

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the financial statements of the Inkwanca 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 statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) 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 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 (ISA). Because of the matters described in the basis for disclaimer of opinion paragraphs, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Limitations on significant financial statement items

4. I was unable to obtain sufficient appropriate audit evidence for a number of balances, classes of transactions and disclosures included in the financial statements. This was due to supporting documentation either not being provided or supporting documentation that was provided not being sufficient. The municipality was facing political unrest during the year under review consequently files containing financial information were not availed. I was unable to confirm these balances, classes of transactions and disclosures by alternative means. Consequently I was unable to confirm whether any adjustments were required to the following balances, classes of transactions and disclosures included in the financial statements:

Balances:

- Property, plant and equipment of R120 million, as disclosed in the statement of financial position and note 6 to the financial statements.
- Trade and other receivables of R3,5 million, as disclosed in the statement of financial position and note 3 to the financial statements.
- Trade payables of R17,94 million (2013 : R0.92 million), as disclosed in the statement of financial position and note 8 to the financial statements.
- Vat receivable of R608 000 as disclosed in the statement of financial position

and note 5 to the financial statements.

Classes of transactions:

- Revenue from property rates, service charges and other income of R21 million (2013: R13.7 million), as disclosed in the statement of financial performance and notes 14 to 15 to the financial statements.
- Expenditure of R33 million, as disclosed in the statement of financial performance and notes 24 to 28 of the financial statements.
- Employee Costs of R20,3 million, as disclosed in the statement of financial performance and notes 21 to 22 of the financial statements

Disclosures:

- Unauthorised expenditure of R6,2 million, Irregular expenditure of R1,6 million and fruitless and wasteful expenditure of R216 000 as disclosed in note 31 to the financial statements.
- Commitments of R4,7 million as disclosed in note 32 to the financial statements.

Property, plant and equipment

5. In addition to the limitations referred to above, Depreciation was incorrectly calculated resulting in depreciation as disclosed in the statement of financial performance and note 23 being understated R1,9 million and the carrying value of property plant and equipment, as disclosed in the statement of financial position and note 6 being overstated by R1,9 million.

Aggregation of immaterial uncorrected misstatements

6. The financial statements as a whole are materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatement in the following elements making up the statement of financial position and the statement of financial performance:
7. Current year figures:
 - Revenue from non-exchange transaction as disclosed in note 14 is understated by R471 008
 - Unspent conditional grants as disclosed in note 11 are overstated by R545 865.
8. Prior year corresponding figures:
 - VAT receivable as disclosed in note 5 is understated by R550 478.
 - Accumulated depreciation as disclosed in note 7 is overstated by R371 811.
 - General Expenditure as disclosed in note 28 is understated by R400 578.
 - Bad debt impairment as disclosed is overstated by R186 303.
 - Depreciation as disclosed in note 23 is overstated by R163 707
 - Irregular expenditure as disclosed in note 3 is understated by R12.5 million

Disclaimer of opinion

9. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain enough audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial

statements.

Emphasis of matter

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

Restatement of corresponding figures

11. As disclosed in note 38 to the financial statements, the corresponding figures have been restated as a result of errors only corrected during the year ended 30 June 2014 that existed in the financial statements at, and for the year ended, 30 June 2013.

Material losses

12. The municipality did not disclose material losses for water and electricity in the financial statements as required by section 125(2)(d)(i) of the MFMA. I am unable to determine the correct disclosure amounts for material losses as it was impracticable to do so

Unauthorized, irregular and fruitless expenditure

13. As disclosed in note 31 to the financial statements, unauthorised R6.2 million, irregular R1.7 million and fruitless and wasteful expenditure R0.2 million were incurred as a result of inadequate monitoring of budget

Material impairments

14. The municipality has made allowances for material impairments as disclosed in the statement of financial performance amounting to R7.3 million (2013: R7.6 million) which are related to receivables that were not considered recoverable. This impairment is necessary due to poor collection practices and non-implementation of policies. No write-off against the impairment provisions have been made during the year.

Additional matters

15. I draw attention to the following matters:

Unaudited disclosure notes

16. 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.

Unaudited schedule

17. Appendix A – Schedule of External Loans supplementary information set out on page xx does not form part of the financial statements and is presented as additional information. This schedule has not been audited and, accordingly, I do not express an opinion thereon.

Withdrawal from the engagement

18. Due to the numerous limitation and disagreement misstatements identified in the financial statements, we are unable to rule out the possibility of fraud which calls into question the reliability of evidence obtained and the authenticity of the accounting records and documentation. But for the legislated requirement to perform the audit of municipality, I would have withdrawn from the engagement in terms of the ISAs.

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Predetermined objectives

19. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities or objectives presented in the annual performance report of the municipality for the year ended 30 June 2014:
 - Environmental management on pages x to x
 - Social and community services on pages x to x
 - Infrastructure and energy on pages x to x
20. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
21. 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 or 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).
22. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
23. During the audit, we performed procedures to obtain audit evidence about the usefulness and reliability of the reported performance information. The procedures selected depend on the auditor's judgement, including our assessment of the risks of material misstatement of the annual performance report. Because of the test nature and other inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that we may not detect some misstatements, even material ones, even though we properly planned and performed the audit in accordance with ISAE 3000. The procedures performed include the following:
 - Understanding and testing the internal policies, procedures and controls relating to the management of, and reporting on, performance information.
 - Evaluating and testing the processes, systems and controls and reviewing the documentation maintained at the auditee that support the generation, collation, aggregation, monitoring and reporting of the performance indicators and targets.
 - Evaluating, testing and confirming the usefulness of planned and reported performance information in accordance with the identified performance management and reporting framework.
 - Conducting detailed audit testing and obtaining sufficient appropriate audit evidence to verify the reliability of the reported performance information in terms of its validity, accuracy and completeness.
24. We believe that the evidence obtained from the work performed provides an appropriate basis for the reasonable assurance conclusions on the usefulness and reliability of the reported performance information expressed below.

Summary of audit conclusions

25. The following is a summary of our conclusions on the usefulness and reliability of the reported performance information:

Selected development priority or objective	Usefulness	Reliability
Environmental management	Adverse	Disclaimer
Social and Community development	Adverse	Disclaimer
Infrastructure and Energy	Adverse	Disclaimer

Presentation

26. Section 46 of the Municipal Systems Act requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Measures to improve performance for all of the planned targets not achieved were not reflected in the annual performance report. This was due to the requirements of the Municipal Systems Act not being followed and undue reliance being placed on the service provider to draft the annual performance report.

Consistency of objectives

27. Section 41(c) of the Municipal Systems Act Section 121(4)(d) of the MFMA requires the Integrated Development Plan (IDP) to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. All reported objectives, indicators and targets were not consistent with those in the approved integrated development plan and/or service delivery and budget implementation plan for the year under review. This was due to improper review of the Annual Performance Report (APR) prior to finalisation and submission.

Measurability of indicators and targets

28. The FMPPI requires the following:
- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 77% were not specific.
 - 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 75% of the indicators were not well defined.
 - Performance indicator must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 73% of the indicators were not verifiable.
29. This was because management did not adhere to the requirements of the FMPPI and due to a lack of proper systems and processes.

Relevance

30. 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 66% 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 five-year integrated development plan. This was because proper performance planning and

management practices had not been developed and/or implemented to provide for the development of performance indicators and targets included in the integrated development plan.

Reliability of reported performance information

31. The FMPPPI 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. We were 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 and did not permit the application of alternative audit procedures in support of the reported performance information.

Additional matter

32. I draw attention to the following matter:

Achievement of planned targets

33. Of the total number of 165 targets planned for the year, 125 of targets were not achieved during the year under review. This represents 76% of total planned targets that were not achieved during the year under review.
34. This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process.

Compliance with legislation

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:

Revenue management

35. 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) / 97(h) of the Municipal Finance Management Act.
36. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) / 97(e) of the Municipal Finance Management Act.

Expenditure management

37. An effective system of expenditure control, including procedures for the approval, authorisation and payment of funds, was not in place, as required by section 65(2)(a) of the MFMA.
38. 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) / 102(1) of the Municipal Finance Management Act.

Budget management

39. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 87(8) of the MFMA.

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Annual financial statements and annual report

40. 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 current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were not corrected or the supporting records were not provided and the uncorrected material misstatements resulted in a disclaimer audit opinion.

41. Oversight report, containing comments on the annual report, was not adopted by council within two months from the date on which the 2013/14 annual report was tabled, as required by section 129(1) of the MFMA.

Conditional Grants

42. The municipality did not submit project implementation plans to the national department (CoGTA), as required by the Division of Revenue Grant Framework, Gazette No.36581.
43. The municipality did not submit MFMA implementation plans to National Treasury to address weaknesses in financial management, as required by the Division of Revenue Grant Framework.
44. The municipality did not submit quarterly performance reports to the transferring national officer, the relevant provincial treasury and the National Treasury, within 30 days after the end of each quarter, as required by section 12(2)(c) of the DoRA.
45. The municipality did not timely submit project registration forms, for projects it intends implementing in the financial year 2013/14, to the department of local government, as required by the Division of Revenue Grant Framework.
46. Sufficient appropriate audit evidence could not be obtained that the allocation for the Municipal Infrastructure Grant was utilised for purposes other than those stipulated in the grant framework, in contravention of section 16(1) of the Division of Revenue Act.
47. The municipality did not evaluate its performance in respect of programmes funded by the Local government Finance Management Grant and the Municipal Systems Improvement Grant within two months after the end of the financial year, as required by section 12(5) of the DoRA.
48. Unspent conditional grant funds not committed to identifiable projects and/or not approved by the National Treasury for retention, were not surrendered to National Revenue Fund, as required by section 21(1) of the Division of Revenue Act.

Liability management

49. An adequate management, accounting and information system which accounts for liabilities was not in place, as required by section 63(2)(a) / 96(2)(a) of the Municipal Finance Management Act.
50. An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2)(c) / 96(2)(b) of the Municipal Finance Management Act.

Asset management

51. An effective system of internal control for assets (including an up to date asset

register) was not in place, as required by section 63(2)(c) of the MFMA.

52. 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.

Consequences Management

53. Unauthorised, irregular expenditure as well as fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.
54. The condoning of irregular expenditure was not approved by the appropriate relevant authority, in accordance with the requirements of sections 1 and 170 of the MFMA.

Audit committee

55. The audit committee did not advise the council on matters relating to risk management, accounting policies, effective governance, performance management and performance evaluation as required by section 166(2)(a) of the MFMA.
56. The audit committee did not advise the council on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.
57. The audit committee did not advise the council on matters relating to compliance with legislation, as required by section 166(2)(a)(vii) of the MFMA.
58. 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.

Internal Audit

59. The internal audit unit did not function as required by section 165(2) of the MFMA, in that:
 - it did not advise the accounting officer or report to the audit committee on matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management and loss control.
 - it did not prepare a risk-based audit plan and an internal audit programme for the financial year under review.
 - it did not report to the audit committee on the implementation of the internal audit plan.
60. The internal audit unit did not advise the accounting officer or report to the audit committee on matters relating to compliance with the MFMA, the DoRA and other applicable legislation, as required by section 165(2)(b)(vii) of the MFMA.

Performance management

61. We could not obtain sufficient appropriate evidence that an integrated development plan (IDP) was not adopted after the start of the council's elected term, as required by section 25 of the MSA.
62. The local community was not consulted by means of a municipal wide structure for community participation/through a forum that enhances community participation in drafting and implementing the Integrated development plan (IDP), as required by section 28 of the MSA and Municipal planning and performance management regulation 15(1)(a)(i).

63. 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)
64. 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.
65. The municipality did not set key performance indicators, including input indicators, output indicators and outcome indicators, in respect of each of the development priorities and objectives set out in the IDP, as required by section 41(1)(a) of the Municipal Systems Act (Act 32 of 2000) (MSA) and the Municipal planning and performance management regulation 1 and 9(1)(a).
66. The municipality did not set measurable performance targets for the financial year with regard to each of the development priorities and objectives and key performance indicators set out in the IDP, as required by section 41(1)(b) of the MSA and the Municipal planning and performance management regulation 12(1) and 12(2)(e).
67. 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).
68. The internal audit unit did not assess the extent to which the performance measurements were reliable in measuring the performance of the municipality on key and general performance indicators, as required by Municipal planning and performance management regulation 14(1)(b)(iii).
69. The internal audit unit did not submit quarterly reports on their audits to the municipal manager and the audit committee, as required by Municipal planning and performance management regulation 14(1)(c).
70. The annual performance report for the year under review does not include measures taken to improve performance, as required by section 46 (1)(b) of the MSA.
71. We could not obtain sufficient appropriate evidence that the local community was not afforded the opportunity to comment on the final draft of the integrated development plan (IDP) before adoption, as required by section 42 of the MSA and Municipal planning and performance management regulation 9, 13(1), 13(4)(c) and 15(3).
72. We could not obtain sufficient appropriate evidence that the municipality did establish mechanisms to monitor and review its performance management system, as required by section 40 of the MSA.
73. We could not obtain sufficient appropriate evidence that the revisions to the service delivery and budget implementation plan were approved by the council after the approval of the adjustments budget, as required by section 54(1)(c) of the MFMA.
74. We could not obtain sufficient appropriate evidence that the performance of the municipality was assessed during the first half of the financial year, as required by section 72(1)(a)(ii) of the MFMA.

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75. The annual performance report for the year under review did not include:
 - i. a comparison of the performance with set targets and/or a comparison with the previous financial year and/or
 - ii. measures taken to improve performance, as required by section 46 (1) (b) and (c) of the MSA.
76. The performance management system and related controls were not maintained and/or 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, including determining the roles of the different role-players, as required by sections 38 of the MSA and regulation 7 of the Municipal planning and performance management regulations.
77. We could not obtain sufficient appropriate evidence that the integrated development plan (IDP) was annually reviewed based on the assessment of its performance measurements and/or changing circumstances, as required by section 34 of the MSA and Municipal planning and performance management regulation 3 and 11.
78. We could not obtain sufficient appropriate evidence the municipality did give effect to its integrated development plan and/or conduct its affairs in a manner which was consistent with its integrated development plan, as required by section 36 of the MSA, section 21(2)(a) of the MFMA and Municipal planning and performance management regulation 6.

Procurement

79. 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).
80. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period of days, as required by SCM regulation 22(1) & 22(2).
81. Sufficient appropriate audit evidence could not be obtained that bids were evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services and at least one SCM practitioner of the municipality as required by SCM regulation 28(2).
82. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding and quotations, as required by SCM Regulations 21(b) and 28(1)(a) and Preferential Procurement Regulations.
83. Sufficient appropriate audit evidence could not be obtained that bid adjudication was always done by committees which were composed in accordance with SCM regulation 29(2).
84. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
85. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.

86. 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).
87. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.
88. 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 tender documents were not submitted.
89. Sufficient appropriate audit evidence could not be obtained to confirm that bid specifications were drafted by bid specification committees which were composed of one or more officials of the municipality as required by SCM regulation 27(3).
90. Sufficient appropriate audit evidence could not be obtained to confirm that Awards were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b).
91. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded only to bidders who submitted 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).
92. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded only to bidders who submitted 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).
93. Sufficient appropriate audit evidence could not be obtained that contract and quotations were only awarded to providers whose tax matters have been declared by the South African Revenue Service to be in order as required by SCM regulation 43.
94. Sufficient appropriate audit evidence could not be obtained that contracts and quotations 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.
95. Sufficient appropriate audit evidence could not be obtained that the preference point system was 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).
96. Sufficient appropriate audit evidence could not be obtained that bids were evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services and at least one SCM practitioner of the municipality as required by SCM regulation 28(2).
97. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.
98. 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 tender

documents were not submitted.

99. Sufficient appropriate audit evidence could not be obtained to confirm that bid specifications were drafted by bid specification committees which were composed of one or more officials of the municipality as required by SCM regulation 27(3).
100. Sufficient appropriate audit evidence could not be obtained to confirm that Awards were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b).

Human resource management

101. Sufficient appropriate audit evidence could not be obtained that appointments were only made in posts which were provided for in the approved staff establishment of the municipality, as required by section 66(3) of Municipal Systems Act
102. 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 Municipal Systems Act.
103. Sufficient appropriate audit evidence could not be obtained to determine whether an acting appointments were appointed for a period of more than six months, in contravention of section 54A(2A)/56(1)(c) of the Municipal Systems Act.

Internal control

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

104. Leadership of the municipality did not provide direction and leadership to the municipality based on a culture of good governance, protecting and enhancing the interests of the municipality, exercising responsibility regarding financial and performance reporting, monitoring compliance and internal control by developing policies and procedures and enforcing oversight responsibility over reporting and compliance by monitoring of the controls over those functions.
105. Leadership of the municipality did not implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored on a regular basis as a deficiencies In internal control environment were not prevented and detected such that corrective action were not taken.
106. Leadership did not enforce oversight responsibility by monitoring the implementation of the action plans to address the findings of auditors to improve the internal control environment.

Financial and performance management

107. The municipality did not prepare monthly and year end reconciliations timely resulting in number of registers not being updated and reconciling to figures reported in the financial statements. In addition, the municipality did not have a proper system of record management that provides for the maintenance of information that supports reported financial and performance information.

108. The financial accounting and budgeting operations are not considered essential to the well-being of the municipality and viewed as methods for exercising control over the entity's various activities this is evidenced by the fact that actual performance data is not continually compared against expected/planned goals and differences are not analysed by financial and programme managers and analysis and review of performance measures and indicators was not used for both operational and financial reporting control purposes.

Governance

109. The audit committee did not adequately discharge its function of reviewing the accuracy, reliability and adequacy of the financial statements as material misstatements were identified. In addition, the audit committee has not interacted with council sufficiently on matters relating to risk management, compliance with laws and regulations and internal control in order to provide the assurance required to address weaknesses identified.

110. Insufficient action was taken by the governance structures within the municipality during the year under review to ensure that risks relating to the monitoring and reporting of financial information as well as performance objectives were addressed. Management failed to implement the recommendations of the internal audit unit which resulted in external audit findings within the current year. This has contributed to repeat audit findings in a number of areas.

111. The audit committee held regular meetings as required by the MFMA. However, the audit committees' ability to provide assurance was limited due to the inadequacy of the financial reports provided for their review.

OTHER REPORT

Investigations

112. An investigation was instituted by the Department of Local Government and Traditional Affairs into Human resources; procurement and service delivery of the municipality and the report was tabled before the council on 16 January 2014.

East London

28 November 2014



A U D I T O R - G E N E R A L
S O U T H A F R I C A

Auditing to build public confidence