

# **REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE GREAT KEI LOCAL MUNICIPALITY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I have audited the financial statements of the Great Kei Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets, statement of comparison of budget and actual amounts and cash flow statement 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 (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 adverse audit opinion.

## **Basis for adverse audit opinion**

### **Property, plant and equipment**

6. The municipality did not have adequate processes to ensure that all property, plant and equipment as disclosed in note 5 to the financial statements was recorded and valued correctly. As a result, assets meeting the definition of property, plant and equipment were incorrectly disclosed as inventory in both the current and prior year. Furthermore, items of property, plant and equipment identified during the audit were not included in the asset register and land was included in the asset register at the incorrect values due to an incorrect valuation of the land. Due to the above, depreciation was also incorrectly calculated. Consequently, property, plant and equipment is understated by R37,1 million (2011-12: R42,6 million), inventory is overstated by R106 million (2011-12: R106 million), accumulated surplus is understated by R68,9 million (2011-12: R63,4 million), depreciation is understated by R2,1 million and the accumulated depreciation is understated by R39,1 million (2011-12: R37 million).

### **Investment property**

7. The municipality did not have adequate processes to ensure that all investment property as disclosed in note 4 to the financial statements was recorded, recognised and valued correctly. As a result, properties not meeting the definition of investment property as required by GRAP 16 *Investment property* were incorrectly disclosed as investment property. Furthermore, investment properties were included in the investment property register at the incorrect amounts. Investment property is therefore understated by R12,9 million (2011-12: R12,9 million). The accumulated surplus is overstated by the same amount.

### **Accumulated surplus**

8. A restatement of prior year balances of R276,3 million (2011-12: R3,7 million) during the current year was disclosed in the statement of changes in net assets. The accumulated surplus and prior period errors as disclosed in note 40 are understated by R92,9 million (2011-12: R87,5 million), investment property is understated by R12,9 million (2011-12: R12,9 million), property, plant and equipment is overstated by R68,9 million (2011-12: R63,4 million), the opening balance of accumulated depreciation is understated by R37 million, as a result of the following:
  - Property, plant and equipment being reflected at incorrect values and assets not included in the asset register.
  - Accumulated depreciation relating to reclassified property, plant and equipment not recognised.
  - Investment property register values were incorrect and a title deed was not in the name of the municipality.

### **Receivables from exchange transactions**

9. During the current and prior year, the municipality did not maintain an updated debtors ledger, as debtors accounts were duplicated on the system. Debtors had debit and credit balance accounts that were not netted off against each other, resulting in the overstatement of trade receivables and payments received in advance by R898 984.
10. Interest was also not charged on overdue accounts, as required by section 64(2)(g) of the MFMA. In addition, unauthorised withdrawals from the bank account were raised as a

debtor with an uncertainty as to the recoverability of this amount. Due to the nature of these findings, it was impracticable to determine the full extent to which receivables from exchange transactions are misstated.

11. Furthermore, details as disclosed in note 9 to the financial statements did not reconcile to the amounts per the age analysis. Consequently, it was not possible to determine whether any further adjustments were necessary to the amount disclosed for receivables from exchange transactions of R8,5 million (2011-12: R1,1 million) as disclosed in the statement of financial position to the financial statements.

#### **VAT receivable**

12. VAT reconciliations between the amount receivable from the South African Revenue Service and the amount per the general ledger were not performed for the current and prior year. I was unable to confirm the balance for either year by alternative means. Consequently, I was unable to determine whether any further adjustments to the VAT receivable as disclosed in note 12 were necessary.

#### **Provisions**

13. The municipality did not have an accounting policy for the provision of long service bonuses disclosed in note 16 to the financial statements amounting to R940 000 (2011-12: R893 000). This amount was incorrectly disclosed as a provision instead of a long-term employee benefit. Furthermore, the provision for environmental rehabilitation was incorrectly calculated by the municipality resulting in an overstatement of R792 602 (2011-12: R791 859).
14. As a result, provisions as disclosed in note 16 are overstated by R1,7 million (2011-12: R1,7 million), the employee benefit obligation as disclosed in note 8 is understated by R940 000 (2011-12: R893 000) and property, plant and equipment as disclosed in note 5 is overstated by 792 602 (2011-12: R791 859).

#### **Payables from exchange transactions**

15. During 2011-12, enough appropriate audit evidence was not available for payments received in advance as disclosed in note 18 to the financial statements, and I was unable to confirm the balance by alternative means. I was unable to determine whether any adjustments to payments received in advance were necessary. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

#### **Other current financial liabilities**

16. During 2011-12, enough appropriate audit evidence was not available for other current liabilities of R1,6 million as disclosed in the statement of financial position and note 18 to the financial statements, and I was unable to confirm the balance by alternative means. I was unable to determine whether any adjustments to other current financial liabilities were necessary. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

## **Accruals**

17. During 2011-12, the municipality did not have an adequate system to maintain leave records, and not all leave forms were submitted for audit purposes. Furthermore, employees were not all included on the schedule for the accrued leave pay. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any further adjustments to the accrued leave pay of R1,4 million as disclosed in note 18 to the financial statements were necessary. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

## **Revenue from exchange transactions**

18. The municipality did not measure all revenue as per GRAP 9 *Revenue from exchange transactions* at the fair value of the consideration received or receivable as required by the standard. Service charges revenue is understated by R1,4 million and trade receivables are understated by the same amount, as a result of the following:
  - Differences between customer units purchased and used for basic electricity and electricity billed by R1,3 million.
  - Refuse revenue is understated by R92 158.
19. During 2011-12, the output VAT on cash sales for prepaid electricity and sundry revenues was incorrectly recorded as revenue, resulting in revenue being overstated by R249 277 and the VAT payable being understated by the same amount. Furthermore, meter readings were incorrectly captured on the billing system. I was unable to confirm the revenue by alternative means. My audit opinion on the financial statements for the period ended 30 June 2012 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

## **Revenue from non-exchange transactions**

20. During 2011-12, properties per the valuation roll were not included in the debtors system and the property valuations per the valuation roll were not reconciled with the debtors system, resulting in assessment rates not being billed or being billed incorrectly. I was unable to confirm the revenue from non-exchange transactions by alternative means. My audit opinion on the financial statements for the period ended 30 June 2012 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

## **Expenditure**

21. During 2011-12, the municipality did not have adequate controls over the processing of transactions in the general ledger. VAT was incorrectly processed in the accounting system and expenditure was captured in the incorrect period, resulting in expenditure being overstated by R738 607, the VAT payable being overstated by R539 687, the accumulated surplus being overstated by R204 887, and trade payables from exchange transactions being understated by R5 967.
22. In addition, the municipality did not classify lease agreements as finance leases where substantially all risks and rewards incidental to ownership were transferred to the

municipality, in accordance with GRAP 13 *Leases*. The municipality is party to a number of lease agreements that constitute finance leases, which have been accounted for as operating leases. Furthermore, lease payments were disclosed in the incorrect periods.

23. My audit opinion on the financial statements for the period ended 30 June 2012 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of these matters on the comparability of the current period's figures.

#### **Employee related costs**

24. Allowances paid to employees were incorrectly calculated, resulting in an overstatement of note 27 to the financial statements by R297 168. Municipal contributions to employees' medical aid schemes exceeded the industry norm by R26 432. Furthermore, the number of leave days paid out to employees exceeded the number stipulated in the municipality's leave encashment policy and resulted in an overstatement of R67 936. The related debtors in respect of these misstatements were not raised at year-end, resulting in an understatement of receivables from exchange transactions as disclosed in note 10 to the financial statements.
25. Adequate supporting documentation was not provided for audit purposes during the current and two preceding years for basic salaries, allowances and evidence to support the required adjustment to salaries, as required by the categorisation and wage curves collective agreement. It was therefore not possible, even through alternative procedures, to confirm the amount of R27,2 million as disclosed in note 27 to the financial statements.

#### **Unauthorised expenditure**

26. Enough appropriate audit evidence was not submitted to calculate the extent of unauthorised expenditure per vote, as required by sections 1 and 125(2)(d)(i) of the MFMA. Consequently, I was unable to determine whether any further adjustments were necessary to the unauthorised expenditure disclosed in note 44 to the financial statements at an amount of R6,9 million (2011-12: R6,9 million).

#### **Irregular expenditure**

27. The municipality did not have adequate systems to identify and disclose all irregular expenditure incurred during the year and to ensure that all irregular expenditure incurred was in terms of the definition, as required by section 125(2)(d)(i) of the MFMA. The irregular expenditure disclosed in note 46 to the financial statements is understated by R6,7 million (2011-12: R3,1 million), relating to irregular expenditure incurred during the year and identified during the audit process, while the opening balance for 2011-12 is also overstated by R771 856 in this regard. Due to the inadequate systems in place and non-availability of enough appropriate audit evidence for all awards it was impracticable to determine the full extent of the understatement of irregular expenditure disclosed in note 46 at R115,6 million (2011-12: R113,6 million). Consequently, I was unable to determine whether any further adjustments were necessary to the irregular expenditure disclosure note.

#### **Commitments**

28. The municipality did not have an accounting policy for commitments disclosed. Differences of R4,2 million (2011-12: R431 377) were identified between the contract values and the commitments disclosed in note 37 to the financial statements.

29. Furthermore, the municipality did not maintain a contracts and commitments register throughout the year. As a result, certain contracts that were in place during the year were not included in the register submitted for auditing. I was unable to confirm the disclosure by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to capital and current commitments of R24,6 million as disclosed in note 37 to the financial statements.

#### **Cash flow statement**

30. GRAP 2 *Cash flow statements* require the presentation of a cash flow statement, summarising the entity's operating, investing and financing activities. The municipality did not provide enough appropriate audit evidence in support of the amounts disclosed in the cash flow statement.

#### **Budget information**

31. GRAP 24 *Presentation of budget information in financial statements* requires the presentation of a comparison between the budget and actual amounts. The budget comparison can be presented either as a separate additional financial statement or by including additional budget columns in the financial statements. The budget comparison must be accompanied by explanations of material differences between the budget and actual amounts as well as explanations of changes from the approved budget to the final budget. The statement of comparison of budget and actual could not be verified due to a lack of enough appropriate audit evidence supporting the budget comparison. The budget comparison could not be verified by alternative means.

#### **Aggregation of immaterial uncorrected misstatements**

32. The financial statements as a whole are materially misstated due to the cumulative effect of individually immaterial uncorrected misstatements in the following elements making up the notes to the financial statements:

- Fruitless and wasteful expenditure reflected as R6,5 million in note 45 is understated by R494 098.
- Operating leases reflected as R779 281 in note 37 are overstated by R779 281.

#### **Adverse opinion**

33. In my opinion, because of the significance of the matters described in the basis for adverse opinion paragraphs, the financial statements do not present fairly the financial position of the Great Kei Local Municipality as at 30 June 2013 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 matter**

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

#### **Material losses**

35. As disclosed in note 49 to the financial statements, the municipality suffered significant electricity losses of R1,9 million (2,3 million kilowatts) (29%).

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

36. 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**

37. 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.

38. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability.

39. 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 (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).

40. The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

41. The material findings are as follows:

### **Usefulness of information**

#### **Presentation**

#### **Measures taken to improve performance not disclosed**

42. Measures to improve performance where planned targets were not achieved were not disclosed in the performance report, as required by section 46 of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA). A total of 22% of the indicators relevant to the selected key priority areas were not well defined in the annual performance report. This was due to management not properly reviewing the performance report to ensure that the report was in line with the required legislation.

#### **Measures taken to improve performance not supported by enough appropriate audit evidence**

43. Section 46 of the MSA requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Adequate and reliable corroborating evidence could not be provided for 67% of the measures taken to improve performance as disclosed in the annual performance report. This was due to inadequate, or a lack of, documentation. Consequently, I did not obtain enough appropriate audit evidence to satisfy myself as to the reliability of the measures taken to improve performance.

## **Measurability**

44. The FMPPI requires that performance should be specific in clearly identifying the nature and required level of performance. A total of 58% of the material planned targets selected for auditing were not specific in clearly identifying the nature and required level of performance. This was due to management not properly reviewing the performance targets and ensuring that they were in line with the requirements of the FMPPI.
45. The FMPPI requires that performance should be measurable by enabling performance to be measured. A total of 50% of the material planned targets selected for auditing were not measurable. This was due to management not properly reviewing the performance targets and ensuring that they were in line with the requirements of the FMPPI.
46. The FMPPI requires that the time period or deadline for delivery should be specified for targets. A total of 58% of the material planned targets selected for auditing were not time bound as the time period or deadline for delivery was not specified. This was due to management not properly reviewing the performance targets and ensuring that they were in line with the requirements of the FMPPI.

## **Reliability of information**

### **Development priorities: Electricity, solid waste management as well as transport and roads services**

47. The FMPPI requires institutions to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the validity, accuracy and completeness of the actual performance reported for the development priorities of electricity, solid waste management as well as transport and road services. This was due to limitations placed on the scope of my work due to the absence of information systems and lack of appropriate capacity within the municipality.

## **Compliance with laws and regulations**

48. 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 and planning process**

49. The IDP adopted by the municipality does not reflect and identify the key performance indicators and targets, as required by sections 26 and 41 of the MSA.
50. The municipality did not afford the local community at least 21 days to comment on the final draft of its integrated development plan (IDP) before the plan was submitted to council for adoption, as required by the municipal planning and performance management regulation 15(3).
51. The performance management system of the municipality did not clarify the roles and responsibilities of each role-player in the functioning of the system and did not provide for



procedures by which the system is linked to the municipality's integrated development planning processes, as required by municipal planning and performance management regulation 7(2)(g).

52. 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.
53. 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.
54. 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 the municipal planning and performance management regulation 1 and 9(1)(a).

#### **Effective, efficient and transparent system and internal controls**

55. 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.

#### **Budgets**

56. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.
57. 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.

#### **Annual financial statements, performance report and annual report**

58. 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 non-current assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records provided, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving an adverse audit opinion.
59. The 2011-12 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.
60. A written explanation was not submitted to the council setting out the reasons for the delay in the tabling of the 2011-12 annual report in the council, as required by sections 127(3) and 133(1)(a) of the MFMA.
61. The council's oversight report on the 2011-12 annual report was not made public within seven days of its adoption, as required by section 129(3) of the MFMA.

#### **Expenditure management**

62. An effective system of expenditure control was not in place, including procedures for the withdrawal of funds, as required by section 65(2)(a) of the MFMA.

63. An adequate management, accounting and information system was not in place to account for creditors, as required by section 65(2)(b) of the MFMA.
64. Reasonable steps were not taken to prevent unauthorised, irregular as well as fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

#### **Conditional grants received**

65. The municipality did not submit project implementation plans to the national department (CoGTA), as required by the Division of Revenue Grant Framework issued in Gazette No. 35399.
66. The municipality did not submit, within 10 days after the end of each month, its monthly expenditure reports to the national department (CoGTA), as required by the Division of Revenue Grant Framework issued in Gazette No. 35399.

#### **Revenue management**

67. A credit control and debt collection policy was not implemented, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of the MFMA.
68. An adequate management, accounting and information system was not in place to account for revenue, debtors and receipts of revenue, as required by section 64(2)(e) of the MFMA.
69. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
70. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

#### **Asset management**

71. 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.

#### **Liability management**

72. An adequate management, accounting and information system was not in place to account for liabilities, as required by section 63(2)(a) of the MFMA.
73. An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2)(c) of the MFMA.

#### **Consequence management**

74. Irregular as well as fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.
75. Irregular as well as fruitless and wasteful expenditure was not always recovered from the liable person, as required by section 32(2) of the MFMA.

#### **Human resource management**

76. The municipality did not develop and adopt appropriate systems and procedures to monitor, measure and evaluate the performance of staff, in contravention of section 67(d) of the MSA.
77. Enough appropriate audit evidence could not be obtained that the municipal manager and senior managers directly accountable to the municipal manager had signed performance agreements, as required by section 57(2)(a) of the MSA.

78. Enough appropriate audit evidence could not be obtained, that newly appointed managers directly accountable to the municipal manager had disclosed their financial interests prior to appointment, as per the requirements of regulation 4 of GNR 805.
79. Enough appropriate audit evidence was not obtained to substantiate that the accounting officer, chief financial officer, some senior managers and finance officials met the prescribed competency areas, as required by section 83 of the MFMA and regulations 2 to 7 of the Municipal Regulations on Minimum Competency (MRMC) Levels, as their personnel files were not submitted for audit purposes.
80. Enough appropriate audit evidence was not obtained to substantiate that the chief financial officer and some senior managers did have the higher education qualification as required by regulations 4 and 5 of the MRMC Levels.
81. Finance officials at middle management did not have the higher education qualification as required by regulations 8 and 9 of the MRMC Levels.

#### **Procurement and contract management**

82. Enough appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period of days, as required by SCM regulation 22(1) and 22(2).
83. Awards were made to bidders based on points given for criteria that differed from those stipulated in the original invitation for quotations, in contravention of SCM Regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations.
84. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
85. 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.
86. A list of accredited prospective providers was not in place for procuring goods and services through quotations as required by SCM regulation 14(1)(a).
87. Enough appropriate audit evidence could not be obtained that some contracts and quotations were awarded in accordance with the legislative requirements and a procurement process which is fair, equitable, transparent and competitive, as the municipality did not have adequate controls over document management and record keeping in place. Furthermore, deviations from award processes made by the accounting officer were not communicated/ documented with the SCM officials.

#### **Internal control**

88. 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 basis for the adverse opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

#### **Leadership**

89. The lack of accountability and vacancies in critical positions resulted in action plans to address audit findings relating to misstatements in the financial statements, compliance with laws and regulations and performance against predetermined objectives not being

implemented adequately. Furthermore, the high reliance on consultants and not all staff being aware of their roles and responsibilities hampered responsibility and accountability for critical municipal operational functions.

#### **Financial and performance management**

90. Management did not adequately manage transactions upon recording, which resulted in the findings included in the paragraphs on the basis for the adverse opinion, predetermined objectives and compliance with laws and regulations.
91. Key daily and monthly processes, including reconciling accounts, maintaining registers and clearing suspense accounts, were not performed throughout the financial year.

#### **Governance**

92. There was no effective oversight review over financial information, compliance with laws and regulations and reporting on predetermined objectives, as recurring findings in these areas were identified during the year. This is a critical area for all oversight bodies to address going forward.

### **OTHER REPORTS**

#### **Investigations**

93. An investigation was conducted by an independent consulting firm on request of the municipality to identify the validity and accuracy of ex-councillors' debt. This investigation was inconclusive.
94. An investigation is being conducted to probe unlawful withdrawals from the municipality's bank account and allegations of fraud by specific suppliers. The investigation was still ongoing at the reporting date.

*Auditor-General*

East London

30 November 2013



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*