

- Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Ingquza Hill Local Municipality for the year ended 30 June 2013**
- Dear Sir/Madam
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 [type of entity]'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 Accounting Officer
Ingquza Hill Local Municipality
FLAGSTAFF

12 December 2013

Reference: 18454REG12/13



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



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Senior Manager: Eastern Cape

Enquires: Malusi Rasmeni

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**REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL
LEGISLATURE AND THE COUNCIL ON INGUZA HILL LOCAL MUNICIPALITY
REPORT ON THE FINANCIAL STATEMENTS**

Introduction

1. I have audited the financial statements of Inguza Hill Local Municipality set out on pages XX to XX, which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMMA) 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 audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of Inguza Hill Local Municipality as at 30 June 2013, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMMA and DoRA.



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 32 to the financial statements, the prior-year corresponding figures for 30 June 2012 have been restated as a result of errors only corrected during the year ended 30 June 2013 that existed in the financial statements at and for the year ended, 30 June 2012.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

9. 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

10. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages XX to XX of the annual report.

11. 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*.

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).

12. The material findings are as follows:

Usefulness of information

Targets not consistent with the approved integrated development plan

13. The Municipal Systems Act, section 41(1)(c) requires that the annual performance should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 21% of the reported targets are not consistent or not complete when compared with the targets as per the approved integrated development plan. This is due to the lack of an adequate performance management system as well as a lack of adequate monitoring and evaluation of the internal controls over performance management.

Achievement of planned targets

14. Of the total number of 60 targets planned for the year, 28 targets were not achieved during the year under review. This represents 47% of total planned targets that were not achieved during the year under review.

This non-achievement occurred as these activities are in certain cases under the control of external stakeholders and not the municipality.



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AUDITOR-GENERAL
SOUTH AFRICA



12 December 2013

East London

Auditor-General

20. Management did not prepare the monthly financial statements and the report on predetermined objectives which has been evidence by the material misstatements corrected by management, material findings on predetermined objectives and the significant non-compliance with laws and regulations reported.

Financial and performance management

19. Management oversight has not been effective as yet as there were material misstatement corrected by management and there are significant findings on the predetermined objectives and there a material non-compliance with laws and regulations.

Leadership

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

Internal control

17. The municipality did not ensure that the monthly compensation of overtime constitutes less than 30 percent of the employee's monthly salary as required by Public Service Regulations, 2001 Part D.2(c).

Human Resource Management

16. 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 capital assets, current assets, expenditure and disclosure items identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Annual financial statements, performance and annual report

15. 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:

Compliance with laws and regulations