



The Accounting Officer  
Ngqushwa Local Municipality  
PO Box 539  
Peddie  
5640

27 January 2014

Reference: 21293REG1213

Dear Madam

**Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Ngqushwa Local Municipality for the year ended 30 June 2013**

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 Deputy Business Executive 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



Shereen Noble  
DBE: ECBU

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

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I was engaged to audit the financial statements of Ngqushwa 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, a statement of comparison of budget and actual amounts, 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 and fair presentation of these separate 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 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 separate 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 the separate financial statements based on conducting the 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. Because of the matter(s) described in the basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### Basis for disclaimer of opinion

#### Property, plant and equipment

4. Sufficient appropriate audit evidence could not be obtained for adjustments processed in the prior year property, plant and equipment that are included in the current year closing balance. I was unable to confirm these amounts by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the current and prior year property, plant and equipment of R164 million (2012: R168 million) as disclosed in note 8 to the financial statements.

#### Non-current assets held for sale

5. The municipality did not maintain adequate records to disclose non-current assets in the financial statements that meet the definition of a non-current asset held for sale as per GRAP 100, *Non-current assets held for sale*. Consequently, property, plant and equipment is overstated and non-current assets held for sale understated. Due to the lack of systems in place, it was impracticable for me to determine the full extent of the understatement in non-current assets held for sale.

#### Payables from exchange transactions

6. The municipality did not have adequate systems in place to maintain records of accounts payable for goods and services received but not yet paid for, which resulted in trade payables being understated by at least R23,6 million (2012: R295 000). It was impracticable for me to determine the full extent of the understatement in payables from

exchange transactions. Further, sufficient appropriate audit evidence could not be obtained to support the additional adjustments made to the financial statements. I was unable to confirm the amounts by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to payables from exchange transactions of R12,7 million (2012: R6,2 million) as disclosed in note 11 to the financial statements.

#### **Value-added tax receivable**

7. The municipality did not account for value-added tax (VAT) in accordance with the South African Standards of Generally Recognised Accounting Practice, GRAP 1: *Presentation of financial statements*. VAT accrued was not calculated by the municipality based on outstanding receivables and payables as at year-end which would be claimed and paid in future periods. As a result, VAT receivable is overstated and VAT payable understated by R3,3 million, as disclosed in note 4 to the financial statements. Further, VAT receivable written off of R1 million relating to the prior year was incorrectly written off against the accumulated surplus and not expensed in the prior year. Consequently general expenses in the prior year are understated and accumulated surplus overstated by R1 million.
8. In addition, the municipality did not have adequate systems in place to maintain records of VAT receivable nor was there sufficient appropriate audit evidence available to identify, reconcile and disclose all VAT transactions relating to VAT receivable amounting to R897 445 in respect of the prior year, as disclosed in note 4 to the financial statements. I was unable to confirm the VAT receivable by alternative means. Consequently, I was unable to determine whether any adjustments relating to the prior year VAT receivable were necessary.

#### **Property rates revenue**

9. The municipality did not have adequate systems in place to maintain records to support revenue earned from property rates of R23,6 million (2012: R23,6 million), as disclosed in note 17 to the financial statements. The valuation roll and the billing report did not include all properties under the jurisdiction of the municipality. Consequently property rates revenue and receivables from non-exchange transactions is understated. Due to the lack of systems in place, it was impracticable for me to determine the full extent of the understatement of property rates revenue and receivables from non-exchange transactions.

#### **General expenses**

10. As per paragraph 6 above, material shortcomings were identified during the audit of payables from exchange transactions relating to general expenditure incurred during the reporting period. In addition general expenditure of R1,7 million (2012: R2,8 million) pertaining to other financial periods was incorrectly recorded in the current year. As a result, general expenditure is overstated and accumulated surplus understated by R1,7 million.
11. I was also unable to obtain sufficient appropriate audit evidence for the amount disclosed as general expenses in note 23 to the financial statements and I could not confirm the disclosure by alternative means. Consequently, I was unable to determine whether any further adjustments to general expenses of R28,5 million (2012: R36,3 million) were necessary as disclosed in the financial statements.

#### **Grants and subsidies paid**

12. The municipality did not account for grant-related expenditure in accordance with GRAP 1, *Presentation of financial statements* in the financial statements. General expenses and employee-related costs were incorrectly classified as grants and subsidies paid

while expenses incurred were not recorded at the correct amounts during the reporting period. Consequently, grants and subsidies paid as disclosed in note 22 to the financial statements is overstated by R3,5 million (2012: R592 043), general expenses are understated by R3,5 million.

13. In addition, sufficient appropriate audit evidence could not be obtained to support adjustments made to the financial statements on grants and subsidies paid. I was unable to confirm these amounts by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to grants and subsidies paid of R3,2 million as disclosed in note 22 to the financial statements.

#### **Commitments**

14. No contract management system was in place for the identification and recognition of capital commitments outstanding at year-end, as required by GRAP 17, *Property, plant and equipment*. Sufficient appropriate audit evidence could not be obtained to confirm that all contract extensions in respect of the awarded contracts and projects in progress were taken into account when determining the outstanding commitment balance at year-end. Consequently, I was unable to determine whether any adjustments were necessary to commitments of R14 million (2012: R2,3 million) as disclosed in note 32 to the financial statements.

#### **Irregular expenditure**

15. The municipality did not have adequate systems in place to identify and disclose all irregular expenditure incurred during the year as required by section 125(2)(d)(i) of the MFMA and as a result irregular expenditure for the current and prior year, disclosed in note 28 to the financial statements is understated. Due to the lack of systems in place and non-availability of sufficient appropriate audit evidence it was impracticable to determine the full extent of the understatement of the irregular expenditure disclosures for the current and prior period.
16. In addition, sufficient appropriate audit evidence could not be obtained to support adjustments made to the financial statements for irregular expenditure disclosed in the current year. I was unable to confirm these amounts by alternative means. Consequently, I was unable to determine whether any adjustments were necessary relating to irregular expenditure of R26,3 million as disclosed in note 28 to the financial statements.

#### **Contingent liabilities**

17. The municipality did not have adequate controls in place to recognise contingent liabilities. An amount of R8 million meeting the definition of a trade payable was incorrectly disclosed as a contingent liability in the financial statements. As a result contingent liabilities disclosed in note 34 is overstated by R8 million and trade and other payables are understated by this amount.
18. I was unable to obtain sufficient appropriate audit evidence for the amount disclosed as contingent liabilities in note 34 to the financial statements and I could not confirm the disclosure by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to contingent liabilities of R9,8 million as disclosed in the financial statements.

#### **Budget disclosure**

19. The municipality did not adhere to the budget presentation and disclosure requirements of GRAP 24, *Presentation of budget information* in financial statements, as the municipality did not disclose explanations of material differences between the budget amounts and the actual amounts. Furthermore, the municipality did not disclose a reconciliation between the cash basis budget and the financial statements.

Consequently, the disclosure of the budget versus actual comparison is not complete in terms of the requirements.

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

20. The financial statements as a whole are materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following elements making up the statement of financial position and the statement of financial performance:
- Employee-related costs are overstated by R508 156
  - Other revenue is overstated by R48 225
  - Depreciation and amortisation are overstated by R83 168
  - Interest received on investments is overstated by R48 739
  - Revenue from interest charged is understated by R193 741
  - Receivables from exchange transactions are understated by R193 741
  - Cash and cash equivalents are overstated by R38 990
  - Receivables from non-exchange transactions are understated by R552 665.
21. I was unable to obtain sufficient appropriate audit evidence due to individually immaterial amounts that were unsubstantiated and I was unable to confirm the following elements by alternative means:
- Employee-related costs included in note 19
  - Other revenue included in note 16
  - Receivables from exchange transaction included in note 5
  - Accumulated surplus included in the statement of financial performance.
22. As a result, I was unable to determine whether any further adjustments to these elements were necessary.

### **Corresponding figures**

23. During 2011-12, I was unable to obtain sufficient appropriate audit evidence regarding amounts disclosed for:
- Receivables from exchange transactions reflected as R449 957 disclosed in note 5 to the financial statements
  - Receivables from non-exchange transactions reflected as R6,3 million disclosed in note 3 to the financial statements
  - Unspent conditional grants reflected as R7,8 million disclosed in note 12 to the financial statements
  - Repairs and maintenance reflected as R3,9 million disclosed in the statement of financial performance
  - Accumulated surplus reflected as R174 million disclosed in the statement of financial position
  - Depreciation reflected as R14,2 million disclosed in note 21 to the financial statements.
24. I was unable to obtain sufficient appropriate audit evidence for the above by alternative

means. Consequently, I was unable to determine whether any adjustments to these amounts and the accumulated surplus were necessary.

25. During 2011-12, I identified the following misstatements which are still included in the corresponding figures disclosed in the current period's financial statements:
- Unauthorised expenditure disclosed in note 26 to the financial statements is understated by R18,3 million that related to overspending on the total budget in the prior year
  - Debt impairment as disclosed in note 30 to the financial statements is understated by R4,8 million due to the municipality incorrectly applying GRAP 104
  - Accumulated surplus disclosed in the statement of financial position is understated by R21,8 million as a result of the municipality using incorrect figures as restated opening balances
  - Receivables from exchange transactions is understated by R1,4 million due to the municipality incorrectly applying GRAP 104
  - Receivables from non-exchange transactions is overstated by R6,4 million due to the municipality incorrectly applying GRAP 104.
26. My audit opinion on the financial statements for the period ended 2011-12 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.

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

27. The corresponding figures in the financial statements as a whole are materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following elements making up the statement of financial position:
- Investment property is understated by R555 000
  - Accrued leave is understated by R665 000
  - Interest income is understated by R63 624.
28. In addition, I was unable to obtain sufficient appropriate audit evidence due to individually immaterial amounts that were unsubstantiated and I was unable to confirm the following element by alternative means:
- Bank overdraft included in note 6
  - Employee related costs included in note 19.
29. As a result, I was unable to determine whether any further adjustments to these elements were necessary.

#### **Disclaimer of opinion**

30. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

### **Emphasis of matter**

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

### **Material impairments**

32. As disclosed in notes 3 and 5 to the financial statements, material losses of R9,8 million were incurred as a result of the impairment of debtors due to poor collection practices.

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

33. 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**

34. 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.

35. 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 (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury *Framework for managing programme performance information (FMPPPI)*.

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).

36. The material findings are as follows concerning the usefulness and reliability of the information.

### **Usefulness of information**

#### **Consistency**

#### **Performance targets not consistent**

37. The Municipal Systems Act (MSA), section 41(1)(c), requires that the integrated development plan should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 23% of the reported objectives are not consistent with the objectives as per the approved integrated development plan. This is due to the planning documents and reporting documents not being monitored and reconciled adequately.

#### **Measurability**

#### **Performance targets not specific**

38. The National Treasury FMPPPI requires that performance targets be specific in clearly identifying the nature and required level of performance. All of the targets were not specific in clearly identifying the nature and the required level of performance. This was due to lack of proper reviews when indicators and targets were decided on and formulated for inclusion in the SDBIP.



### **Performance targets not measurable**

39. The National Treasury FMPPI requires that performance targets be measurable. The required performance could not be measured for all of the targets. Management was aware of the requirements of the FMPPI, however the principles were not implemented.

### **Performance targets not well defined**

40. The National Treasury FMPPI requires that indicators should have clear unambiguous data definitions to that data is collected consistently and is easy to understand and use. All of the indicators were not well defined in that clear, unambiguous data definitions were not available to allow data to be collected consistently. Management was aware of the requirements of the FMPPI, however the principles were not implemented.

### **Performance targets not verifiable**

41. The National Treasury FMPPI requires that it must be possible to validate the processes and systems that produce the indicator. All of the indicators were not verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to the lack of key controls in the relevant systems of collection, collation, verification and storage of actual performance information.

### **Reliability of information**

#### **Institutional Transformation and Development and Infrastructure and service delivery**

42. The National Treasury FMPPI requires that institutions should 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 reliability of information presented with respect to institutional transformation and development and infrastructure and service delivery. This was due to the institution's failure to provide sufficient appropriate evidence in support of the information presented with respect to these programmes and because the institution's records did not permit the application of alternative audit procedures.

### **Local economic development**

43. The National Treasury FMPPI requires that institutions should 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. The reported performance information as a whole in respect of local economic development is materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the targets relevant to the selected programme. This was due to the lack of frequent reviews of the validity of reported achievements against source documentation.

### **Compliance with laws and regulations**

44. I performed procedures to obtain evidence that the municipality had 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**

45. Sufficient appropriate audit evidence could not be obtained that the municipal council consulted with the local community in the drafting and implementation of the municipality's integrated development plan by means of a municipality-wide structure for

community participation and through a forum that enhances community participation, as required by section 28 of the MSA and Municipal planning and performance management regulation 15(1)(a)(i).

46. Sufficient appropriate audit evidence could not be obtained that the municipality afforded the local community at least 21 days to comment on the final draft of its integrated development plan before the plan was submitted to council for adoption, as required by Municipal planning and performance management regulation 15(3).
47. The municipality did not give effect to its SDBIP and conducted its affairs in a manner which was not consistent with its integrated development plan, as required by section 36 of the MSA, section 21(2)(a) of the MFMA and Municipal planning and performance management regulation 6.
48. Sufficient appropriate audit evidence could not be obtained that the municipality had established mechanisms to monitor and review its performance management system, as required by section 40 of the MSA.
49. 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.
50. The annual performance report for the year under review does not include measures taken to improve performance, as required by section 46(1)(c) of the MSA.
51. 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**

52. 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.
53. Sufficient appropriate audit evidence could not be obtained that monthly budget statements were submitted to the mayor and relevant provincial treasury, as required by section 71(1) of the MFMA.

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

54. 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, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a disclaimer audit opinion.
55. The financial statements were not submitted for auditing within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.

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

56. In certain instances goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, as required by supply chain management (SCM) regulation 17(a) and (c).
57. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).
58. Some contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding, in contravention of SCM

regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations.

59. Contracts and quotations were awarded to and accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
60. Contracts were extended without tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the MFMA.
61. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
62. Contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.
63. Construction projects were not always registered with the Construction Industry Development Board (CIDB), as required by section 22 of the CIDB Act and CIDB regulation 18.
64. Some awards were made to providers who are in the service of the municipality, in contravention of section 112(j) of the MFMA and SCM regulation 44. Furthermore, the provider failed to declare that he/she was in the service of the municipality, as required by SCM regulation 13(c).
65. Some awards were made to providers who are in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulation 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 and compensation**

66. The municipality did not develop and adopt appropriate systems and procedures to monitor, measure and evaluate performance of staff, in contravention of MSA section 67(d).

#### **Expenditure management**

67. Money owing by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the MFMA.
68. An effective system of expenditure control, including procedures for the payment of funds, was not in place, as required by section 65(2)(a) of the MFMA.
69. An adequate management, accounting and information system, which recognised expenditure when it was incurred and accounted for creditors, as required by section 65(2)(b) of the MFMA, was not in place.
70. Reasonable steps were not taken to prevent unauthorised expenditure, fruitless and wasteful expenditure and irregular expenditure, as required by section 62(1)(d) of the MFMA.
71. The accounting officer failed to send reports detailing irregular, unauthorised and fruitless and wasteful expenditure incurred to the MEC for Local Government and the Auditor-General, as per the requirements of section 32(4) of the MFMA.

#### **Conditional grants**

72. Sufficient appropriate audit evidence could not be obtained that the municipality submitted quarterly performance reports to the transferring national officer, the relevant provincial treasury and the National Treasury, within 30 days after the end of each quarter, as required by section 12(2)(c) of DoRA.
73. Sufficient appropriate audit evidence could not be obtained that the municipality evaluated its performance in respect of programmes funded by the municipal

infrastructure grant (MIG), the local government financial management grant (LGFMG) and the municipal systems improvement grant (MSIG) and submitted the evaluation to the transferring national officer within two months after the end of the financial year, as required by section 12(5) of DoRA.

74. Sufficient appropriate audit evidence could not be obtained that the municipality timeously submitted project registration forms for projects it intended implementing in the financial year 2013-14 to the department of local government, as required by the Division of Revenue Grant Framework, Gazette No. 35399.
75. Sufficient appropriate audit evidence could not be obtained that the municipality submitted project implementation plans and its signed activity plans in the prescribed format to the national department (CoGTA), as required by the Division of Revenue Grant Framework, Gazette No. 35399.
76. Sufficient appropriate audit evidence could not be obtained that the municipality submitted MFMA implementation plans to National Treasury to address weaknesses in financial management, as required by the Division of Revenue Grant Framework, Gazette No. 35399.
77. Sufficient appropriate audit evidence could not be obtained that the municipality submitted, 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, Gazette No. 35399.

#### **Revenue management**

78. 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 MFMA.
79. An adequate management, accounting and information system which accounts for revenue and debtors was not in place, as required by section 64(2)(e) of the MFMA.
80. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

#### **Asset management**

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

#### **Financial misconduct**

82. The condonation of irregular expenditure was not approved by the appropriate relevant authority, in accordance with the requirements of sections 1 and 170 of the MFMA.

#### **Internal control**

83. 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 disclaimer of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

#### **Leadership**

84. The leadership did not exercise the required oversight responsibilities to ensure compliance with laws and regulations as well as internal controls for financial and performance management. Oversight by senior officials is inadequate due to a lack of regular reviews by management on monthly reporting. The municipality did not implement effective human resource management to ensure that adequate and

sufficiently skilled resources are in place and that performance is monitored. In addition, the documented systems in the policy and procedure manual that indicates how activities within the entity should be carried out are not implemented or monitored by key officials.

85. Furthermore, the municipality did not timeously prepare an audit action plan to address internal and external audit findings and, as a result, numerous internal control deficiencies identified in the prior year have recurred in the current year.

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

86. The municipality did not perform daily and monthly processing and reconciling of transactions throughout the financial year nor were accurate and complete financial reports prepared on a regular basis. As a result, material misstatements to the financial statements were identified during the audit.
87. The municipality has not implemented adequate review mechanisms to ensure the report on predetermined objectives and the annual financial statements are reviewed for accuracy and completeness prior to submission for audit. In addition, the municipality has not implemented controls to ensure that the information supporting the report on predetermined objectives is credible, accurate and complete.
88. There is no compliance checklist or compliance officer to ensure that the municipality complies with all laws and regulations as reported above.

#### **Governance**

89. The municipality has an audit committee and internal audit unit in place. The recommendations of the audit committee and internal audit unit are not adequately addressed by management and therefore have no impact in addressing control deficiencies identified in the municipality's control environment.

*Auditor - General*

East London

27 January 2014



**AUDITOR - GENERAL  
SOUTH AFRICA**

*Auditing to build public confidence*