



The Accounting Officer
Senqu Municipality
PO Box 18
Lady Grey
9755

20 December 2013

Reference: 21290REG12/13

Dear Sir

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Senqu 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 and 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) 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 Senior Manager 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

Signed



Rama Purushothaman

Senior Manager: ECBU

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of Senqu 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 the statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

The 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 No. 5 of 2012: Division of Revenue Act of South Africa, 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 audit opinion.

Opinion

6. In my opinion the financial statements present fairly, in all material respects, the financial position of Senqu 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.

Emphasis of matters

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

Restatement of corresponding figures

8. As disclosed in note 37 to the financial statements, the corresponding figures which relate to the year ended 30 June 2012 have been restated as a result of errors discovered during the current financial year.

Additional matters

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

Material losses/impairments

10. As disclosed in note 42.4 to the financial statements, material losses to the amount of R2 million was incurred as a result of electricity distribution losses.
11. As disclosed in note 28 to the financial statements, impairments relating to impairment provision for doubtful debts to the amount of R5 million was incurred as a result of a write-off of irrecoverable exchange and non exchange receivables.

Material under spending of the budget

12. As disclosed in the statement of budget and actual amounts to the financial statements, the municipality has materially under spent on conditional grants to the amount of R27, 8 million. As a consequence, the municipality has not achieved all of its planned objectives.
13. As disclosed in note 42 to the financial statements, the municipality has materially under spent on the capital budget to the amount of R19,3 million. As a consequence, the municipality has not achieved all of its planned objectives.

Additional matter

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

Unaudited supplementary schedules

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

16. 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

17. 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.
18. 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*.
19. 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).
20. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

Additional matters

21. Although no material findings concerning the usefulness and reliability of the performance information were identified in the annual performance report, I draw attention to the following matter below.

Achievement of planned targets

22. Of the total number of 47 targets planned for the year, 15 of targets were not achieved during the year under review. This represents 32% of total planned targets that were not achieved during the year under review. The reason for this was that the reported unrest in Sterkspruit interfered with operations and caused this lack in achievement of planned targets.

Compliance with laws and regulations

23. 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:

Procurement and contract management

24. 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). The register of bids received on time and the bid results were not published on the website of the municipality as per the requirement of SCM regulation 23(c).
25. Contracts were awarded to bidders based on preference points that were not allocated and/or calculated in accordance with the requirements of the PPPFA and its regulations.
26. Awards were made to providers who are in the service of other state institutions or whose directors/ principal shareholders are in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulations 44.

Expenditure management

27. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

28. Reasonable steps were not taken to promptly inform the MEC for local government in the province, in writing of any unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality, as required by section 32(4) of the MFMA.

Budget

29. After the council approved the adjustment budget, the municipal manager did not make public the approved adjustment budget as required by the Municipal budget and reporting regulation 26(1) / 52(1) (GN 393 of 17 April 2009).

Performance management

30. 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.

Internal control

Leadership

31. The accounting officer adequately reviewed the financial statements prior to their submission for audit. However, there is still room for some minimal improvement.
32. Oversight responsibilities over reporting of performance information, compliance with laws and regulations have improved compared to the previous financial year. This is evident by the number of findings reported in the current year.

Financial and performance management

33. Several instances of non-compliance with laws and regulations were identified which was due to a lack of processes in place at the municipality to ensure compliance with relevant legislation. Such non-compliance could have been prevented had compliance been properly reviewed and monitored.

Governance

34. The municipality has an effective and adequately qualified internal audit and audit committee. More oversight role over the effectiveness of the internal control environment and performance reporting should however, be promoted as required by section 165 and 166 of the MFMA.

Auditor - General

East London

20 December 2013



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence