

Emalahleni Municipality

Audit Report

For the year ended 30 June 2013

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the financial statements of the Emalahleni Municipality set out on pages ... to ... , which comprise the statement of financial position as at 30 June 2013, statement of financial performance, statement of changes in net assets, cash flow statement, statements 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 the 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 matters 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

Unauthorised expenditure

4. The municipality did not submit all requested information during the audit and misallocations were identified within the accounting records. I was unable to confirm this amount by alternative means. I was unable to confirm the disclosure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the unauthorised expenditure of R10.2 million (2012: R74.7 million) as disclosed in note 35.1 to the financial statements.

Irregular expenditure

5. 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) of the MFMA. Owing to the lack of systems of control in place to identify all irregular expenditure incurred and the unavailability of sufficient appropriate audit evidence for all awards, I was unable to confirm the disclosure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the irregular expenditure of R74.1million (2012: R5.9 million) disclosed in note 35.3 to the financial statements.

Property, plant and equipment

6. The municipality did not maintain an adequate fixed assets register and the underlying accounting records did not agree to the financial statements. Sufficient appropriate audit evidence was not submitted to support assets disclosed in note 10 to the financial statements. Furthermore, owing to the weaknesses in controls over the maintenance

of the fixed assets register and the fact that the underlying accounting records did not agree to the financial statements, I was unable to determine if all assets were recorded. The municipality also did not have adequate controls over the recording of assets disposed of during the year.

7. In addition, the municipality did not comply with GRAP 17, *Property, plant and equipment*, and GRAP 26, *Impairment of cash generating assets*, as follows:
 - Capital work in progress is not disclosed as a separate item within note 10 to the financial statements,
 - Assets still being used with a zero carrying value, and
 - Impairment of assets was not always appropriately considered.
8. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to property, plant and equipment of R361.3 million (2012: R367.8 million) in note 10 and depreciation of R19.7 million in note 25 to the financial statements and gain or loss on disposal of property, plant and equipment in the statement of financial performance.

Investment property

9. The municipality did not maintain an adequate investment property register and the underlying accounting records did not agree to the financial statements. Sufficient appropriate audit evidence was not submitted to support investment property of R25 million as disclosed in note 11 to the financial statements. Furthermore, not all investment property has been recorded and it could not be determined if some investment property recorded was the property of the municipality. I was unable to confirm the investment property by alternative means. Consequently I am unable to determine whether any adjustments were necessary to investment property of R25 million (2012: R25 million) in note 11 to the financial statements.
10. The municipality did not disclose the fair value of their investment property of R15.4 million in note 11 to the financial statements as required by GRAP 16, *Investment property*, even though this was materially different to the carrying amount of R25 million. As a result, the municipality has not complied with the disclosure requirements of this standard.

Revenue

11. Sufficient appropriate audit evidence was not available or that which was submitted was incomplete to support revenue disclosed in the statement of financial performance. I was unable to confirm this revenue by alternative means. Consequently, I was unable to determine whether any further adjustments to revenue of R156.7 million (2012: R120.4 million) disclosed in statement of financial performance was necessary.

Receivables from exchange and non-exchange transactions

12. The municipality did not have adequate systems in place over the billing of debtors, did not monitor water usage by indigent debtors and the debtors system failed to fully integrate with the accounting system. Furthermore, sufficient appropriate audit evidence was not submitted in all instances to support receivables from exchange transactions of R9.6 million (2012: R5.7 million) as disclosed in note 14 and receivables from non-exchange transactions of R5.5 million (2012: R1.6 million) as disclosed in note 15 to the financial statements. I was unable to confirm the receivables from exchange and non-exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments to receivables from exchange and non-exchange transactions were necessary.

Expenditure

13. The municipality did not pay allowances in terms of their policies in all instances and some allowances and leave gratuities were paid without adequate authorisation. This has resulted in an overstatement of employee related costs as disclosed in note 22 to the financial statements and a resultant understatement of staff debtors as disclosed in receivables from non-exchange transactions in note 15 to the financial statements of R2.4 million.
14. Other expenditure comprising debt impairment, depreciation and amortisation, repairs and maintenance, actuarial losses, finance charges, bulk purchases, contracted services, other operating grant expenditure, general expenses and loss on disposal of property, plant and equipment of R102.3 million is disclosed in the statement of financial performance. The municipality did not have adequate systems in place to account for expenditure correctly. As a result, expenditure is overstated by R2.5 million, revenue is overstated by R206 657 and input Value Added Taxation (VAT) is understated by R2.3 million.
15. Sufficient appropriate audit evidence was either not submitted or not submitted timeously for other expenditure. I was also unable to determine the correct accounting treatment of expenditure incurred in terms of the Integrated National Electrification Program of R7.5 million due to conflicting information obtained. In addition, sufficient appropriate audit evidence was either not submitted or not submitted timeously to support the difference between the payroll system and the general ledger as well as amounts paid to councillors during the year. I was unable to confirm expenditure by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to expenditure of R155.1 million as disclosed in the statement of financial performance.

Payables from exchange transactions

16. Sufficient appropriate audit evidence was not submitted to support payables from exchange transactions disclosed in note 7 to the financial statements. Supporting documentation was either not submitted for audit purposes or that which was submitted, was incomplete. I was unable to confirm payables from exchange transaction by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to payables from exchange transaction of R7.2 million (2012: R7.4 million) as disclosed in note 7 to the financial statements.

Employee benefits

17. Post retirement benefits of R3.7 million (2012: R2.7 million) and long service awards of R1.2 million (2012: R1 million) are disclosed in notes 3 and 6 to the financial statements. Sufficient appropriate audit evidence was not available to confirm the number of employees eligible and disclosed in the financial statements for the post retirement benefits and the long service awards. I was unable to confirm these liabilities by alternative means. Consequently, I was unable to determine whether any adjustments to these employee benefits were necessary.

Current employee benefits

18. The municipality recognised a provision for performance bonuses that did not meet the definition of a provision as per GRAP 19, *Provisions, contingent liabilities and contingent assets*. The municipality did not consider the level of uncertainty of payment of these bonuses as required by this standard. As a result, current employee benefits is overstated by R2.5 million and contingent liabilities as disclosed in note 43 to the financial statements is understated by the same amount.
19. In addition, the municipality did not have adequate systems in place to maintain adequate leave records and employee contracts, and sufficient appropriate audit

evidence was not available for provision for staff leave of R3.2 million and staff bonuses accrued of R780 571 as disclosed in note 6 to the financial statements. I was unable to confirm these liabilities by alternative means. Consequently, I was unable to determine whether any further adjustments relating to current employee benefits of R8 million (2012: R7.1 million) was necessary.

Unspent conditional government grants and receipts

20. Unspent conditional government grants and receipts of R7.2 million are disclosed in note 8 to the financial statements. Sufficient appropriate audit evidence was not submitted to support the transfer of the values of operating and capital expenditure during the year to revenue. I was unable to confirm these amounts by alternative means. Consequently, I was unable to determine whether any adjustments to unspent conditional government grants and receipts were necessary.

Non-current provisions

21. Sufficient appropriate audit evidence was not submitted to support input data used by the expert in calculating the provision for landfill sites of R4.8 million (2012: R2.7 million) as disclosed in note 4 to the financial statements. I was unable to confirm this provision by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the provision.

Aggregation of immaterial uncorrected misstatements

22. The financial statements as a whole are materially misstated due to the cumulative effect of individually immaterial uncorrected misstatements. Deferred revenue (income received in advance) of R73 440 has not been disclosed in the statement of financial position.
23. 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 elements by alternative means:
- Consumer deposits as disclosed in note 5 of R110 146, and
 - Unpaid conditional government grants and receipts as disclosed in note 8 of R1,7 million.
24. As a result, I was unable to determine whether any further adjustments to these elements were necessary.

Correction of errors

25. Sufficient appropriate audit evidence was not submitted to support correction of errors as disclosed in note 30 to the financial statements. I was unable to confirm the disclosure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the correction of errors disclosure note.
26. The municipality did not disclose the nature of the correction of error for each correction in accordance with GRAP 3, *Accounting policies, changes in accounting estimates and errors*, in note 30 to the financial statements. Consequently, the financial statements have not been prepared in accordance with all the requirements of the standard.

Contingent liabilities and assets

27. Sufficient appropriate audit evidence was not submitted to support the value of the ex gratia gratuity of R4.9 million in note 43 to the financial statements. In addition, sufficient appropriate audit evidence was not submitted to confirm the completeness of contingent liabilities of R5.3 million and contingent assets of R405 621 as disclosed in notes 43 and 44 to the financial statements respectively. I was unable to confirm these

amounts by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to these amounts.

Statement of comparison of budget and actual amounts

28. The municipality did not disclose the statement of comparison of budget and actual amounts in accordance with GRAP 24, *Presentation of budget information in financial statements*, as follows:
- The actual amounts per the statement of comparison of budget and actual amounts (cash flow statement) do not agree to the actual amounts reflected in the cash flow statement, which in addition has resulted in inaccurate variances being reported,
 - The statement of comparison of budget and actual amounts does not include explanations for all variances/adjustments more than 10% of a specific line-item with a minimum of R1 million as stated in the accounting policy, and
 - A disclosure note describing the budgetary basis and classification basis adopted in the approved budget as well as the period of the approved budget has not been included in the financial statements.
29. Consequently, the financial statements have not been prepared in accordance with all the requirements of the standard.

Related parties

30. The municipality did not disclose information regarding related parties as required by GRAP 20, *Related party disclosures*. The municipality has not complied with their formulated accounting policy based on this standard as noted below:
- Remuneration of councillors was not disclosed per person, but rather only in aggregate, and
 - Remuneration of key management personnel has not been disclosed for all amounts paid in respect of employees acting in key management positions.
31. In addition, sufficient appropriate audit evidence was not submitted to support the remuneration of councillors and remuneration of key management personnel. A statement by the accounting officer whether or not these salaries, allowances and benefits are within the upper limits of the framework envisaged in section 219 of the Constitution was also not included in the financial statements. I was unable to confirm the disclosure of remuneration of key management personnel of R9 million and remuneration of councillors of R9.1 million as disclosed in notes 22 and 23 to the financial statements respectively.

Material losses

32. The municipality did not disclose material losses for water for the current and prior year in note 35.4 to the financial statements as required by section 125(2)(d)(i) of the MFMA. I have not determined the correct disclosure amounts for material losses for water as it was impracticable to do so.

Other compulsory disclosures

33. The municipality did not adequately disclose particulars of non-compliance with the MFMA as required by section 125 of the MFMA in note 36.8 to the financial statements. The following were identified:

- Non-compliance with the MFMA was disclosed in some instances where the municipality did, in fact, comply, and
 - Non-compliance with the MFMA was not disclosed in all instances of non-compliance identified.
34. Consequently, the financial statements have not correctly disclosed all instances of non-compliance with the MFMA.

Cash flow statement

35. During the 2011/12 financial year, the municipality did not comply with GRAP 2, *Cash flow statements*, in all respects. Adjustments were made to the comparative figures in the cash flow statement in the current year financial statements for corrections of errors made during the current year, but these did not comply with GRAP 2. Consequently, the cash flow statement does not fairly present the cash inflows and cash outflows of the municipality for the 2011/12 financial year. 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.

Cash and cash equivalents

36. During the 2011/12 financial year, sufficient appropriate audit evidence was not submitted totalling R27.9 million for cash and cash equivalents of R46.1 million in note 17 to the financial statements. As a result of a correction of error in the current year and the subsequent submission of information, an amount of R15.8 million remains outstanding. I was unable to confirm the balance by alternative means. I was unable to determine whether any adjustment to the balance is 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.

Disclaimer of opinion

37. 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 the financial statements.

Emphasis of matters

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

Material losses/impairments

39. As disclosed in note 35.4 to the financial statements, material electricity distribution losses to the amount of R7.8 million (58%) (2012: R8.5 million) were incurred and have not been recovered from consumer debtors.

Additional matters

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

Unaudited supplementary schedules

41. The supplementary information set out on pages xx to xx do not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Withdrawal from the audit engagement

42. Discrepancies in the accounting records and conflicting or missing evidence indicate the possibility that the financial statements may contain material misstatements resulting from fraud. Requested documentation supporting transactions, balances and disclosure items were not submitted for audit by management on numerous occasions which has resulted in pervasive scope limitations. I was unable to determine if these items contained material misstatements, whether from fraud or error. If it were not for the legislation that requires me to perform the audit of the municipality, I would have withdrawn from the engagement in terms of the International Standards on Auditing (ISAs).

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

43. 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

44. The annual performance report was not presented for audit and consequently my findings below are limited to the procedures performed on the strategic planning and performance management documents.
45. The information was assessed to determine whether performance 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*.
46. The material findings are as follows:

Usefulness of information

Measurability

Performance targets are not measurable

47. The National Treasury FMPPI requires that the time period or deadline for delivery be specified. A total of 33% of the significantly important targets in relation to the overall mandate of the municipality were not time bound in specifying a time period or deadline for delivery. This was due to the fact that management was aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles.

Performance targets are not time bound

48. The National Treasury FMPPI requires that indicators/measures should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 83% of the significantly important indicators in relation to the overall mandate of the municipality were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles.

Indicators are not verifiable

49. The National Treasury FMPPI requires that it must be possible to validate the processes and systems that produce the indicator. A total of 67% of the significantly important indicators in relation to the overall mandate of the municipality 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/ storage of actual performance information as management could not provide sufficient appropriate audit evidence indicating such.

Compliance with laws and regulations

50. 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

51. 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.
52. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.
53. Material misstatements of non-current assets/ current assets/ liabilities/ revenue/ expenditure/ disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and/or the supporting records were provided subsequently, but the uncorrected material misstatements and/ or supporting records that could not be provided resulted in the financial statements receiving a disclaimed audit opinion.

Strategic planning and performance management

54. The annual performance report for the financial year under review was not prepared, as required by section 46 of the MSA and section 121(3)(c) of the MFMA.
55. The municipality did not give effect to its integrated development plan or conduct its affairs in a manner which was 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.
56. Sufficient appropriate audit evidence was not submitted to assess if the municipal council reviewed its integrated development plan annually in accordance with an assessment of its performance measurements in terms of section 41 to the extent that changing circumstances demanded, as required by section 34 of the MSA and Municipal planning and performance management regulation 3.
57. 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).
58. Sufficient appropriate audit evidence was not submitted to assess if the municipal council consulted with the local community in the drafting and implementation of the municipality's IDP, by means of a municipal wide structure for community participation or 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).
59. Sufficient appropriate audit evidence was not submitted to assess if 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.

Budget

60. 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.
61. Sufficient appropriate audit evidence was not submitted to assess if monthly budget statements were submitted to the mayor, as required by section 71(1) of the MFMA.

Conditional grants

62. Sufficient appropriate audit evidence was not submitted to assess if 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 the Division of Revenue Act (DORA).
63. Sufficient appropriate audit evidence was not submitted to assess if the municipality evaluated its performance in respect of programmes funded by the Integrated National Electrification (INEP) grant or 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 the DORA.
64. Sufficient appropriate audit evidence was not submitted to assess if the municipality registered its master plans for bulk infrastructure with the INEP, as required by the Division of Revenue Grant Framework, Gazette No. 35399.
65. Sufficient appropriate audit evidence was not submitted to assess if the projects funded by the INEP grant were implemented in line with the details contained in the Integrated Development Plan (IDP), as required by the Division of Revenue Grant Framework, Gazette No.35399.

Liability management

66. An adequate management, accounting and information system which accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.
67. 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.

Asset management

68. 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.
69. 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.
70. Capital assets were sold / transferred without the approval of the council, as required by section 14(2)(a) of the MFMA.

Revenue management

71. A tariff policy was not adopted and implemented for the levying of fees for provision of municipal services, as required by section 74(1) of the MSA and section 62(1)(f)(i) of the MFMA.
72. A credit control and debt collection policy was not maintained and implemented, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of the MFMA.
73. A policy was not adopted and implemented for the levying of rates on rateable property within the municipality, as required by section 3(1) of the Property Rates Act and section 62(1)(f)(ii) of the MFMA.
74. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) and 97(i) of the MFMA.

Expenditure management

75. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, accounted for as required by section 65(2)(b)(i) of the MFMA.
76. An effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, was not in place, as required by section 65(2)(a) of the MFMA.
77. Sufficient appropriate audit evidence was not submitted to assess, if an adequate management, accounting and information system was in place which accounted for creditors as required by section 65(2)(b)(ii) of the MFMA.
78. An effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, was not in place, as required by section 65(2)(a) of the MFMA.
79. Reasonable steps were not taken to prevent irregular expenditure, fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Human resource management

80. Municipal managers and managers directly accountable to municipal managers were appointed without submitting disclosure of financial interests in contravention of regulation 4 of GNR 805.
81. An approved staff establishment was not in place, as required by section 66(1)(a) of the MSA.
82. The senior managers directly accountable to the municipal manager did not sign performance agreements, within 60 days of appointment as required by section 57(2)(a) of the MSA.
83. An acting head of SCM was appointed for a period of more than six months, in contravention of section 54A(2A) and 56(1)(c) of the MSA.
84. Sufficient appropriate audit evidence was not submitted to assess if the accounting officer met all of the prescribed competency areas as required by section 83 and section 107 of the MFMA and regulations 2 and 3 of the Municipal Regulations on Minimum Competency Levels.
85. Sufficient appropriate audit evidence was not submitted to assess if the chief financial officer met all of the prescribed competency areas as required by sec 83 and sec 107 of the MFMA and regulations 4 and 5 of the Municipal Regulations on Minimum Competency Levels.
86. Sufficient appropriate audit evidence was not submitted to assess if the head of supply chain management met all of the prescribed competency areas as required by sec 119 of the MFMA and the regulations 10 and 11 of the Municipal Regulations on Minimum Competency Levels.
87. Sufficient appropriate audit evidence was not submitted to assess if all senior managers met all of the prescribed competency areas as required by regulation 6 and 7 of the Municipal Regulations on Minimum Competency Levels.
88. Sufficient appropriate audit evidence was not submitted to assess if finance officials at middle management met all of the prescribed competency areas as required by regulations 8 and 9 of the Municipal Regulations on Minimum Competency Levels.

Procurement and contract management

89. Sufficient appropriate audit evidence was not submitted to assess if quotations were accepted from prospective providers who are registered on the list of accredited

prospective providers and who meet the listing requirements prescribed by the SCM policy as required by SCM regulation 16(b) and 17(b).

90. Sufficient appropriate audit evidence was not submitted to assess if bid specifications for procurement of goods and services through competitive bids were drafted in an unbiased manner that allowed all potential suppliers to offer their goods or services, as per required by SCM regulation 27(2)(a).
91. Sufficient appropriate audit evidence was not submitted to assess if bid specifications were drafted by bid specification committees which were composed of one or more officials of the municipality as required by SCM regulation 27(3).
92. Sufficient appropriate audit evidence was not submitted to assess if invitations for competitive bidding were advertised for a required minimum period of days, as required by SCM regulation 22(1) & 22(2).
93. Sufficient appropriate audit evidence was not submitted to assess if bids were evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services and at least one SCM practitioner of the municipality as required by SCM regulation 28(2).
94. Sufficient appropriate audit evidence was not submitted to assess if contracts were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding as required by SCM Regulations 21(b) and 28(1)(a) and Preferential Procurement Regulations.
95. Sufficient appropriate audit evidence was not submitted to assess if bid adjudication was always done by committees which were composed in accordance with SCM regulation 29(2).
96. Sufficient appropriate audit evidence was not submitted to assess if awards were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b).
97. The preference point system was not applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act (PPPFA) and SCM regulation 28(1)(a).
98. Sufficient appropriate audit evidence was not submitted to assess if contracts and quotations were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the PPPFA and its regulations.
99. Sufficient appropriate audit evidence was not submitted to assess if contracts were awarded to bidders that scored the highest points in the evaluation process, as required by of section 2(1)(f) of PPPFA.
100. Sufficient appropriate audit evidence was not submitted to assess if contracts were only extended or modified after tabling the reasons for the proposed amendment in the council of the municipality as required by section 116(3) of the MFMA.
101. Sufficient appropriate audit evidence was not submitted to assess if all extension or modification to contracts were approved by a properly delegated official, as required by SCM Regulation 5.
102. Sufficient appropriate audit evidence was not submitted to assess if the performance of contractors or providers was monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
103. 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.

104. 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.
105. Sufficient appropriate audit evidence was not submitted to assess if contract and quotations were only awarded to providers whose tax matters have been declared by the South African Revenue Service (SARS) to be in order as required by SCM regulation 43.
106. Contracts and quotations were awarded to 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).
107. Awards were made to a provider who is in the service of the municipality in contravention of section 112(j) of the MFMA and SCM regulations 44. Furthermore, the provider failed to declare that he/she was in the service of the municipality, as required by SCM regulation 13(c).
108. Awards were made to providers who are in the service of other state institutions in contravention of MFMA 112(j) and SCM regulations 44.
109. Sufficient appropriate audit evidence was not submitted to assess if the accounting officer implemented measures to combat the abuse of the SCM system as per the requirements of SCM regulation 38(1) because it could not be determined if awards were made to providers who:
 - during the last five years, failed to perform satisfactorily on a previous contract with the municipality or municipal entity or other organ of state;
 - committed a corrupt or fraudulent act in competing for the contract;
 - abused the SCM system of the municipality;
 - had been convicted of fraud or corruption during the past five years.
110. Sufficient appropriate audit evidence was not submitted to assess if a list of accredited prospective providers was in place for procuring goods and services through quotations as required by SCM regulation 14(1)(a).
111. Sufficient appropriate audit evidence was not submitted to assess if the prospective providers list for procuring goods and services through quotations was updated at least quarterly to include new suppliers that qualify for listing, and prospective providers were invited to apply for such listing at least once a year as per the requirements of SCM regulation 14(1)(a)(ii) and 14(2).

Internal control

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

Leadership

113. 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.

Management has made little progress in assisting with the commitments made by council in achieving clean administration.

114. The lack of approved policies contributed to non-compliance with legislation and inadequate controls.

Financial and performance management

115. Management did not adequately manage the recording of transactions, which resulted in the findings included in the paragraphs on the basis for the disclaimed opinion, predetermined objectives and compliance with laws and regulations.
116. Adequate daily and monthly financial processing and reconciliations did not always take place prior to the preparation of the financial statements and the audit process was utilised to correct the financial records.

Governance

117. 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 the all oversight bodies to address going forward.

Auditor-General

East London

30 November 2013



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence