

Ingquza Hill Municipality

Audit Report

For the year ended 30 June 2014

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of Ingquza Hill Local Municipality set out on pages XX to XX, which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, 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 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 (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.

Opinion

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

Emphasis of matter

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



Unaudited disclosure matter

8. In terms of section 125(2) 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

9. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

10. I performed procedures to obtain evidence about the usefulness and reliability of the key performance area: Basic Service Delivery on pages XX to XX presented in the annual performance report of the municipality for the year ended 30 June 2014.
11. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
12. 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*.
13. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
14. The material findings in respect of the selected development priorities or objectives are as follows:

Usefulness of information

Targets not consistent with the approved integrated development plan

15. The Municipal Systems Act, section 41(1)(c) requires that the annual performance should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 35% of the reported targets were not consistent or not complete when compared to the targets in the approved integrated development plan. This is due to the lack of an adequate performance management system, as well as a lack of adequate monitoring and evaluation of the internal controls over performance management.

Additional matter

16. I draw attention to the matter below.

Achievement of planned targets

17. Refer to the annual performance report on pages x to x and x to x 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 of the reported performance information for the selected development priorities or objectives reported in paragraph 15 of this report.

Compliance with laws and regulations

18. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters.



My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA are as follows:

Annual financial statements, performance and annual report

19. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. A material misstatement of property, plant & equipment identified by the auditors was subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.
20. The oversight report, containing comments on the annual report, was not adopted by council within two months of the date on which the 2012-13 annual report was tabled, as required by section 129(1) of the MFMA.

Strategic planning and performance management

21. The annual performance report for the year under review did not include measures taken to improve performance, as required by section 46 (1) (c) of the Municipal Systems Act.
22. The performance management system and related controls were not appropriately maintained as it did not sufficiently 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 section 38 of the Municipal Systems Act and regulation 7 of the *Municipal planning and performance management regulations*.

Internal control

23. I considered internal control relevant to my audit of the financial statements, 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 performance report and the findings on compliance with laws and regulations included in this report.

Leadership

24. Leadership did not exercise sufficient oversight responsibility in terms of regular reviews regarding financial and performance reporting and compliance, and did not effectively monitor the implementation of the audit action plan to resolve findings from the previous audit - resulting in repeat findings. This is mainly due to staff not fully understanding performance reporting and the leadership's slow response to my recommendations on the preparation and review of financial and performance information.

Financial and performance management

25. Non-compliance with laws and regulations could have been prevented had compliance been properly reviewed and monitored. As a result, inadequate steps were taken to prevent the recurrence of matters reported previously.



Governance

26. Although a competent internal audit unit and audit committee were in place, the recommendations of the audit committee and internal audit were not adequately addressed by management and therefore had a recurring result on matters reported previously.

Auditor - General

East London

27 November 2014



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

