

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the financial statements of the Great Kei Local Municipality set out on pages XX to XX, which comprise the appropriation statement, the statement of financial position as at 30 June 2014, the statements of financial performance, changes in net assets, and cash flows and the statement of comparison of budget and 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 the South African Standards of Generally Recognised Accounting Practice (Statements of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 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 (ISA). 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

Investment property

4. The municipality did not recognise its investment properties at the correct cost as required by GRAP 16: *Investment Properties*. As a result, investment property, as disclosed in note 9 to the financial statements is overstated by R1,53 million (2012-13: R12,97 million) with a corresponding overstatement on accumulated surplus.
5. Sufficient appropriate audit evidence was not available to support the investment property disclosed in the current year. Furthermore, the municipality did not follow due process in adjusting its prior year figures and did not provide sufficient appropriate audit evidence to this effect and as a result, I was unable to audit the prior year adjustments to the 2012-13 figures. I was unable to confirm the current and corresponding balance by alternative means. Consequently, I was unable to determine whether any further adjustments to investment property of R111,29 million (2012-13: R111,29 million) as disclosed in note 9 were necessary.

Property, plant and equipment

6. The municipality did not have adequate processes to ensure that all property, plant and equipment as disclosed in note 10 to the financial statements was recorded and valued correctly as required by GRAP 17: *Property, plant and equipment* and GRAP 19: *Provisions, contingent liabilities and contingent assets*. As a result, property, plant and equipment, as disclosed in note 10 to the financial statements is understated by R54,88 million (2012-13: R2,65 million overstatement) with a corresponding understatement on accumulated surplus and payables from exchange transactions

amounting to R44,82 million (2012-13: R68,95 million) and R2,87 million respectively, an overstatement of repairs and maintenance and depreciation and amortisation of R3,44 million and R3,74 million (2012-13: R2,16 million understatement) respectively and an corresponding overstatement of prior year inventory amounting to R106,15 million.

7. Sufficient appropriate audit evidence was not available to support the property, plant and equipment disclosed in the current year. Furthermore, the municipality did not follow due process in adjusting its prior year figures and did not provide sufficient appropriate audit evidence to this effect. As a result I was unable to audit the prior year adjustments to the 2012-13 figures. I was unable to confirm this current and corresponding balance by alternative means. Consequently, I was unable to determine whether any further adjustments to property, plant and equipment of R213,36 million (2012-13: R211,76 million) as disclosed in note 10 were necessary.

Receivables from exchange and non-exchange transactions

8. The municipality did not have an adequate system in place with respect to receivables from exchange and non-exchange transactions, in that a complete debtor's age analysis did not exist to support the balances disclosed. Sufficient appropriate audit evidence was not provided to support receivables from exchange and non-exchange transactions of R8,81 million (2012-13: R8,54 million) and R5,25 million respectively and, accordingly, the debt impairment balance of R20,59 million (2012-13: R18,82 million) and R25,95 million respectively, disclosed in notes 5 and 6 to the financial statements. I was unable to confirm these balances by alternative means. Consequently, I was unable to determine whether any further adjustments to receivables from exchange and non-exchange transactions were necessary.
9. In the 2012-13 year the municipality did not maintain an updated debtor's ledger, as debtors accounts were duplicated on the system. Debtors had debit and credit balance accounts that were not netted off against each other, which resulted in an overstatement of receivables from exchange transactions in note 5 and payments received in advance in note 18, amounting to R950 891. In addition, unauthorised withdrawals from the bank account were raised as a debtor with an uncertainty as to the recoverability of this amount and interest was not charged on overdue accounts, as required by section 64(2)(g) of the MFMA. Due to the nature of these findings, it was impracticable to determine the full extent to which receivables from exchange transactions in the prior year are misstated

Inventories

10. The municipality did not recognise its inventories at the lower of cost or net realisable value as required by GRAP 12: *Inventories*. In the 2012-13 year, property, plant and equipment was incorrectly recognised as inventory. As a result, inventories as disclosed in note 4 to the financial statements, are understated by R4,56 million (2012-13: R106,15 million overstatement) with a corresponding understatement on current accumulated surplus.
11. Sufficient appropriate audit evidence was not available to support the inventory disclosed in the current year. Furthermore, the municipality did not follow due process in adjusting its prior year figures and did not provide sufficient appropriate audit evidence to this effect and as a result I was unable to audit the prior year adjustments to the 2012-13 figures. I was unable to confirm the current and corresponding balance by alternative means. Consequently, I was unable to determine whether any further adjustments to inventory of R25,82 million (2013: R25,82 million) in note 4 to the financial statements were necessary.

Contingent assets

12. The municipality did not correctly apply the salary and wage collective agreement one and three, signed by the South African Local Government Association (SALGA), the Independent Municipal and Allied Trade Union (IMATU) and the South African Municipal Workers Union (SAMWU) and consequently have overpaid employees since 2009. As a result, contingent assets in note 38 are understated by R21,54 million.

Revenue from non-exchange transactions

13. Sufficient appropriate audit evidence was not available to support the revenue from non-exchange transactions disclosed in the statement of financial performance due to inadequate record management which resulted in documentation relating to the reduction in equitable share received, the market value of rateable properties and the completeness of fines revenue not being submitted for audit purposes. I was unable to confirm the revenue from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the revenue from non-exchange transactions of R75,81 million as disclosed in the statement of financial performance.
14. In addition, valuations of rateable properties of R3,62 billion are disclosed in note 24 to the financial statements and contain duplicate properties not identified and removed by management and consequently, this disclosure is overstated by R431,32 million.

Depreciation and amortisation

15. Sufficient appropriate audit evidence was not available to support the depreciation and amortisation disclosed in note 29 to the financial statements. As I was unable to confirm the cost of the property plant and equipment, I was unable to audit the depreciation and amortisation of these assets. I was unable to confirm the depreciation and amortisation by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the depreciation and amortisation of R21,74 million as disclosed in note 29 to the financial statements.

Unauthorised expenditure

16. Sufficient appropriate audit evidence was not available to support the unauthorised expenditure disclosed in note 45 to the financial statements. Due to the material limitations of scope imposed by management on general expenditure, depreciation and amortisation, employee related costs, finance costs and debt impairment, I was unable to calculate the extent of authorised expenditure per vote as required by sections 1 and 125(2)(d)(i) of the MFMA. I was unable to confirm the unauthorised expenditure by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the unauthorised expenditure of R16,87 million (2012-13: R6,94 million) as disclosed in note 45 to the financial statements.

Revenue from exchange transactions

17. Sufficient appropriate audit evidence was not available to support the revenue from exchange transactions disclosed in the statement of financial performance due to inadequate record management which resulted in documentation relating to service charges, rental of facilities and equipment, licence and permits, interest received and other income not being submitted for audit purposes. I was unable to confirm the revenue from exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the revenue from exchange transactions of R14,07 million as disclosed in the statement of financial performance.
18. The municipality did not have an adequate billing system to recognise revenue from exchange transactions in the 2012-13 year and as a result prior year revenue from

exchange transactions as per the statement of financial performance is understated by R1,39 million and prior year trade receivables is understated by the same amount. 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.

Payables from exchange transactions

19. The municipality did not have an adequate system in place to correctly record leave pay in the current year. As a result, payables from exchange transactions, as disclosed in note 16 to the financial statements are understated by R961 256, with an understatement on general expenses and bulk purchases of R236 083 and R835 363 respectively, an overstatement on employee related costs of R110 189.
20. Sufficient appropriate audit evidence was not available to support the payables from exchange transactions as disclosed in the current year. I was unable to confirm this balance by alternative means. Consequently, I was unable to determine whether any further adjustments to payables from exchange transactions of R17,39 million as disclosed in note 16 to the financial statements were necessary.

General expenses

21. Sufficient appropriate audit evidence was not available to support the general expenses disclosed in note 33 to the financial statements due to an inadequate filing system which resulted in invoice batches not being submitted for audit purposes. I was unable to confirm the general expenses by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the general expenses of R28,44 million as disclosed in note 33 to the financial statements.

Employee related costs

22. Sufficient appropriate audit evidence was not available to support the employee related costs disclosed in note 27 to the financial statements as documentation relating to basic salaries, overtime, allowances and journals were not submitted for audit purposes. I was unable to confirm the employee related costs by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the employee related costs of R31,96 million (2012-13: R27,21 million) as disclosed in note 27 to the financial statements.
23. The municipality did not have adequate systems in place in the 2012-13 year to accurately administer and record allowances, leave pay and medical contributions to employees' medical aid schemes. As a result, prior year employee related costs as disclosed in note 27 to the financial statements is overstated by R276 156. The related debtors in respect of these misstatements were not raised at 30 June 2013, resulting in an understatement of receivables from exchange transactions as disclosed in note 5 to the financial statements. 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.

Debt impairment

24. Sufficient appropriate audit evidence was not available to support the debt impairment disclosed in note 31 to the financial statements. As I was unable to confirm the receivables from exchange and non-exchange transactions and their respective impairments, I was unable to audit the debt impairment expenditure in the current year. I was unable to confirm the debt impairment by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the debt

impairment of R2,90 million as disclosed in note 31 to the financial statements.

VAT receivable

25. Sufficient appropriate audit evidence was not available to support the value added tax (VAT) receivable disclosed in note 7 to the financial statements. The supporting VAT reconciliations submitted for audit purposes differed materially to the amounts disclosed in the financial statements. I was unable to confirm the VAT receivable by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the VAT receivable of R2,73 million (2012-13: R8,40 million) as disclosed in note 7 to the financial statements.

Irregular expenditure

26. 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) and (ii) of the MFMA. The irregular expenditure disclosed in note 47 is understated in respect of amounts incurred during the year that were identified during the audit process of R2,33 million (2012-13: R6,66 million). Due to the lack of systems, it was impracticable to determine the full extent of the understatement of irregular expenditure.

27. In 2012-13, due to the inadequate systems in place, sufficient appropriate audit evidence was not available to support the irregular expenditure disclosed in note 45 at R115,66 million. I was unable to confirm this amount by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the corresponding irregular expenditure disclosure note.

Provisions

28. The municipality did not adhere to the requirements of GRAP 19: *Provisions, contingent liabilities and contingent assets* in recognising the current and prior year land-fill site provision and the prior year employee benefits obligation at a reliable estimate of the obligation. This has resulted in an overstatement of the provision as disclosed in note 19 to the financial statements of R33 219 (2012-13: R1,73 million), corresponding understatements of employee related costs and general expenses amounting to R1 824 and R525 337 respectively, an overstatement of property, plant and equipment and finance costs amounting to R214 320 (2012-13: R 792 602) and R346 061 respectively, and a corresponding understatement of prior year employee benefit obligation of R940 000.

29. The municipality did not follow due process in adjusting its prior year figures and did not provide sufficient appropriate audit evidence to this effect and as a result I was unable to audit the prior year adjustments to the 2012-13 figures nor the effect on the current year balance. I was unable to confirm the corresponding and current balance by alternative means. Consequently, I was unable to determine whether any further adjustments to provisions of R2,89 million (2012-13: R2,47 million) as disclosed in note 19 to the financial statements were necessary.

Additional disclosures in terms of the MFMA

30. The municipality did not comply with section 125(1)(c) and 2(d) (iii) of the MFMA. The amounts disclosed for PAYE and UIF of R4,11 million disclosed in note 48 to the financial statements did not agree to underlying records and as a result is understated by R102 588. In addition, sufficient appropriate audit evidence was not available to support the material losses and audit fees reconciliation disclosed in note 48 to the financial statements. I was unable to confirm these disclosures by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the material losses of R761 949 and the audit fee reconciliation of R2,41 million as disclosed in note 48 to the financial statements.

Finance costs

31. Sufficient appropriate audit evidence was not available to support the finance costs disclosed for finance leases as lease schedules did not match the amounts recorded. I was unable to confirm this balance by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to finance costs of R2,34 million as disclosed in note 30 to the financial statements.

Statement of comparison of budget and actual amounts

32. The municipality did not comply with GRAP 24: *Presentation of budget information in financial statements*. The final budget amounts did not agree to the final approved budget for the current year and as a result the final budget of R12,62 million as disclosed in the statement of budget and actual amounts is overstated by R1,47 million.

Corresponding figures

33. During 2012-13, I identified the following misstatements which are still included in the corresponding figures disclosed in the current period's financial statements:

- Accumulated surplus as disclosed in the statement of changes in net assets was overstated by R93,08 million due to expenditure recognised in the incorrect period and differences between the fixed asset register and the assets disclosed.
- Commitments as disclosed in note 37 to the financial statements were understated by R4,25 million due to differences between the contract values and commitments disclosed, and an incomplete commitments register maintained.

34. In addition, during 2012-13, I was unable to obtain sufficient appropriate audit evidence regarding amounts disclosed for:

- Accumulated surplus of R344,83 million as disclosed in the statement of changes in net assets.
- The cash flow statement as disclosed under the same heading.

35. I was unable to obtain sufficient appropriate audit evidence for the corresponding figures of the above items or to confirm them by alternative means. Consequently, I was unable to determine whether any adjustments to these amounts 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 these matters on the comparability of the current period's figures.

Aggregation of immaterial uncorrected misstatements

36. The financial statements are materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following elements, making up and as disclosed on the statement of financial position:

- Finance lease obligation is overstated by R203 579.

37. In addition, I was unable to obtain sufficient appropriate audit evidence due to individually immaterial amounts that were unsubstantiated and I was unable to confirm by alternative means, or determine if adjustments were required to:

- Cash and cash equivalents as per note 8 and as disclosed on the statement of financial position.
- Accumulated surplus as per the statement of changes in net assets and the statement of financial position.

Aggregation of immaterial uncorrected misstatements in corresponding figures

38. The financial statements are materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following corresponding elements:

Making up and as disclosed on the 2012-13 statement of financial performance:

- General expenditure is overstated by R204 887

Making up and as disclosed on the 2012-13 statement of financial position:

- Payables from exchange transactions are understated by R150 573

Making up and as disclosed on the 2012-13 notes to the financial statements:

- Operating lease commitments are understated by R779 281
- Fruitless and wasteful expenditure are understated by R494 098

39. In addition, I was unable to obtain sufficient appropriate audit evidence due to individually immaterial corresponding amounts that were unsubstantiated and I was unable to confirm by alternative means, or determine if adjustments were required to:

- Other financial liabilities as per note 14 and as disclosed on the 2012-13 statement of financial position.
- General expenditure as per note 33 and as disclosed in the 2012-13 statement of financial performance
- Finance costs as per note 30 and as disclosed in the 2012-13 statement of financial performance
- Depreciation and amortisation as per note 29 and as disclosed in the 2012-13 statement of financial performance.
- Intangible assets as per note 11 and as disclosed on the 2012-13 statement of financial position.

40. 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 these matters on the comparability of the current period's figures.

Disclaimer of opinion

41. 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.

Additional matters

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

Withdrawal from the audit engagement

43. Due to the limitation imposed on the scope of the audit by management, I have disclaimed my opinion on the financial statements. But for the legislated requirement to perform the audit of the municipality, I would have withdrawn from the engagement in terms of the ISA.

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 objective 2: Infrastructure and community services on pages XX to XX presented in the annual performance report of the municipality for the year ended 30 June 2014.

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 objectives are as follows:

Infrastructure and community services

Usefulness of reported performance information

51. 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. Performance indicators must also be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. Thirty-eight percent (38%) of significantly important indicators were not well defined and 31% of significantly important indicators were not verifiable.

52. Performance targets must be measurable. I could not measure the required performance for 31% of significantly important targets.

53. These findings were due to management not adhering to the requirements of the FMPPI as there is a lack of proper performance management systems and processes in place and no technical indicator descriptions for all indicators and targets.

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 25% of

significantly important 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 five-year integrated development plan (IDP). 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 service delivery and budget implementation plan (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 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 fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information and the auditee's records did not permit 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 page XX to XX for information on the achievement of the 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 paragraphs 51 to 55 of this report.

Adjustment of material misstatements

58. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for the infrastructure and community services objective. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information.

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 objectives and key performance indicators were not set in the IDP, as required by section 41(1)(b) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) and the Municipal planning and performance management regulations, 2001 (Government Gazette 22605 of 2001) (MPPMR) 12(1) and 12(2)(e).

61. The performance of the municipality was not assessed during the first half of the financial year, as required by section 72(1)(a)(ii) of the MFMA.

62. The annual performance report for the year under review did not include a comparison with the previous financial year and measures taken to improve performance, as required by section 46(1)(b) and (c) of the MSA.

63. The performance management system and its related controls were inadequate as it did

not describe and represent the processes of performance (planning, monitoring, measurement, review, reporting and improvement) and how it is conducted, organised and managed, as required by sections 38 of the MSA and regulation 7 of the MPPMR.

Budgets

64. 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

65. 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.

66. The 2012-13 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.

Audit committees

67. The audit committee did not advise the council or the accounting officer on matters relating to internal financial control and internal audits and risk management, as required by section 166(2)(a) of the MFMA

68. The audit committee was not constituted in the manner required by section 166(4)(a) of the MFMA, as it was not comprised of at least three persons with appropriate experience.

Procurement and contract management

69. Construction projects were not always registered with the Construction Industry Development Board within 21 days, as required by section 22 of the Construction Industry Development Board Act, 2000 (Act No. 38 of 2000)(CIDB) and CIDB regulation 18.

70. Invitations for competitive bidding were not always advertised for a required minimum period of days, as required by Supply Chain Management (SCM) regulation 22(1) and 22(2).

71. 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).

Human resource management and compensation

72. The competencies of financial and supply chain management 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, 2007 (Government Gazette 29967 of 2007)(MRMCL), regulation 13.

73. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury as required by the MRMCL regulation 14 (2)(a).

74. The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies as required by the MRMCL regulation 14(2)(b)

75. Senior managers did not have the higher education qualification as required by regulation 6 of the MRMCL.
76. As no competency reviews were performed in the current year, sufficient appropriate audit evidence could not be obtained that:
- The accounting officer and acting accounting officer met any of the prescribed competency areas as required by section 83 of the MFMA and regulation 2 and 3 of the MRMCL;
 - The acting chief financial officer met any of the prescribed competency areas as required by section 83 of the MFMA and regulation 4 and 5 of the MRMCL;
 - Senior managers met any of the prescribed competency areas as required by regulation 6 of the MRMCL; and
 - The SCM manager met any of the prescribed competency areas as required by regulation 8 and 9 of the MRMCL.

Expenditure management

77. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
78. An effective system of expenditure control, including procedures for the approval, authorisation, withdrawal, and payment of funds, was not in place, as required by section 65(2)(a) of the MFMA.
79. An adequate management, accounting and information system was not in place which accounted for creditors as required by section 65(2)(b) of the MFMA.
80. Reasonable steps were not taken to prevent unauthorised, irregular and fruitless and wasteful expenditure as required by section 62(1)(d) of the MFMA.

Revenue management

81. A credit control and debt collection policy was not adopted, maintained and implemented as required by section 96(b) of the MSA and section 62(1)(f)(iii) of the MFMA.
82. A policy was not adopted for the levying of rates on rateable property within the municipality, as required by section 3(1) of the Municipal Property Rates Act, 2004 (Act No. 8 of 2004) (MPRA) and section 62(1)(f)(ii) of the MFMA.
83. 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.
84. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) and 97(e) of the MFMA.
85. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Asset and liability management

86. 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.
87. 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.

88. The municipality did not establish an investment policy that was adopted by council, as required by section 13(2) of the MFMA and Municipal investment regulations, 2005 (Government Gazette 27431 of 2005), regulation 3(1)(a).
89. An adequate management, accounting and information system which accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA
90. An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2)(c) of the MFMA.

Consequence management

91. Unauthorised, irregular and 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.

Internal control

92. I considered internal control relevant to my audit of the financial statements, the 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

93. Leadership was ineffective in the current year with respect to guiding the municipality's activities and setting the tone for its daily operations at all functional levels. The suspension and subsequent dismissal of the municipal manager, as well as the 60% vacancy rate within senior management has had a compounding effect on an already ineffective leadership structure. Oversight responsibility has been negatively affected by the high turnover and vacancy rate at the municipality, as accountability is undermined by the instable leadership structure.
94. The mayor and the council received no assurance as to the functioning of internal controls at the municipality and the credibility of information produced by the financial and performance departments during the current year. Nevertheless, there was a lack of consequence management and recourse taken by oversight mechanisms to address this lack of accountability and poor performance within the municipality.
95. Policies and procedures are either not implemented or not monitored, and the deficiencies identified in the previous audit have not been addressed. This is indicative of a leadership structure not managing the affairs of the municipality, the result being the numerous material misstatements identified in the financial statements and the lack of effective service delivery as evidenced by the material findings on the reliability of the annual performance report.

Financial and performance management

96. Management has not maintained adequate records of financial and performance related activities in the current year and has not addressed record management deficiencies from the prior years, symptomatic of a slow response to and inadequate monitoring of our prior year messages. This includes information that relates to the collection, collation, verification, storing and reporting of actual performance information.
97. There is an inadequate control environment at the municipality with no daily, monthly processing and reconciliation of transactions occurring in revenue, expenditure, current

and non-current assets and liabilities. Management then relies on consultants to compile financial statements at year end, not ensuring that the underlying information can be relied upon through the constant monitoring of these daily and monthly processes. The financial statements and the annual performance reports were therefore submitted for audit containing material misstatements that were not identified by the municipality's own system of control. This has resulted in the disclaimer of audit opinion on the financial statements and the material findings on the annual performance report and compliance with laws and regulations.

Governance

98. Due to the breakdown of all assurance structures within the municipality in performing their basic roles and responsibilities effectively, there has been inadequate response to mitigate the risks identified by management, internal audit, external audit and those charged with governance from the current and prior years. Internal audit and the audit committee were both ineffective in their activities in the current year. Internal audit does not contain the necessary skills and experience to properly implement the internal audit plan in the current financial year. The audit committee cannot be considered effective without a well-functioning internal audit unit within the municipality. In addition, the audit committee does not hold management accountable for not implementing the recommendations that are made by internal and external audit, and this lack of response therefore renders its activities ineffective.

OTHER REPORTS

Investigations

99. An investigation is being conducted to probe the unlawful withdrawals from the municipality's bank account and allegations of fraud by specific suppliers. The investigation was ongoing at the prior year end and is still ongoing at the current reporting date.

Auditor General

East London

28 November 2014



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence