclosed

15. Section 46 of the MSA requires that the municipality must prepare for each financial year a performance report reflecting the performance of the municipality and of each external service provider during that financial year, (b) a comparison of the performances referred to in paragraph (a) with targets set for and performances in the previous financial year; and (c) measures taken to improve performance. The municipality did not prepare a performance report in respect of the performance of each external service provider, a comparison of the performance with targets set for and performances in the previous financial year were not included in the performance report and mechanism and measures to improve the performance were also not included in the performance report.

Consistency

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

16. The audit of predetermined objectives revealed that a number of indicators, targets and strategies reflected in the service delivery and budget implementation plan (SDBIP) / integrated development plan (IDP) review are not aligned to the annual report, some IDP strategies were not included in the SDBIP and in some instances IDP strategies were not aligned to SDBIP focus areas, thus the consistency between the planning and reporting documents could not be verified.

Measurability

Performance indicators not well defined, not verifiable and targets not time bound

17. The National Treasury FMPPI requires that performance targets be measurable. A number of focus areas indicated in the SDBIP did not have set targets and/or key performance indicators and some key performance indicators are not well defined.

Additional matter

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

Achievement of planned targets

18. Of the total of 127 planned targets, only 39 were achieved during the year under review. This represents 69% of total planned targets that were not achieved during the year under review. This was as a result of the municipality not considering relevant systems and evidential requirements during the annual strategic planning process.

Compliance with laws and regulations

19. 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

20. The municipality did not set measurable performance targets with regard to each development priority and objective and no steps were taken 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, 2000 (Act No. 32 of 2000) (MSA) and Municipal Planning and Performance Management Regulations (MPPMR) 7 and 8.

Financial statements, performance and annual report

21. 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 were identified by the auditors.
22. The annual performance report did not contain a comparison of the performance of the municipality and of each external service provider with development priorities, objectives and performance indicators set out in its IDP as required by section 46 of the MSA.

Procurement and contract management

23. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of Supply Chain Management (SCM) regulation 17(a) and (c).
24. The register of bids received on time and the bid results were not published on the website of the municipality as per the requirement of SCM regulation 23(c).
25. Awards were made to suppliers based on criteria that were not similar to those stipulated in the original bid documents as per the requirements of SCM regulation 21(b).
26. Awards were made to suppliers who did not submit a declaration of their employment by the state or their relationship to a person employed by the state as per the requirements of municipal SCM regulation 13(c).

27. The contract performance measures and methods whereby they are monitored were insufficient to ensure effective contract management as per the requirements of section 116(2)(c) of the MFMA.
28. Awards were made to providers who are persons in service of other state institutions in contravention of the requirements of SCM regulations 44. Furthermore the providers failed to declare that they are in the service of the state as required by SCM regulation 13(c).

Internal control

27. 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 compliance with laws and regulations included in this report.

Leadership

- The accounting officer did not exercise oversight responsibilities over adherence to the SCM regulations to ensure compliance with laws and regulations as well as effective internal controls, as a result, material irregular expenditure was discovered by the auditors which were adjusted by the municipality. Furthermore, the municipality did not have sufficient monitoring controls to ensure adherence to the internal policies and procedures relating to the performance information as weaknesses were identified in the process for identifying, collecting, collating, verifying and storing information that is utilised as a basis for preparing the annual performance report.
- Material misstatements were identified in capital commitments. These misstatements occurred as a result of insufficient measures and processes to identify all capital commitments that should be disclosed in the financial statements.

Financial and performance management

- The accounting officer did not design and implement adequate systems for predetermined objectives, as documented policies and procedure manuals were not implemented, as a result, significant deficiencies were identified in the annual performance report.

Auditor General

East London

30 November 2012



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence