

Nxuba Municipality

Audit Report

For the year ended 30 June 2015

Report of the auditor-general to the Eastern Cape Provincial Legislature and the council on the Nxuba Local Municipality.

Report on the financial statements

Introduction

1. I have audited the separate financial statements of the Nxuba local municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, 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, 2014 (Act No. 10 of 2014) (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 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 municipality'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 municipality'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 the Nxuba Local Municipality as at 30 June 2015 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 matters

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

Impairments

8. As disclosed in note 29 to the financial statements, impairments to the amount of R8,2 million were incurred as a result of a write-off of irrecoverable trade debtors.

Restatement of corresponding figures

9. As disclosed in note 43 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of errors discovered during 2015 in the financial statements of the Nxuba Local Municipality at, and for the year ended, 30 June 2014.

Financial sustainability

10. As disclosed in note 45 to the financial statements, financial sustainability indicators have been disclosed by management.

Events after reporting date

11. As disclosed in note 46 to the financial statements, the boundaries of the Nxuba Local Municipality and Nkonkobe Local Municipality have been redemarcated. The two municipalities are going to amalgamate. The official date of the amalgamation has not been confirmed and the financial implications for the Nxuba Local Municipality cannot be reliably estimated.

Unauthorised expenditure

12. As disclosed in note 47 to the financial statements, unauthorised expenditure amounting to R13,7 million was incurred by the municipality during the year ended 30 June 2015. This was as a result of expenditure not budgeted for and expenditure in excess of the budget.

Fruitless and wasteful expenditure

13. As disclosed in note 48 to the financial statements, the municipality incurred fruitless and wasteful expenditure amounting to R4,3 million during the year ended 30 June 2015. This was a result of penalties and interest charged on late payments due to the cash flow problems faced by the municipality.

Irregular expenditure

14. As disclosed in note 49 to the financial statements, irregular expenditure amounting to R16,6 million was incurred by the municipality during the year ended 30 June 2015. This was as a result of non-compliance with procurement requirements.

Material losses

15. As disclosed in note 53 to the financial statements, material losses to the amount of R3,8 million were incurred as a result of electricity losses. Further to this, the percentage disclosed for electricity losses is above the acceptable range, which is a result of poor management of infrastructure.

Additional matter

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

Unaudited supplementary schedules

17. The supplementary information set out on pages 80 to 86 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Report on other legal and regulatory requirements

18. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development objectives presented in the annual performance report, compliance with legislation and 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

19. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development objectives presented in the annual performance report of the municipality for the year ended 30 June 2015:
 - Development objective 2: Service delivery and infrastructure development on pages 12 to 13.
 - Development objective 3: Local economic development on pages 14 to 15.
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 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. The material findings in respect of the selected development objectives are as follows:

Development objective 2: Service delivery and infrastructure development objective

Usefulness of reported performance information

Measurability of indicators

Performance indicators not well defined

24. Performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPI. A total of 42% of the indicators were not well defined.

Performance indicators not verifiable

25. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. In total 25% of the indicator were not verifiable. This was because management did not adhere to the requirements of the FMPPI.

Performance target not specific

26. Performance targets should be specific in clearly identifying the nature and required level of performance as required by the FMPPI. In total 25% of the targets in relation to the selected development objective were not specific in clearly identifying the nature and the required level of performance.

Performance target not measurable

27. Performance targets should be measurable as required by the FMPPI. We could not measure the required performance for 25% of the targets in relation to the selected development objective. This was due to the fact that management did not have sufficient appropriate audit evidence and monitoring activities for showing how targets were measured.

Reliability of reported performance information

28. 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. Overall, 44% of the targets were not reliable because I was unable to obtain sufficient appropriate audit evidence for 45% of the targets. In addition, 35% of the targets were not valid, accurate and complete when compared to the source information or evidence provided. This was due to a lack of standard operating procedures or documented system descriptions for the accurate recording of actual achievements and monitoring of the completeness of source documentation in support of actual achievements.

Development objective 3: Local economic development objective

Measurability of indicators and targets

Performance indicators not well defined

29. Performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPI. In total 33% of the indicators were not well defined.

Performance target not specific

30. Performance targets should be specific in clearly identifying the nature and required level of performance as required by the FMPPI. In total 33% of the targets in relation to the selected development objective were not specific in clearly identifying the nature and the required level of performance.

Reliability of reported performance information

31. The FMPPI requires auditee 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. The reported performance information was not valid, accurate and complete when compared to the source information or evidence provided. This was due to a lack of standard operating procedures or documented system descriptions for the accurate recording of actual achievements and monitoring of the completeness of source documentation in support of actual achievements. .

Additional matters

32. I draw attention to the following matters:

Achievement of planned targets

33. Refer to the annual performance report on pages 6 to 12 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 development objectives reported in paragraphs 24 to 33 of this report.

Compliance with legislation

34. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Budget

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

Financial statements

36. 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 non-current assets and disclosure items were identified by the auditors in the submitted financial statements and were subsequently corrected, with the result the financial statements received an unqualified audit opinion.

Procurement and contract management

37. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by *Supply chain management regulations (SCM) 17(a) & (c)*.
38. Quotations were accepted from prospective providers who are not registered on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy in contravention of *SCM regulation 16(b) and 17(b)*.

39. Contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding, in contravention of SCM 21(b) and 28(1)(a) and the Preferential Procurement Policy Framework Act, 2000 (Act No.5 of 2000) (PPPF Act).
40. Bid adjudication was not always done by committees which were composed in accordance with *SCM regulation 29(2)*.
41. The preference point system was not applied in all procurement of goods and services above R30 000 as required by section 2(a) of the PPPF Act and *SCM regulation 28(1)(a)*.
42. Contracts were awarded to bidders based on preference points that were not allocated and calculated in accordance with the requirements of the PPPF Act and its regulations.
43. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
44. 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.

Expenditure management

45. Money owed by the municipality was not always paid within 30 days or the agreed period, as required by section 65(2)(e) of the MFMA.
46. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Conditional grants received

47. Expenditure allocated to the Municipal Infrastructure Grant (MIG) project was not incurred for the purposes of the allocation.
48. MIG allocation unspent at year-end were not surrendered to the National Revenue Fund and there was no evidence to confirm that the National Treasury approved the rollover to the next financial year.

Asset management

49. An effective system of internal control for investment property was not in place, as required by section 63(2)(c) of the MFMA.

Consequence management

50. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.

Internal control

51. 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 findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

52. Leadership have not instituted disciplines necessary to enable oversight and monitoring that promotes efficiency and effectiveness in financial management and performance information. This is evident by the over reliance on consultants to assist with financial

reporting and the repeat findings reported on performance information, investment property, irregular expenditure and compliance.

53. Leadership did not set the correct tone regarding performance reporting. This is evident by the type of findings reported. This did not set the correct tone in building a high performance environment that promotes accountability.
54. Leadership did not implement adequate controls to prevent and detect irregular expenditure, fruitless and wasteful expenditure and unauthorised expenditure incurred.

Financial and performance management

55. Proper systems and processes were not in place to support credible financial information submitted for audit purposes.
56. The municipality did not have adequate systems in place regarding the collection, collation and reporting of performance information.
57. There were instances of non-compliance with laws and regulations governing the municipality. This is as a result of inadequate controls within the municipality and a lack of adequate review and monitoring of compliance with laws and regulations.

Governance

58. Management did not implement all the recommendations made by internal audit and the audit committee resulting in recurring findings being identified during the audit process.

auditor general



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