



Tsolwana Municipality

Audit Report

For the year ended 30 June 2014



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Tsolwana 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 assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2012 (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. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Unqualified opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Tsolwana Local Municipality as at 30 June 2014, and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

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

Restatement of corresponding figures

8. As disclosed in note 33 to the financial statements, the corresponding figures for 30 June 2013 have been restated as a result of errors discovered during 2013-14 in the financial statements of the municipality at, and for the year ended 30 June 2013.

Unauthorised expenditure

9. As disclosed in note 40.1 to the financial statements, unauthorised expenditure amounting to R3, 7 million was incurred by the municipality during the year. This was as a result of the overspending of the total amount appropriated for the budget and treasury office vote in the municipality's approved budget.

Material losses

10. As disclosed in note 40.4 to the financial statements, the municipality suffered significant water and electricity losses of 544 979 kilolitres (65,99%) and 3 619 078 kilowatts (38,78%) at a value of R441 433 and R1 628 585 respectively.

Additional matter

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

Unaudited disclosure notes

12. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. 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

13. 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 priorities 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

14. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2014:
 - KPA 1: Basic services on pages x to x
 - KPA 2: Local economic development on pages x to x

15. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
16. 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).
17. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
18. The material findings in respect of the selected development priorities are as follows:

Usefulness of reported performance information

Measurability

19. The FMPPI requires that performance targets be specific in clearly identifying the nature and required level of performance. All of the targets were not specific in clearly identifying the nature and the required level of performance. This was due to the lack of proper review when targets were decided on and formulated for inclusion in the integrated development plan (IDP).
20. The FMPPI requires that performance targets be measurable. The required performance could not be measured for all of the targets. This was due to the lack of proper review when targets were decided on and formulated for inclusion in the IDP.
21. The FMPPI requires that the time period or deadline for delivery be specified. Targets were not time bound in specifying a time period or deadline for delivery. This was due to the lack of proper review when targets were decided on and formulated for inclusion in the IDP.
22. The FMPPI requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. All of the indicators relevant to the selected key performance areas (KPA's) were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the lack of development and implementation of proper performance planning and management practices to facilitate the development of performance indicators for inclusion into the IDP.
23. The FMPPI requires that it must be possible to validate the processes and systems that produce the indicator. Indicators were not verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to the lack of standard operating procedures and key controls in the relevant systems of collection, collation, verification and storage of actual performance information. .

Reliability of reported performance information

24. The FMPPPI requires that auditees should 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.
25. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of information presented with respect to the development priorities selected for audit. 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 information presented with respect to the selected development priorities. The auditee's records did not permit the application of alternative audit procedures.

Additional matter

26. I draw attention to the matter below:

Achievement of planned targets

27. Refer to the annual performance report on pages x to x 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 development priorities reported in paragraphs 19 to 25 of this report.

Compliance with legislation

28. 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

29. The adopted IDP did not reflect and identify the municipal council's financial plan, as required by sections 26 and 41 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA), as well as regulation 2(1)(c) of the *Municipal planning and performance management regulations, 2001* (Government Gazette 22605 of 2001) (MPPMR).
30. The municipality did not conduct its affairs in a manner which was consistent with its IDP, as required by section 36 of the MSA, section 21(2)(a) of the MFMA and regulation 6 of the MPPMR.
31. 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 MSA and regulations 12(1) and 12(2)(e) of the MPPMR.
32. Lack of supporting documentation to determine whether the IDP was reviewed during the year as required by section 34(a) of the MSA.
33. Lack of supporting documentation to determine whether the Performance Management System complied with applicable legislation as required by section 38(a) of the MSA.

34. 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 regulations 1 and 9(1)(a) of the MPPMR.
35. Non-submission of supporting documentation to allow for verification of amendments to the SDBIP, as required by section 54(1)(c) of the MFMA.
36. The annual performance agreements of the municipal manager and all senior managers are not linked to the measurable performance objectives approved with the budget and to the service delivery budget implementation plan as required in terms of section 53(1)(c)(iii) of the MFMA and section 57(1)(b) of the MSA.
37. The 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, improvement and how it is conducted, organised and managed, including determining the roles of the different role-players, as required by section 38 of the MSA and regulation 7 of the MPPMR.

Expenditure management

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

Annual report and annual financial statements

39. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.
40. The oversight report, containing comments on the annual report, was not adopted by council within two months from the date on which the 2013 annual report was tabled, as required by section 129(1) of the MFMA.

Consequence management

41. 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.

Audit committee

42. The audit committee did not advise the accounting officer on matters relating to internal financial control and internal audits, risk management, accounting policies, effective governance, performance management and performance evaluation. Furthermore, the audit committee did not respond to the council on the issues raised in the audit reports of the auditor-general as required by sections 166(2)(a) and 166(2)(c) of the MFMA.
43. The audit committee did not review the municipality's quarterly internal audit reports on performance measurement, and the performance management system or make recommendations to the council. Furthermore, 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 MPPMR regulations 14(4)(a)(i),(ii) and (iii).

Revenue management

44. The municipality did not evaluate its performance in respect of programmes or functions funded by the Municipal Infrastructure Grant allocation, as required by section 12(5) of the DoRA.

Internal control

45. 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 findings on the annual performance report and the compliance with laws and regulations included in this report.

Leadership

46. There was a lack of oversight and accountability by senior management. Sufficient monitoring controls were not in place to ensure the proper functioning of the overall process of planning, budgeting, implementation, reporting and adherence to internal policies and procedures and compliance with laws and regulations for the purpose of taking corrective action. The lack of leadership undermines accountability in the municipality resulting in the unfavourable outcomes in predetermined objectives and material non-compliance with legislation

Financial and performance management

47. The record management of the municipality was satisfactorily implemented in terms of the financial statements. However, the municipality did not have a proper system of record management that provided for the maintenance of information that supported the reported performance contained in the annual performance report. This has contributed to material findings on the usefulness and reliability of performance information. These deficiencies include a lack of information that relates to the collection, collation, verification, storing and reporting of actual performance information. This was due to the municipality not having standard operating procedures in place to ensure that all documentation is properly maintained for performance management. The root cause of this is management not adhering to my message relating to the fundamentals of record management and the implementation of preventative and detective controls over the performance information process.
48. The municipality did not have systems in place to monitor compliance with all applicable legislation. Non-compliance with laws and regulations could have been prevented had compliance been properly monitored and effective controls implemented (such as checklists). There was a lack of supervision, monitoring and consequence management in respect of the financial and performance management process. As a result, steps taken to prevent and detect the incurrence of unauthorised, and fruitless and wasteful expenditure were not adequate.

Governance

49. There was insufficient focus on, and pre-emptive measures taken to address the findings relating to compliance and predetermined objectives as risk assessment procedures were not adequately performed for the current year.
50. The effectiveness of the audit committee could not be determined as the municipality could not provide sufficient appropriate information that the audit committee executed its functions as per their mandate as per legislation and the audit committee charter.

OTHER REPORTS

Investigations

51. An investigation was conducted into a suspected fraudulent transaction regarding a stolen council cheque in the prior years, this was handed over to the South African Police Services (SAPS). At year-end, the investigation was considered a cold case by SAPS and the municipality handed over the case to the Hawks (Directorate for Priority Crime Investigation) for further investigation.

Auditor-General

East London

28 November 2014



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