

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Baviaans Local 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, statement of changes in net assets and the cash flow statement and statement of comparison of budget and actual amounts 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 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, 2012 (Act No. 5 of 2012) (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 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 opinion.

Basis for qualified opinion

Investment property

6. The municipality did not have an adequate system in place for the identification and recognition of investment properties and did not include all its investment properties in the amount disclosed in note 7 to the financial statements. Due to the lack of systems, it was impracticable to determine the full extent of the understatement in investment property of R39,6 million disclosed in the above note. I was unable to confirm the

amount by alternative means. Consequently I was unable to confirm whether further adjustments relating to investment property were necessary in the financial statements.

Qualified Opinion

7. In my opinion, except for the possible effects of the matter described in the Basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Baviaans Local Municipality as at 30 June 2013 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

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

Restatement of corresponding figures

9. As disclosed in note 31 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.

Financial sustainability

10. The financial statements of the Baviaans Local Municipality indicate that the current liabilities exceeded its current assets by R 17,6 million as at 30 June 2013. This situation, along with other matters as set out in note 48, indicates that the municipality may encounter difficulty realising its assets and discharging its liabilities in the normal course of business.

Material losses

11. As disclosed in note 42 to the financial statements, the municipality incurred distributions losses relating to water of R 606 232 (20.51%) and electricity of R 1,1 million (12.14%).

Unauthorised expenditure

12. As disclosed in note 37 to the financial statements, unauthorised expenditure of R1.2 million was incurred due to overspending on votes.

REPORT ON OTHER LEGAL AND REGULATORY 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 XX to XX 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's 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's *Framework for managing programme performance information*.

16. The reliability of the information in respect of the selected development priorities or objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
17. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

Compliance with laws and regulations

18. 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 and annual report

19. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.
20. Material misstatements of non-current assets, current liabilities and accumulated surplus identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were subsequently provided.

Expenditure management

21. 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.
22. Reasonable steps were not taken to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Asset management

23. An adequate management, accounting and information system that accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
24. 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.

Procurement and contract management

25. Awards were made to providers who 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).

Human resource management

26. The performance agreement of the municipal manager did not specifically include the general financial management functions as defined in section 62(1) of the MFMA.

Internal control

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

Leadership

28. The weaknesses and deficiencies that have undermined the control environment of the municipality over the past number of years have not been completely addressed. Control deficiencies in human resource, asset management, procurement and contract management and the lack of implementation of policies and procedures were identified, as in prior years. However, this was due to management not implementing prior year audit recommendations timeously to facilitate changes within the municipality.

Financial and performance management

29. Consultants were appointed to draft the financial statements as management and officials did not have the skills and knowledge necessary to fully understand the requirements of the applicable reporting framework.
30. The municipality does not have systems in place to monitor compliance with all applicable legislation. Non-compliance with laws and regulations could have been prevented had compliance been properly reviewed and monitored, particularly with respect to procurement. There is a lack of supervision, monitoring and consequence management in respect of the reporting process.

Governance

31. The internal audit did not function throughout the year and did also not conduct all audits on their approved audit plan. As a result, not all key risks pertaining to the municipality were addressed.

Auditor-General

East London

30 November 2013



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence