

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Camdeboo Municipality set out on pages xx to xx which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, changes in net assets, cash flows and statement of comparison of budget and actual amounts for the year then ended, and 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 and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act, 2003 (Act No.56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2012 (Act No.5 of 2012 as amended), 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 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 qualified audit opinion.

Basis for qualified audit opinion

Property, plant and equipment

6. The municipality does not maintain an adequate fixed asset register, and sufficient appropriate audit evidence was not available to support property, plant and equipment amounting to R638,26 million (2012: R647,78 million) in the financial statements. I was unable to confirm the amounts by alternative means. Consequently, I was unable to

determine whether adjustments to property, plant and equipment were necessary.

Qualified opinion

7. In my opinion, except for the possible effects of the matter described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Camdeboo Municipality as at 30 June 2013 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and the DORA.

Emphasis of matters

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 35 to the financial statements, the corresponding figures have been restated as a result of errors only corrected during the year ended 30 June 2013 that existed in the financial statements at, and for the year ended, 30 June 2012.

Unauthorised expenditure

9. Unauthorised expenditure of R15,20 million has been disclosed in note 39.1 to the financial statements. Expenditure was incurred in excess of the limits of the amounts provided for in the corporate services, technical services: engineering and electrical votes of the approved budget, in contravention of section 15 of the MFMA.

Material losses

10. As disclosed in note 40.9 to the financial statements, the municipality suffered significant water and electricity losses of 1 687 234 kilolitres and 3 496 233 kilowatts at a value of R7,92 million and R1,50 million, respectively.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

11. 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

12. I was unable to report on the usefulness and reliability of the annual performance report of Camdeboo Municipality as it was not prepared as required by section 46 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) and section 121(3)(c) of the MFMA.

Compliance with laws and regulations

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

13. The integrated development plan (IDP) adopted by the municipality does not reflect and identify a financial plan, the key performance indicators and targets, as required by sections 26 and 41 of the MSA.

14. The municipality did not give effect to its IDP and conduct its affairs in a manner which was consistent with its IDP, as required by section 36 of the MSA, section 21(2)(a) of the MFMA and municipal planning and performance management regulation 6 (MPPMR).
15. The municipality did not establish a performance management system, as required by section 38(a) of the MSA.
16. The performance management system of the municipality was not in line with the priorities and objectives contained in its IDP and did not clarify the roles and responsibilities of each role player in the functioning of the system, in relation to the municipality's performance management and planning processes, as required by section 38(a) of the MSA and MPPMR 7(2)(c), (e), (f) and (g).
17. The performance management system of the municipality did not provide for the monitoring of performance and for the measuring and review of performance at least once per year, with regard to each of those development priorities and objectives and against the key performance indicators and targets set, as required by section 41 of the MSA.
18. The performance management system of the municipality did not provide for taking steps to improve performance with regard to those development priorities and objectives where performance targets are not met, as required by section 41(1)(d) of the MSA.
19. The municipality did not set key performance indicators, including input indicators, output indicators and outcome indicators, in respect of each of the development priorities and objectives set out in the IDP, as required by section 41(1)(a) of the MSA and MPPMR 1 and 9(1)(a).
20. The municipality did not set measurable performance targets for the financial year with regard to each of the development priorities and objectives and key performance indicators set out in the IDP, as required by section 41(1)(b) of the MSA and MPPMR 12(1) and 12(2)(e).
21. The accounting officer of the municipality did not by 25 January assess the performance of the municipality during the first half of the financial year, as required by section 72(1)(a)(ii) of the MFMA.
22. The municipality did not have and maintain effective, efficient and transparent systems of financial and risk management and internal controls as required by section 62(1)(c)(i) of the MFMA.

Annual financial statement and annual reports

23. The annual performance report for the year under review does not include the performance of the municipality, a comparison of the performance with set targets and a comparison with the previous financial year with measures taken to improve performance, as required by section 46 (1) (a), (b) and (c) of the MSA.
24. 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 in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a qualified audit opinion.

25. The annual report for the financial year ended 30 June 2012 was not tabled in council within seven months after the end of the financial year as required by Section 127(2) of the MFMA.
26. A written explanation was not submitted to council setting out the reasons for the delay in the tabling of the 2011-12 annual report in the council, as required by section 127(3) and 133(1)(a) of the MFMA.
27. The municipal council did not adopt an oversight report, containing comments on the annual report, within two months from the date on which the 2011-12 annual report was tabled, as required by section 129(1) of the MFMA.
28. The accounting officer did not make public the council's oversight report on the 2011-12 annual report within seven days of its adoption, as required by section 129(3) of the MFMA.

Audit committee

29. The audit committee was not used to fulfil the performance audit committee function, as required by MPPMR 14(2)(a).
30. The audit committee did not review all the quarterly internal audit reports on performance measurement, as required by MPPMR 14(4)(a)(i).
31. The audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by MPPMR 14(4)(a)(iii).
32. The audit committee did not advise the accounting officer and management staff on matters relating to risk management as required by section 166(2)(a) of the MFMA.
33. 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.

Internal audit unit

34. The internal audit unit did not effectively assess the functionality of the performance management system, as required by MPPMR 14(1)(b)(i).
35. The internal audit unit did not effectively assess 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 MPPMR 14(1)(b)(iii).
36. The internal audit unit did not audit the performance measurements on a continuous basis and submitted quarterly reports on their audits to the audit committee, as required by MPPMR 14(1)(c).

Procurement and contract management

37. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
38. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.

Expenditure management

39. The accounting officer did not take reasonable steps to prevent unauthorised, irregular as well as fruitless and wasteful expenditure, as required by section 62(1) (d) of the MFMA.
40. 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.

Budgets

41. Expenditure was incurred in excess of the limits of the amounts provided for in the corporate services, technical services: engineering and electrical votes of the approved budget, in contravention of section 15 of the MFMA.
42. 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.

Consequence management

43. Unauthorised, irregular as well as fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.

Asset Management

44. 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.

Internal control

45. I considered internal controls 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 qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

46. Leadership did not take full ownership of the internal control environment and did not insist on daily disciplines to ensure efficiency and effectiveness in financial management, performance information and compliance with laws and regulations, thus not setting the correct tone for the credibility of all reports of the administration.
47. The financial statements submitted for audit contained material errors as it was not subjected to timeous and detailed review.
48. Although the municipality developed an audit action plan, it was not monitored by leadership to ensure management were addressing internal control deficiencies.
49. There are no formally approved policies and procedures to address the information technology (IT) function and associated risks, as these have not been reviewed and prioritised.

Financial and performance management

50. The reports in support of pre-determined objectives were incomplete and there were no

proper processes in place to monitor the collation, verification and reporting of targets and indicators as a result of vacancies and limited skills . This has resulted in the significant deficiencies and information which is neither useful nor reliable.

51. The financial statements were subject to material adjustments which were not detected by management. In addition, material misstatements which were not corrected form the basis of the qualified audit opinion. This is as a result of management not maintaining supporting documentation for the value of infrastructure assets recorded in the fixed asset register.
52. There is inadequate oversight by management due to a lack of regular reviews by management on monthly reporting and compliance with laws and regulations.

Governance

53. The lack of recent risk assessment exposes the municipality to significant risks for which the municipality might not be able to implement mitigating controls timeously.
54. Internal audit functioned without an approved internal audit plan for 9 months of the year. As a result, not all key risk pertaining to the municipality were addressed by internal audit assignments, which impacted on the completeness, accuracy and validity of information included in the financial statements and the annual performance report.
55. The audit committee exercised oversight over the implementation of the matters reported by the internal audit function and brought to its attention by management. However, the audit committee was not effective and they did not provide adequate assurance as material amendments were necessary to the financial statements. In addition, the audit committee could not discharge its duties concerning performance management owing to the deficiencies in the performance management system and incomplete annual performance report.

Auditor-General

East London

30 November 2013



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence