

# **Sundays River Valley Municipality**

## **Audit Report**

For the year ended 30 June 2014

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

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I was engaged to audit the financial statements of the Sundays River Valley Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, the cash flow statement and the statement of comparison of budget information with actual amounts 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 (GRAP) and the requirements of the Municipal Finance Management Act of South Africa (Act No. 56 of 2003), 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 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. 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 opinion

#### Property, plant and equipment

4. Sufficient and appropriate evidence was not available to support infrastructure assets disclosed in note 4 to the financial statements as the necessary documentation was not submitted for audit purposes. I was unable to confirm infrastructure assets by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to infrastructure assets of R207,4 million (2013: R204,5 million) as disclosed in note 4 to the financial statements.
5. The municipality accounted for non-infrastructure assets as disclosed in note 4 to the financial statements, specifically land, which was not registered in the name of the municipality. Consequently, non-infrastructure assets and accumulated surplus were overstated by R92,8 million.

6. The decrease in the provision for environmental rehabilitation was incorrectly processed by the municipality to the additions to land as disclosed in note 4 to the financial statements. Consequently, land was understated by R6,5 million and general expenses were overstated by R6,5 million.
7. An adjustment to the annual financial statements was incorrectly processed. Consequently depreciation of infrastructure assets and accumulated depreciation for infrastructure assets were overstated by R6,4 million.

#### **Government grants and subsidies**

8. Sufficient and appropriate evidence was not available to support government grants and subsidies as disclosed in the statement of financial performance as the necessary documentation was not submitted for audit purposes. I was unable to confirm the government grants and subsidies by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to government grants and subsidies of R72,7 million as disclosed in the statement of financial performance.

#### **Unauthorised expenditure**

9. The municipality did not have adequate systems in place to identify and disclose all unauthorised expenditure incurred during the year as required by section 125(2)(d)(i) of the MFMA. The unauthorised expenditure disclosed in note 31 to the financial statements is understated in respect of the amounts incurred during the year that were identified during the audit process of R40,8 million. Due to the lack of systems, and the non-availability of sufficient appropriate audit evidence for all awards, it was impracticable to determine the full extent of the understatement of unauthorised expenditure disclosed at R24 million.

#### **Irregular expenditure**

10. The municipality did not have adequate systems in place to identify and disclose all irregular expenditure incurred during the year as required by section 125(2)(d)(i) of the MFMA. The irregular expenditure disclosed in note 33 to the financial statements is understated in respect of the amounts incurred during the year that were identified during the audit process of R28 million (2013: R23,5 million). Due to the lack of systems, and the non-availability of sufficient appropriate audit evidence for all awards, it was impracticable to determine the full extent of the understatement of irregular expenditure disclosed at R84,8 million (2013: R47,6 million). I was unable to confirm the disclosure by alternative means.

#### **Commitments**

11. Sufficient and appropriate evidence was not available to support commitments disclosed in note 25 to the financial statements as the necessary documentation was either not submitted for audit purposes or that which was submitted, was incomplete. I was unable to confirm the commitments by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to commitments of R28,9 million (2013: R23,5 million) as disclosed in note 25 to the financial statements.

#### **Provision for environmental rehabilitation**

12. The municipality accounted for the provision for environmental rehabilitation as disclosed in note 13 to the financial statements with inaccurate underlying data. Consequently, the provision for environmental rehabilitation and general expenditure were understated by R10,2 million.

### **Repairs and maintenance**

13. The municipality incorrectly classified bulk purchases and general expenses as repairs and maintenance as disclosed in the statement of financial performance. Consequently, general expenses were understated by R8,1 million and repairs and maintenance expenditure was overstated by R8,1 million (2013: overstated by R0,9 million).

### **Interest received**

14. Sufficient and appropriate evidence was not available to support interest received from consumer debtors as disclosed in note 18 to the financial statements as the necessary documentation was not submitted for audit purposes. I was unable to confirm the interest received by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to interest received of R7,6 million (2013: R4,9 million) as disclosed in note 18 to the financial statements.

### **Cash flow statement**

15. Sufficient and appropriate evidence was not available to support the cash flow statement as disclosed in the financial statements as the necessary documentation was not submitted for audit purposes. I was unable to confirm the cash flow statement by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the cash flow statement as disclosed in the financial statements.

### **Consumer debtors**

16. Consumer debtors as disclosed in the face of the financial statement and note 9 to the financial statements either did not reconcile to the underlying subsidiary ledger or was not correctly billed. Consequently, consumer debtors is understated by R6,8 million and rendering of services revenue and property rates revenue were understated by R3,7 million and R1,7 million respectively.
17. The allowance for impairment as disclosed in note 9 to the financial statements was not correctly calculated. Consequently, allowance for impairment as disclosed in note 9 of the statement of financial position and impairment loss/reversal of impairment as disclosed in the statement of financial performance were understated by R6 million.
18. Categories of services per the consumer debtors subledger system did not agree to the category per the valuation roll for the consumer debtors. Consequently, consumer debtors as disclosed in note 9 to the financial statements rendering of services revenue as disclosed in the statement of financial performance were overstated by R3,2 million.

### **VAT payable**

19. Sufficient and appropriate evidence was not available to support VAT payable disclosed in note 15 to the financial statements as the necessary documentation was not submitted for audit purposes. I was unable to confirm the VAT payable by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to VAT payable of R4,1 million (2013: R3,8 million) as disclosed in note 15 to the financial statements.

### **Employee benefit obligation**

20. Sufficient and appropriate evidence was not available to support employee benefit obligation disclosed in note 6 to the financial statements as the necessary documentation was not submitted for audit purposes. I was unable to confirm the employee benefit obligation by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the employee benefit obligation of R3,4 million (2013: R3,6 million) as disclosed in note 6 to the financial statements.

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

21. Sufficient and appropriate evidence was not available to support the unspent conditional grants and receipts as disclosed in note 12 to the financial statements as the necessary documentation was not submitted for audit purposes. 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 unspent conditional grants and receipts of R3,1 million as disclosed in note 12 to the financial statements.

### **Subsequent events**

22. The municipality disclosed in note 30 to the financial statements that the primary driver for the audit opinion as expressed in the current year was due to the municipality's offices being vandalised and burnt down subsequent to year end. This statement is inaccurate as the underlying reason for the number of limitation paragraphs contained in this audit report is unknown and I cannot determine whether the limitations are directly attributed to the protest action which occurred.

### **Preparation of the financial statements**

23. I was unable to obtain sufficient appropriate audit evidence that the accounting officer has fulfilled responsibility for the preparation of the financial statements in accordance with GRAP, as written representations in this respect were not provided. I was also unable to obtain written representations from the accounting officer that I had been provided with all relevant information and access as agreed in terms of the audit engagement and that all transactions had been recorded and were reflected in the financial statements. I could not determine the effect of the lack of such representations on the financial position of the municipality at the 30 June 2014 or the financial performance and cash flows for the year then ended.

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

24. The financial statements as a whole are materially misstated due to the cumulative effect of numerous individual immaterial uncorrected misstatements in the following elements making up the statement of financial position and the statement of financial performance:
- Repairs and maintenance reflected as R11,8 million is understated by R2,7 million.
  - Cash and cash equivalents reflected as R6,9 million is understated by R2,3 million.
  - Land reflected as R84 million is understated by R1,8 million.
  - Bulk purchases reflected as R14,7 million were understated by R1,5 million.
  - Plant and machinery reflected as R0,2 million is understated by R1,5 million.
  - Lease assets reflected as R3,5 million is overstated by R1,5 million.
  - Property rates reflected as R13,9 million is understated by R1,3 million.
  - Other liabilities reflected as R4,2 million is understated by R1,3 million.
  - Other receivable from non-exchange revenue reflected as R0,7 million is understated by R1,1 million.
25. In addition, I was unable to obtain sufficient appropriate audit evidence and to confirm the following items by alternative means:
- Accrued leave pay of R2,6 million as disclosed in note 14 with a balance of R2,6 million.
  - Consumer debtors of R1,8 million as disclosed in note 9 with a balance of R9,9 million.

- Repairs and maintenance of R0,9 million as disclosed in the statement of financial performance with a balance of R11,8 million.

As a result, I was unable to determine whether any further adjustments to these items were necessary.

### **Prior year comparative information**

#### **Adjustments to corresponding figures**

26. Sufficient and appropriate evidence was not available to support the changes made to the comparative information disclosed in note 27 to the financial statements. Supporting documentation was either not submitted for audit purposes or that which was submitted, was incomplete, thus I was unable to determine whether any adjustments to the below prior period adjustments were necessary:

- Property, plant and equipment of R32,3 million.
- Provisions and suspense accounts of R17,1 million.
- Investment property of R28,4 million.
- Depreciation expense of R13,3 million.
- Opening Accumulated Surplus or Deficit of R7,1 million.

#### **Aggregation of prior year period errors**

27. The prior year comparative figures as disclosed in the financial statements are materially misstated due to the cumulative effect of numerous individual material and immaterial uncorrected misstatements in the following elements making up the statement of financial position and the statement of financial performance:

- General expenditure reflected as R26,6 million is understated by R11,4 million.
- Revenue from rendering of services reflected as R38,4 million is understated by R2,8 million.
- Finance lease obligation reflected as R23,5 million is overstated by R1,1 million.
- Trade payables reflected as R19,8 is overstated by R0,3 million.
- Finance costs in the cash flow statement reflected as R2,7 million is overstated by R2,7 million.

28. In addition, I was unable to obtain sufficient appropriate audit evidence and to confirm the following items by alternative means:

- Other liabilities of R9,5 million as disclosed in the statement of financial position.
- Finance costs of R2,5 million as included in the disclosed balance of R2,7 million.
- Receivables from non-exchange transactions in the category of traffic fines debtors of R1,8 million as included in the disclosed balance of Rnil.
- Income from agency services of R1,6 million as included in the disclosed balance of R1,6 million.
- Revenue from licence and permits of R1,3 million as included in the disclosed balance of R1,3 million.
- Revenue from government grants and subsidies of R1,1 million as included in the disclosed balance of R65,7 million.
- Unspent conditional grants and receipts of R1,1 million as included in the disclosed balance of R0,6 million.
- Payables from exchange transactions in the category of other payables of R1 million as included in the disclosed balance of R0,9 million.
- Intangible assets of R0,9 million as included in the disclosed balance of R0,9 million.

- Payables from exchange transactions in the category of trade payables of R0,9 million as included in the disclosed balance of R19 million.

As a result, I was unable to determine whether any further adjustments to these items were necessary.

#### **Disclaimer of opinion**

29. 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**

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

#### **Material losses**

30. As disclosed in the statement of financial performance, impairment losses of R42 million was incurred during the financial year due to an increase in the allowance for impairment of consumer debtors.

#### **Irregular expenditure**

31. As disclosed in note 33 to the financial statements, irregular expenditure of R37 million was incurred during the financial year. Total irregular expenditure of R85 million has been incurred over the past 4 financial years.

#### **Additional matters**

32. The municipality failed to disclose in the notes to the annual financial statements any non compliance with the MFMA as required by section 125(2)(e) of the MFMA.

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

33. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected development 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**

34. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following development priorities presented in the annual performance report of the municipality for the year ended 30 June 2014:
- Basic service delivery and infrastructure development on pages 9 to 17
  - Local economic development on pages 21 to 22
  - Community services on pages 28 to 33
  - Financial viability and management 34 to 38
35. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

36. 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 development priorities. 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).
37. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
38. The material findings in respect of the selected development priorities are as follows:

### **Basic service delivery and infrastructure development**

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

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

39. The FMPPI requires the following:

- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 90% of the targets were not specific.
  - Performance targets must be measurable. I could not measure the required performance for 90% of the targets.
  - The period or deadline for delivery of targets must be specified. A total of 85% of the targets were not time bound.
  - Performance indicators 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 55% 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 indicators. A total of 90% of the indicators were not verifiable.
40. This was because management did not adhere to the requirements of the FMPPI due to a lack of proper systems and processes.

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

41. 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 we considered necessary to satisfy ourselves as to the reliability of the reported performance information. This was due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information.

### **Local economic development**

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

##### **Consistency of objectives, indicators and targets**

42. Section 41(c) of the Municipal Systems Act (MSA) requires the 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 43% of the reported objectives,



indicators and targets were not consistent with those in the approved IDP. This was due to a lack of structures that administer the alignment of the planned and reported objectives, indicators and targets.

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

43. The FMPPI requires the following:

- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 71% of the targets were not specific.
- Performance targets must be measurable. I could not measure the required performance for 86% of the targets.
- The period or deadline for delivery of targets must be specified. A total of 100% of the targets were not time bound.
- Performance indicators 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 86% 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 indicators. A total of 86% of the indicators were not verifiable.

44. This was because management did not adhere to the requirements of the FMPPI due to a lack of proper systems and processes.

#### **Relevance of indicators**

45. The FMPPI requires indicators to relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives. A total of 43% of the indicators did not relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives as per the three-year service delivery and budget implementation plan (SDBIP). This was because proper performance planning and management practices had not been developed and implemented to provide for the development of performance indicators and targets included in the SDBIP.

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

46. 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 we considered necessary to satisfy ourselves as to the reliability of the reported performance information. This was due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information.

#### **Community services**

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

##### **Consistency of objectives, indicators and targets**

47. Section 41(c) of the MSA requires the 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 38% of the reported objectives, indicators and targets were not consistent with those in the approved IDP. This was due to a lack of structures that administer the alignment of the planned and reported objectives,

indicators and targets.

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

48. The FMPPI requires the following:

- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 38% of the targets were not specific.
- Performance targets must be measurable. I could not measure the required performance for 81% of the targets.
- The period or deadline for delivery of targets must be specified. A total of 88% of the targets were not time bound.
- Performance indicators must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicators. A total of 81% of the indicators were not verifiable.

49. This was because management did not adhere to the requirements of the FMPPI due to a lack of proper systems and processes.

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

50. 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 we considered necessary to satisfy ourselves as to the reliability of the reported performance information. This was due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information.

#### **Financial viability and management**

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

##### **Consistency of objectives, indicators and targets**

51. Section 41(c) of the MSA requires the 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 70% of the reported objectives, indicators and targets were not consistent with those in the approved integrated development plan. This was due to a lack of structures that administer the alignment of the planned and reported objectives, indicators and targets.

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

52. The FMPPI requires the following:

- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 77% of the targets were not specific.
- Performance targets must be measurable. I could not measure the required performance for 92% of the targets.
- The period or deadline for delivery of targets must be specified. A total of 92% of the targets were not time bound.
- Performance indicators 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 77% 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 indicators. A total of 92% of the indicators were not verifiable.
53. This was because management did not adhere to the requirements of the FMPPI due to a lack of proper systems and processes.

#### **Relevance of indicators**

54. The FMPPI requires indicators to relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives. A total of 38% of the indicators did not relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives as per the three-year SDBIP. This was because proper performance planning and management practices had not been developed and implemented to provide for the development of performance indicators and targets included in the SDBIP.

#### **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 we considered necessary to satisfy ourselves as to the reliability of the reported performance information. This was due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information.

#### **Additional matters**

56. We draw attention to the following matters. Our conclusion is not modified in respect of these matters:

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

57. Refer to the annual performance report on pages 8 and 48 for information on the achievement of planned targets for the year. This information should be considered in the context of the adverse or disclaimer of conclusions expressed on usefulness and reliability of the reported performance information in paragraphs 7 to 11 of this report.

#### **Unaudited supplementary information**

58. The supplementary information set out on pages 39 to 47 does not form part of the annual performance report and is presented as additional information. We have not audited this schedule and, accordingly, we 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. 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 the Municipal planning and performance management regulations 12(1) and 12(2)(e).
61. 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.
62. The performance management system was not in line with the priorities, objectives, indicators and targets contained in its IDP as required by Section 38(a) of the MSA.

63. The annual performance agreements for the municipal manager and all senior managers are not linked to the measurable performance objectives approved with the budget and to the SDBIP as required in terms of section 53(1)(c)(iii) of the MFMA and section 57(1)(b) of the MSA.
64. 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 the Municipal planning and performance management regulation 1 and 9(1)(a).
65. The performance management system and related controls were inadequate as it did not describe and represent the processes of performance monitoring, measurement, review and how it is conducted, organised and managed, as required by sections 38 of the MSA and regulation 7 of the Municipal planning and performance management regulations.
66. The annual performance report for the year under review did not include a comparison of the performance with the previous financial year as required by section 46 (1)(b) of the MSA.
67. 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 the Municipal planning and performance management regulation 1 and 9(1)(a).

#### **Budgets**

68. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

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

69. 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 identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer of audit opinion.
70. Oversight report, containing comments on the annual report, was not adopted by 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 committees**

71. 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.
72. The audit committee did not make recommendations to the council, as required by Municipal planning and performance management regulation 14(4)(a)(ii).
73. 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 Municipal planning and performance management regulation 14(4)(a)(iii).

### **Procurement and contract management**

74. Sufficient appropriate audit evidence could not be obtained that all contracts and quotations were awarded in accordance with the legislative requirements and a procurement process which is fair, equitable, transparent and competitive, as the required supporting documentation could not be provided for audit purposes.
75. Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value of below R200 000 were procured by means of obtaining the required price quotations, as required by SCM regulation 17(a) & (c).
76. 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 regulation 16(b) and 17(b).
77. Sufficient appropriate audit evidence could not be obtained that 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).
78. Sufficient appropriate audit evidence could not be obtained that 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.
79. 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 and SCM regulation 28(1)(a).
80. Contracts were awarded to bidders based on preference points that were not allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
81. Contracts 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).
82. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders that scored the highest points in the evaluation process, as required by of section 2(1)(f) of Preferential Procurement Policy Framework Act.
83. Sufficient appropriate audit evidence could not be obtained that 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.
84. Sufficient appropriate audit evidence could not be obtained that all extension or modification to contracts were approved by a properly delegated official, as required by SCM Regulation 5.
85. Sufficient appropriate audit evidence could not be obtained that the performance of contractors or providers were monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
86. Sufficient appropriate audit evidence could not be obtained that the contract performance and monitoring measures and methods were sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.
87. Awards were made to providers who are in the service of the municipality in contravention of section 112(j) of the MFMA and SCM regulations 44.
88. Awards were made to providers who are in the service of other state institutions in contravention of MFMA 112(j) and SCM regulations 44. Similar awards were identified

in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).

89. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by SCM regulation 46(2)(e).
90. Contracts and quotations were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.
91. 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).
92. The prospective providers 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**

93. No supporting evidence could be obtained to determine whether the acting chief financial officer (CFO) was appointed for a period of more than three months without the approval by the MEC for local government in contravention of section 56(1)(c) of the MSA.
94. Sufficient appropriate audit evidence could not be obtained that job descriptions were established for all posts in which appointments were made in the current year, as required by section 66(1)(b) of MSA.
95. Sufficient appropriate audit evidence could not be obtained that the CFO and certain financial officials were appointed without having met the prescribed minimum competency levels as required by section 83 of the MFMA and regulation 4 and 5 of the Municipal Regulations on Minimum Competency Levels.
96. Sufficient appropriate audit evidence could not be obtained that the appointment of a senior manager directly accountable to the municipal manager was approved by municipal council as required by section 56(1)(a) of MSA.
97. Sufficient appropriate audit evidence could not be obtained that the newly appointed managers directly accountable to municipal manager submitted original/certified copies of academic and professional qualifications, proof of previous employment and disclosure of financial interests prior to appointment as per the requirements of regulation 4 of GNR 805.
98. Sufficient appropriate audit evidence could not be obtained that the senior managers dismissed for financial misconduct in a previous position and re-appointed before the expiry of 10 years in contravention of section 57A of the MFMA.
99. Sufficient appropriate audit evidence could not be obtained to determine whether the competencies of financial officials were not assessed in a timely manner in order to identify and address gaps in competency levels as required by the Municipal Regulations on Minimum Competency Levels regulation 13.

100. Sufficient appropriate audit evidence could not be obtained to determine whether the municipality submitted a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury as required by the Regulations on Minimum Competency Levels reg14(2)(a).
101. Sufficient appropriate audit evidence could not be obtained to determine whether the accounting officer did meet any of the prescribed competency areas as required by sec 83 of the MFMA and reg 2 and 3 of the Municipal Regulations on Minimum Competency Levels.
102. Sufficient appropriate audit evidence could not be obtained to determine whether the CFO did have the higher education qualification as required by sec 83 of the MFMA and reg 4 and 5 of the Municipal Regulations on Minimum Competency Levels.
103. Senior managers did not meet any of the prescribed competency areas as required by reg 6 and 7 of the Municipal Regulations on Minimum Competency Levels.
104. Sufficient appropriate evidence could not be obtained to determine whether the finance officials at middle management have the higher education qualification as required by reg 8 and 9 of the Municipal Regulations on Minimum Competency Levels.
105. Senior managers directly accountable to the municipal manager did not sign performance agreements, as required by section 57(2)(a) MSA.

#### **Expenditure management**

106. 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.
107. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, accounted for creditors and accounted for payments made, as required by section 65(2)(b) of the MFMA.
108. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
109. Reasonable steps were not taken to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

#### **Conditional grants received**

110. Sufficient appropriate audit evidence could not be obtained that the municipal infrastructure grant (MIG) allocation was spent in accordance with the applicable grant framework.
111. Sufficient appropriate audit evidence could not be obtained proving that the municipality evaluated its performance in respect of programmes or functions funded by the MIG allocation, as required by section 12(5) of the DORA.
112. MIG funds were retained or rollover to the next financial year without seeking the approval of the National Treasury, as required by sections 21(1) of the DORA.
113. Sufficient appropriate audit evidence could not be obtained that the Municipal Systems Improvement Grant allocation (MSIG) was spent in accordance with the applicable grant framework, which is in contravention of section 16(1) of the DORA.
114. Sufficient appropriate audit evidence could not be obtained proving that the municipality evaluated its performance in respect of programmes or functions funded by the MSIG allocation, as required by section 12(5) of the DORA.

### **Revenue management**

115. An adequate management, accounting and information system which accounts for revenue, debtors and receipts of revenue was not in place, as required by section 64(2)(e) of the MFMA.
116. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
117. Sufficient audit evidence could not be obtained that interest had been charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

### **Asset and liability management**

118. 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.
119. 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.
120. An effective system of internal control for liabilities was not in place, as required by section 63(2)(c) of the MFMA.

### **Consequence management**

121. Unauthorised, irregular, and fruitless and wasteful expenditure incurred by the was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.
122. Unauthorised, irregular, and fruitless and wasteful expenditure was not always recovered from the liable person, as required by section 32(2) of the MFMA.
123. Sufficient appropriate audit evidence could not be obtained to determine whether the municipality did always report to the South African Police Service cases of alleged irregular expenditure that constituted a criminal offence, as required by section 32(6) of the MFMA.

### **Internal control**

124. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on non-compliance with legislation included in this report.

### **Leadership**

125. The human resources policies are not adequately implemented as certain individuals do not have the appropriate level of understanding of the applicable financial and reporting frameworks.
126. Deficiencies reported relating to the preparation of the financial statements was as a result of a lack of supervision and monitoring of the consultants engaged to perform this task by the municipality's leadership.
127. There is a lack of consequence management, as poor performance is not addressed and rectified immediately as evidenced by the deficiencies that have been reported in the current and prior year.
128. There is a lack of skills and competencies as evidenced by the numerous control deficiencies identified during the audit and the use of consultants by the municipality for day to day operations.



### **Financial and performance management**

129. There was inadequate controls implemented over daily and monthly processing and reconciling of transactions as reconciliations for various accounts were either not performed timeously or could not be provided for the audit.
130. There is an inadequate performance management system in place as the staff lack the required knowledge and understanding of the requirements of the MSA with regards to planning executing and reporting on the performance of the municipality.

### **Governance**

131. The risk strategy and audit action plan was poorly implemented which contributed to the control deficiencies identified during the audit.
132. Certain fundamental tasks were not performed adequately by municipal staff due to the lack of skills and understanding of the accounting system, furthermore these were not reviewed by the internal audit department and include the accurate preparation and review of the performance measures and the performance report and the accurate preparation of and review of the financial statements.

### **OTHER REPORTS**

#### **Investigations**

133. The following are the investigations that were undertaken by the municipality.
- Misuse of petrol abuse - A disciplinary process was completed in February 2014 and a criminal case was opened with South African Police Service. This process resulted in one employee being found guilty of misuse of petrol cards and another employee was acquitted of the charges. Misappropriation of cash received for traffic fines - An investigation was undertaken for the misappropriation of traffic fine moneys at the Patterson traffic department. This resulted in an employee being found guilty and subsequently dismissed.

*Cundin - General*

East London

30 November 2014



**AUDITOR - GENERAL  
SOUTH AFRICA**

*Auditing to build public confidence*