

# **Ndlambe Municipality**

## **Audit Report**

For the year ended 30 June 2014

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

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I was engaged to audit the financial statements of the Ndlambe Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net asset, cash flow and statement of comparison of budget information with actual information for the year then ended, as well as 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), 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, 2013 (Act No. 2 of 2013) (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

#### Property, plant and equipment

4. Sufficient appropriate audit evidence was not available to support property, plant and equipment (PPE) presented in the statement of financial position and disclosed in note 9 to the financial statements, due to the following:
  - The fixed asset register did not agree to the general ledger.
  - The valuation of assets could not be confirmed due to the incomplete information included in the fixed asset register.
  - No audit evidence was provided to support the material unexplained difference identified between the general ledger, fixed asset register and annual financial statements.
5. I was unable to confirm the PPE by alternative means and, consequently, could not determine whether any adjustments were necessary to the PPE of R682,3 million as disclosed in note 9 to the financial statements.
6. In addition, the municipality did not recognise assets that meet the definition of property plant and equipment, contrary to the requirements of GRAP 17 *Property, plant and equipment*. As a result, property plant and equipment presented in the statement of financial position and disclosed in note 9 to the financial statements and the accumulated surplus were understated by R37,3 million.

7. Furthermore, depreciation of PPE was not calculated correctly in terms of the requirements of GRAP 17 *Property, plant and equipment*, thus resulting in the depreciation expense being overstated in the statement of financial performance and the carrying value of PPE as presented in the statement of financial position and disclosed in note 9 to the financial statements being overstated by R1,8 million.

#### **Accumulated surplus**

8. Sufficient appropriate audit evidence was not available to support the accumulated surplus as presented in the statement of changes in net assets. Supporting documentation was not submitted for audit purposes for the differences identified between the accumulated surplus disclosed in note 44 to the financial statements and the face of the statement of changes in net assets. I was unable to confirm the accumulated surplus by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the accumulated surplus of R627,4 million (2013: R615 million) as presented in the financial statements.

#### **Unauthorised expenditure**

9. Sufficient appropriate audit evidence was not available to support unauthorised expenditure disclosed in note 40 to the financial statements. Supporting schedules were not submitted for audit purposes and the statement of comparison of budget and actual amounts did not agree to disclosure note 40 on unauthorised expenditure. I was unable to confirm the unauthorised expenditure by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the unauthorised expenditure of R62,3 million (2013: R62,5 million) as disclosed in note 40 to the financial statements.

#### **Irregular expenditure**

10. The municipality did not have adequate systems to identify and disclose all irregular expenditure incurred during the year, as required by section 125(2)(d)(ii) of the MFMA. The irregular expenditure disclosed in note 41 to the financial statements was understated in respect of amounts incurred and identified during the audit process of R14,9 million (2013: R100,3million). Due to the lack of systems, it was impracticable to determine the full extent of the understatement of irregular expenditure disclosed at R18,7 million (2013: 16,2 million) in note 41 to the financial statements.

#### **Employee benefit obligation**

11. Sufficient appropriate audit evidence was not available to support the retirement benefit obligation presented in the statement of financial position and disclosed in note 18 to the financial statements. Key assumptions included in the actuarial valuation could not be verified against supporting documentation. I was unable to confirm the retirement benefit obligation by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the retirement benefit obligation of R55,6 million as disclosed in note 18 to the financial statements.

#### **Provision**

12. The municipality did not recognise the provision for landfill site rehabilitation, as required by GRAP 19 *Provisions, contingent liabilities and contingent assets*, and did not measure the provisions at the best estimate of the expenditure required to settle the present obligation at the reporting date, as required by the standard. As a result, the provisions presented in the statement of financial position and the property plant and equipment presented in the statement of financial position were both understated by R47,7 million.

13. GRAP 1 *Presentation of financial statements* requires an entity to present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its statement of financial position. The municipality did not separately present the current and non-current liabilities relating to provisions.

#### **Unspent conditional grants and receipts**

14. Sufficient appropriate audit evidence was not available to support unspent conditional grants and receipts presented in the statement of financial position and disclosed in note 15 to the financial statements. Unspent conditional grants and receipts as disclosed in note 15 do not reconcile to note 23 government grants and subsidies. This was due to weak internal controls over the reconciliation of grants received, which resulted in inadequate grant registers being maintained throughout the year. I was unable to confirm the unspent conditional grants and receipts by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the unspent conditional grants and receipts of R35,9 million as presented in the statement of financial position and disclosed in note 15 to the financial statements and the revenue from government grants and subsidies disclosed at R117,9 million in note 23 to the financial statements.

#### **Investment property**

15. Sufficient appropriate audit evidence was not available to support assets recognised as investment property. I was unable to confirm the investment property by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the investment property of R36,5 million as disclosed in note 8 to the financial statements.
16. In addition, the municipality recognised assets that did not meet the definition of investment property as investment property, contrary to the requirements of GRAP 16 *Investment property*. As a result, investment property presented in the statement of financial position and disclosed in note 8 to the financial statements and the accumulated surplus were overstated by R11,7 million.

#### **Payables**

17. Sufficient appropriate audit evidence was not available to support payables presented in the statement of financial position and disclosed in notes 14 and 44 to the financial statements. Supporting documentation either was not submitted for audit purposes or was incomplete. I was unable to confirm payables by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the payables balance of R29,6 million (R28 million) as disclosed in note 14 to the financial statements.
18. The municipality did not maintain adequate records of outstanding payments for goods and services received but not yet paid at year-end. The municipality did not recognise all outstanding amounts meeting the definition of a liability as per GRAP 1 *Presentation of financial statements* in the financial statements, resulting in an understatement of trade and other payables as presented in the statement of financial position and disclosed in note 14 to the financial statements as well as expenditure by R19,2 million.

#### **Inventory**

19. Sufficient appropriate audit evidence was not available to support inventory as presented in the statement of financial position and disclosed in note 3 to the financial statements. Supporting documentation in respect of housing transfers either was not submitted for audit purposes or was incomplete. I was unable to confirm the inventory by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the housing inventory of R24,8 million as disclosed in note 3 to the financial statements.

### **Cash flow statement**

20. The recalculated statement of cash flows contained a material variance amounting to R11,2 million (2013: R16,7 million). Sufficient appropriate supporting documentation and calculations were not provided for the identified variance as well for differences identified between the face of the statement of cash flow and other disclosures in the financial statements. Consequently, the amounts disclosed in the cash flow statement did not fairly present the cash inflows and outflows of the municipality for the current and prior period.

### **Prior period restatement disclosure**

21. The municipality restated prior year financial line items to correct errors discovered in the current year. The municipality did not disclose all the restatements to corresponding figures as per GRAP 3 – *Accounting policies, Changes in accounting estimates and errors*. GRAP 3 requires the adjustment to be disclosed for each financial statement line item that is restated for the current and prior period. The following adjustments should have been included:
- Cash and cash equivalents was restated by R5,5
  - Unspent conditional grants and receipts were restated by R29 million
22. Consequently, the financial statements did not achieve fair presentation as the information presented was not comparable.

### **General expenditure**

23. The municipality did not maintain adequate records of expenditure incurred in respect of goods received and services rendered during the year. The municipality did not recognise receipts of goods and services that meet the definition of an expense as per GRAP 1 *Presentation of financial statements* in the financial statements, resulting in an understatement of general expenditure as presented in the statement of financial performance and disclosed in note 34 to the financial statements as well as payables presented in the statement of financial position and disclosed in note 14 by R4,1 million.

### **Interest received – investment**

24. The municipality did not measure revenue from interest income at the fair value of the consideration received or receivable, as required by GRAP 9 *Revenue from exchange transactions*, and did not calculate interest accurately. Interest received presented in the statement of financial performance was understated by R4 million, while receivables from exchange transactions as presented in the statement of financial position were understated by the same amount.

### **Contingencies**

25. Sufficient appropriate audit evidence was not available to support contingencies as disclosed in note 37 to the financial statements. Management has further not made an assessment of the probability of the outflow and inflow of economic benefits or service potential relating to the contingent liabilities respectively or maintained records relating to claims from third parties. I was unable to confirm the contingent liabilities and assets by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to contingent liabilities and assets by alternative means as disclosed in note 37 to the financial statements.
26. Further, the municipality did not disclose all items meeting the definition of a contingent liability as per GRAP 19 - *Provisions, contingent liabilities and contingent assets*. Consequently, the disclosure for contingent liabilities is understated.

### **Aggregated misstatements in current year figures**

27. The financial statements as a whole were materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following elements making up the statement of financial position, statement of financial performance and disclosures:
- Commitments were understated by R2,4 million.
  - Personnel was overstated by R2,3 million (2013: R1,26 million).
  - Property rates were overstated by R2,1 million.
  - Receivables from exchange transactions were understated by R2 million (2013: R0,97 million).
  - Receivables from non-exchange transactions were overstated by R2,1 million.
  - Debt impairment was overstated by R0,95 million.
  - Government grants and subsidies were understated by R0,65 million.
  - Financial liabilities were understated by R0,5 million.
  - Fruitless and wasteful expenditure was understated by R0,2 million.
28. In addition, I was unable to obtain sufficient appropriate audit evidence and to confirm the following by alternative means:
- Licences and permits of R3,5 million as presented in the statement of financial performance.
  - Cash and cash equivalents of R21,3 million as presented in the statement of financial position.
  - The VAT payable of R2,8 million as presented in the statement of financial position.
29. Consequently, I was unable to determine whether any adjustments to these items were necessary.

### **Corresponding figures**

30. During the 2012-13 year, my report on the financial statements for the year ended 30 June 2013 was modified in respect of the following matters.

### **Commitments**

31. The municipality did not have an adequate and complete contract management system to identify and recognise contracted commitments, and did not disclose commitments as per GRAP 17 *Property, plant and equipment*. The comparative disclosure for commitments was understated by R2,7 million.
32. Sufficient appropriate audit evidence was not available to support commitments as disclosed in note 36 to the financial statements. Supporting documentation either was not submitted for audit purposes or was incomplete. I was unable to confirm the commitments by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the commitments as disclosed in note 36 to the financial statements.

### **Aggregated misstatements in corresponding figures**

33. The financial statements as a whole were materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the elements making up the statement of financial position and the statement of financial performance. I was unable to obtain sufficient appropriate audit evidence and to confirm the following by alternative means:
- Personnel of R80,9 million as presented in the statement of financial performance and disclosed in note 25 to the financial statements.
  - Receivables from exchange transactions of R26,6 million as presented in the statement of financial position and disclosed in note 5 to the financial statements.
  - Receivables from non-exchange transactions of R6,8 million as presented in the statement of financial position and disclosed in note 4 to the financial statements.
34. As a result, I was unable to determine whether any adjustments to these corresponding elements were necessary. My audit opinion on the financial statements for the period ended 30 June 2013 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

### **Disclaimer of opinion**

35. 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 matters**

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

### **Impairments**

37. As disclosed in note 27 to the financial statements, impairments of R15,5 million were incurred as a result of the write-off of irrecoverable trade debtors.

### **Material losses**

38. As disclosed in note 48 to the financial statements, water losses of R9,4 million (27,62%) and electricity losses of R4,8 million (15,57%) were incurred as a result of water and electricity reticulation losses.

### **Irregular expenditure**

39. As disclosed in note 41 to the financial statements, irregular expenditure of R2,5 million was incurred by the municipality during the year ended 30 June 2014. This was as a result of non-compliance with procurement requirements.

### **Unauthorised expenditure**

40. As disclosed in note 40 to the financial statements, unauthorised expenditure of R62,3 million was incurred by the municipality during the year ended 30 June 2014. This was as a result of expenditure not budgeted for and expenditure in excess of the budget.

### **Restatement of corresponding figures**

41. As disclosed in note 44 to the financial statements, the corresponding figures for 30 June 2013 have been restated as a result of errors discovered during 2014 in the financial statements of the municipality at, and for the year ended, 30 June 2013.

### **Additional matter**

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

### **Withdrawal from engagement**

43. Due to the numerous limitations and disagreement misstatements identified in the financial statements, I am unable to rule out the possibility of fraud, which calls into question the reliability of the evidence obtained and the authenticity of the accounting records and documentation. But for the legislated requirement to perform the audit of the municipality, I would have withdrawn from the engagement in terms of the International Standards on Auditing.

### **Unaudited disclosure notes**

44. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with this legislation. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

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

45. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

### **Predetermined objectives**

46. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objective presented in the annual performance report of the municipality for the year ended 30 June 2014:

- Objective: key performance area 1: basic service delivery on pages x to x

47. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

48. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPi).

49. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

50. The material findings in respect of the selected objective are as follows:

### **Key performance area 1: basic service delivery**

#### **Usefulness of reported performance information**

51. Section 41(c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) requires the integrated development plan (IDP) to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 46% of the reported objectives, a total of 50% of the reported indicators, and a total of 58% of the reported targets were not consistent with those in the approved IDP. This was due to the lack of a proper



performance management system, which led to reviews, reconciliations and follow-ups not being made by the leadership.

52. Section 54(1)(c) of the MFMA determines that the service delivery and budget implementation plan adopted by the municipal council may be amended only if the council approves an adjustment budget. Changes to the service delivery and budget implementation plan in the year have to be made in accordance with the process as prescribed per section 28 of the MFMA. Material changes were made to the objectives, indicators and targets in the annual performance report, without following the process as prescribed in section 28 of the MFMA and without adoption by the municipal council. This was due to most of the objectives, indicators and targets being changed at the end of the year with no review of the annual report.

### **Measurability of indicators and targets**

#### **Performance targets not specific and measurable, and indicators not well defined and verifiable**

53. The FMPPI requires the following:

- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 68% of the targets were not specific.
- Performance targets must be measurable. I could not measure the required performance for 68% of the targets.
- Performance indicators and measures must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 100% of the indicators were not well defined.
- Performance indicators must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator and measure. A total of 65% of the indicators were not verifiable.

54. This was because management did not adhere to the requirements of the FMPPI, due to a lack of proper systems, processes and technical indicator descriptions.

#### **Reliability of reported performance information**

55. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the reported performance information. This was due to limitations placed on the scope of my work due to the absence of information systems, the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information, and the auditee's records not permitting the application of alternative audit procedures.

#### **Additional matters**

56. I draw attention to the following matters:

#### **Achievement of planned targets**

57. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected objective reported in paragraph 50 to 54 of this report.

### **Unaudited supplementary information**

58. The supplementary information set out on pages x to x does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not express a conclusion thereon.

### **Compliance with legislation**

59. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

### **Strategic planning and performance management**

60. The municipality did not establish a performance management system, as required by section 38(a) of the MSA.
61. The performance management system was not in line with the priorities, objectives, indicators and targets contained in its IDP; did not clarify the roles and responsibilities of each role player; did not determine the frequency of reporting and the lines of accountability; did not relate to employees' performance management processes; and did not link to the integrated development planning processes, as required by section 38(a) of the MSA and municipal planning and performance management (MPPM) regulation 7(2)(c-g).
62. The performance management system did not provide for the monitoring, measuring and review of performance at least once per year, as required by section 41 of the MSA.
63. The performance management system did not provide for steps for improvement where performance targets were not met, as required by section 41(1)(d) of the MSA.
64. The municipality did not establish mechanisms to monitor and review its performance management system, as required by section 40 of the MSA.
65. Key performance indicators, including input, output and outcome indicators in respect of each of the development priorities and objectives, were not set out in the IDP, as required by section 41(1)(a) of the MSA and MPPM regulations 1 and 9(1)(a).
66. Measurable performance targets for the financial year with regard to each of the development priorities or objectives and key performance indicators were not set in the IDP, as required by section 41(1)(b) of the MSA and MPPM regulation 12(1) and 12(2)(e).
67. A performance management system and related controls were not in place, as it did not describe and represent the processes of performance planning, monitoring, measurement, review, reporting and improvement; and did not state how it must be conducted, organised and managed, including determining the roles of the different role players, as required by section 38 of the MSA and MPPM regulation 7.

### **Financial statements, performance report and annual report**

68. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act. Material misstatements identified by the auditors in the submitted financial statements were not corrected, which resulted in the financial statements receiving a disclaimer audit opinion.
69. No evidence was provided to confirm that an oversight report, containing comments on the annual report, was adopted by the council within two months from the date on which the 2012-13 annual report was tabled, as required by section 129(1) of the MFMA.

### **Audit committee**

70. A performance audit committee was not in place and the audit committee was not used to fulfil the performance audit committee function, as required by MPPM regulation 14(2)(a).
71. The audit committee did not advise the council on matters relating to internal financial control and internal audits, risk management, accounting policies, effective governance, performance management and performance evaluation, as required by section 166(2)(a) of the MFMA.
72. The audit committee did not advise the council on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.
73. The audit committee did not advise the council on matters relating to compliance with legislation, as required by section 166(2)(a)(vii) of the MFMA.
74. The audit committee did not respond to the council on the issues raised in the audit reports of the auditor-general, as required by section 166(2)(c) of the MFMA.
75. The audit committee did not review the municipality's performance management system or make recommendations to the council, as required by MPPM regulation 14(4)(a)(ii).
76. The audit committee did not review all the quarterly internal audit reports on performance measurement, as required by MPPM regulation 14(4)(a)(i).
77. The audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by MPPM regulation 14(4)(a)(iii).

### **Internal audit**

78. The internal audit unit did not function as required by section 165(2) of the MFMA, in that it did not advise the accounting officer and report to the audit committee on matters relating to internal controls.
79. The internal audit unit did not advise the accounting officer and report to the audit committee on matters relating to compliance with the MFMA, DoRA and other applicable legislation, as required by section 165(2)(b)(vii) of the MFMA.

### **Procurement and contract management**

80. Goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, as required by supply chain management (SCM) regulation 17(a) and (c).
81. Quotations were accepted from prospective providers who are not registered on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy, in contravention of SCM regulations 16(b) and 17(b).
82. Invitations for competitive bidding were not always advertised for the required minimum period, as required by SCM regulation 22(1) and 22(2).
83. Construction projects were not always registered with the Construction Industry Development Board (CIDB), as required by section 22 of the CIDB Act of South Africa, 2000 (Act No. 38 of 2000) and CIDB regulation 18.
84. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
85. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.

86. A list of accredited prospective providers was not in place for procuring goods and services through quotations, as required by SCM regulation 14(1)(a).
87. The prospective provider list for procuring goods and services through quotations was not updated at least quarterly to include new suppliers that qualify for listing, and prospective providers were not 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).

#### **Human resource management and compensation**

88. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury, as required by regulation on minimum competency levels 14(2)(a).
89. The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies, as required by regulation on minimum competency levels 14(2)(b).
90. The head of the SCM unit did not have a higher education qualification, as required by section 119 of the MFMA and regulations on minimum competency levels 10 and 11.
91. Finance officials at middle management did not have a higher education qualification, as required by regulations on minimum competency levels 8 and 9.
92. The municipality did not develop and adopt appropriate systems and procedures to monitor, measure and evaluate the performance of staff, in contravention of section 67(d) of the MSA.

#### **Expenditure management**

93. Reasonable steps were not taken to prevent unauthorised, irregular as well as fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

#### **Conditional grants**

94. Municipal infrastructure grant funds were retained or rolled over to the next financial year without seeking the approval of the National Treasury, as required by section 21(1) of DoRA.

#### **Revenue management**

95. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.

#### **Asset and liability management**

96. An adequate management, accounting and information system was not in place to account for assets, as required by section 63(2)(a) of the MFMA.
97. 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.

#### **Consequence management**

98. Unauthorised, irregular as well as fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.
99. Unauthorised expenditure was not authorised through an adjustment budget, as required by section 32(2)(a)(i) of the MFMA.

### **Internal control**

100. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for the disclaimed opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

### **Leadership**

101. Leadership has not adequately performed their leadership responsibilities and has not instilled basic disciplines and controls in the municipality to address significant weaknesses in the overall control environment.
102. Leadership has not implemented an effective performance management system that holds staff accountable and enables the leadership to instill the principle of consequence management.
103. Leadership has developed a plan to address external audit findings, but adherence to the plan was not monitored or overseen by governance structures such as MPAC and the audit committee.
104. Although an IT governance framework is in place it has not been devolved to incorporate the unique circumstances and challenges of the municipality.

### **Financial and performance management**

105. Inadequate record management practices, poor financial discipline and inadequate monitoring controls resulted in significant deficiencies in the general control environment.
106. Where information was made available, it was often incomplete or did not support the underlying accounting records reported in the financial statements and the performance report. The municipality did not institute regular processes of collecting, collating and reporting on credible information to assist with decision-making and directing the municipality's financial and performance objectives. As a result, sufficient appropriate audit evidence was not obtained for a number of significant components reported in the financial statements and performance report.
107. The lack of financial discipline and monitoring throughout the financial year resulted in appropriate daily and monthly processes, procedures and controls not being introduced to ensure that all transactions were accurately recorded, classified, reconciled, approved and reported on, in accordance with SA Standards of GRAP and the FMPPI. Material misstatements across all cycles and components signified a lack of review of transactions and balances at all managerial levels within the municipality, including the inadequacy of detection systems to alert management of control failures.
108. Leadership did not adequately monitor the actions and outputs of officials throughout the year under review to ensure compliance with key legislation. As a result, a large number of municipal laws and regulations were not complied with. In addition, SCM compliance awareness amongst officials across all functional areas was not at the desired level, as evidenced by the abnormal amount of irregular expenditure identified during the audit.

## **Governance**

109. The municipality's risk management strategy remained in draft form and was not implemented or monitored by management. Although a risk assessment was performed, it was inadequate as no responsibilities or actions were assigned in terms of identified risks. It could thus not be used as a mitigating tool by management.
110. The internal audit unit only tabled one audit report to the audit committee. As a result, the committee did not fulfil its assigned responsibilities in terms of the MFMA, specifically the review of financial and performance reporting and compliance with laws and regulations.
111. The internal audit unit and audit committee did not enhance the credibility of the financial statements or contribute to an improvement in the audit opinion. This was as a result of a number of factors, including the late submission of documentation, a lack of response by management to findings raised, and budgetary constraints affecting these governance structures.

*Auditor - General*

East London

30 November 2014



**AUDITOR - GENERAL  
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