



AUDITOR - GENERAL
SOUTH AFRICA

The Municipal Manager
Ingquza Hill Local Municipality
135 Main Street
P.O. Box 14
Flagstaff
4810

Date: 29 November 2012

Reference: 18454REG11-12

Dear Mr. Fihlani

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Ingquza Hill 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 Ingquza Hill Local 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

Signed



Senior Manager: ECBU

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Ingquza Hill Local 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 cash flow statement for the year then ended, 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 the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), as well 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 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 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 Ingquza Hill Local Municipality as at 30 June 2012, and its financial performance and cash flows for the year then ended in accordance with SA Standards of 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 32 to the financial statements, the corresponding figures for the year prior balance sheet date have been restated as a result of errors discovered during the current year. These corrections were made in the financial statements of the municipality at, and for the year ended, 30 June 2012.

Material impairments

9. As disclosed in note 11 to the financial statements, material losses of R32,3 million were incurred as a result of poor debt collection.

Additional matter

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

Unaudited supplementary schedules

11. The supplementary explanations of budget variances contained in actual versus budget, as referred to in annexure A, do not form part of the financial statements. I have not audited these explanations and accordingly I 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 of the municipality 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 or 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's *Framework for managing programme performance information* (FMPPI).
15. 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).
16. The material findings are as follows:

Usefulness of information

Reported targets not consistent with planned targets

17. Section 41(c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) requires that the service delivery and implementation plan agreement 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 54% of the reported objectives were not consistent with the objectives as per the approved service delivery budget and implementation plan (SDBIP). This was due to a lack of adequate review to ensure that a significant amount of objectives in the SDBIP were reported on in the annual performance report.

Reported performance not specific

18. The FMPPI requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 47% of the targets were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that although management members were aware of the requirements of the FMPPI, they had not received the necessary training to enable application of the principles.

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:

Annual financial statements, performance report and annual report

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

Strategic planning and performance management

21. 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 integrated development plan, as required by section 46 of the MSA.
22. 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 the council for adoption, as required by Municipal Planning and Performance Management Regulation 15(3).

Procurement and contract management

23. Some goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations as required by Supply Chain Management (SCM) Regulation 17(a) and (c).
24. Some quotations were accepted from prospective providers who were not registered on the list of accredited prospective providers or did not meet the listing requirements prescribed by the SCM policy, in contravention of SCM Regulations 16(b) and 17(b).
25. Bid specifications were not always drafted by bid specification committees composed of one or more officials of the municipality, as required by SCM Regulation 27(3).
26. Invitations for competitive bidding were not always advertised for the minimum period, as required by SCM Regulation 22(1) and (2).

Asset management

27. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system that accounted for assets, as required by sections 63(2)(a) and 96(2)(a) of the MFMA.
28. The accounting officer did not maintain a system of internal control for assets, including an asset register, as required by sections 63(2)(c) and 96(2)(b) of the MFMA, because there were material adjustments due to assets being misstated.

Revenue management

29. The municipality did not fully maintain and implement a credit control and debt collection policy as required by section 96(b) of the MSA and section 62(1)(f)(iii) of the MFMA.
30. The credit control and debt collection policy was not entirely consistent with the rates and tariff policies of the municipality, as required by section 96(b) of the MSA.
31. The accounting officer did not inform the National Treasury of any payments due by an organ of state to the municipality in respect of municipal taxes or for municipal services if such payments were regularly in arrears for more than 30 days, as required by section 64(3) of the MFMA.
32. The municipality did not fully maintain a management, accounting and information system to recognise revenue when it was earned as well as accounted for debtors and receipts of revenue, as required by sections 64(2)(e) and 97(h) of the MFMA.
33. An effective revenue collection system was not in place. The municipality did not collect all money that was due and payable to it, as required by section 64(2)(a) of the MFMA.
34. The municipality did not update its valuation roll at least once every year, as required by section 77 of the Municipal Property Rates Act of South Africa, 2004 (Act No. 6 of 2004).
35. The municipality did not draw up a register in respect of properties situated within the municipality consisting of part A and part B, as required by section 23 of the Municipal Property Rates Act, 2004.

Expenditure management

36. The accounting officer did not fully ensure that payments were made within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure, as required by section 99(2)(b) of the MFMA.
37. The accounting officer did not take effective steps to prevent irregular or fruitless and wasteful expenditure and other losses, as required by section 95(d) of the MFMA.
38. The accounting officer did not promptly inform the mayor in writing of any unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality; whether any person was responsible or investigated for such expenditure; and the steps that had been taken to recover or rectify such expenditure and to prevent a recurrence of such expenditure, as required by section 32(4) of the MFMA.
39. The municipality did not recover unauthorised, irregular or fruitless and wasteful expenditure from the person liable for that expenditure, as required by section 32(2) of the MFMA.

Human resource management

40. The municipality did not ensure that the monthly compensation of overtime constituted less than 30% of employees' monthly salary, as required by Public Service Regulation D.2(c).
41. An evaluation panel was not established to review the annual performance of the municipal manager and senior managers, as required by Municipal Performance Regulation 27(4)(d) and (e).
42. There was no final assessment based on key performance areas accounting for 80% of the final assessment and core competency requirements accounting for 20% of the final assessment, as required by Municipal Performance Regulation 26(5).

Internal audit

43. The internal audit unit did not advise the accounting officer and report to the audit committee on matters relating to compliance with the MFMA, DoRA and any other applicable legislation, as required by section 165(2)(b) of the MFMA.
44. The internal audit unit did not adequately advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to internal audit, internal controls, accounting procedures and practices as well as risk and risk management, as required by section 165(2)(b) of the MFMA, as not all planned audits were performed.
45. The internal audit unit did not assess the functionality of the performance management system, the compliance of the performance management system with the MSA, and the extent to which the performance measurements were reliable in measuring the performance of the municipality on key as well as general performance indicators, as required by Municipal Planning and Performance Management Regulation 14(1)(b)(i).
46. 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).
47. The municipality did not fully develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required by Municipal Planning and Performance Management Regulation 14(1)a.

Audit committee

48. The audit committee did not advise the council, accounting officer and management staff on matters relating to internal financial control and internal audits, as required by section 166(2)(a) of the MFMA, as the internal audit unit was ineffective.
49. The audit committee did not submit an audit report on the review of the performance management system to the council at least twice during the financial year, contrary to Municipal Planning and Performance Management Regulation 14(4)(a)(iii).

Internal control

50. I considered internal control relevant to my audit of the financial statements, 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 performance report and the findings on compliance with laws and regulations included in this report.

Leadership

51. The municipality did not have sufficient monitoring controls to ensure adherence to the internal policies and procedures at a programme level and for purposes of taking corrective action. This is evident by the significant deficiencies identified in the financial statements that were subsequently corrected by management, the significant deficiencies in the report on predetermined objectives submitted for audit purposes and the instances of non-compliance with relevant laws and regulations identified during the audit process.

Financial and performance management

52. The municipality did not perform adequate monitoring or monthly reviews of its financial statements and performance reports, as evidenced by the number of adjustments identified in the financial statements submitted for audit purposes that were subsequently corrected by management and the significant deficiencies in the performance report submitted.

Governance

53. The internal audit unit did not effectively review compliance with all laws and regulations as well as the accuracy and validity of the information presented in the performance report prior to its submission by management for audit purposes. This is evidenced by the significant internal control deficiencies picked up during the audit in the report on predetermined objectives and the instances of non-compliance with laws and regulations.
54. The audit committee did meet prior to the submission of the financial statements and report on predetermined objectives, to review the adequacy, reliability and accuracy of the financial statements and annual performance report. However, the review of the report on the financial statements, predetermined objectives and compliance with laws and regulations was not adequate, as evidenced by the significant misstatements identified during the audit.

Auditor - General
East London

29 November 2012



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence