



*Auditing to build public confidence*



**AUDITOR - GENERAL  
SOUTH AFRICA**

# **Emalahleni Municipality (EC)**

## **Audit Report**

For the year ended 30 June 2015

# Report of the auditor-general to the Eastern Cape provincial legislature and the council on Emalahleni Municipality

## Report on the financial statements

### Introduction

1. I have audited the financial statements of Emalahleni 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 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 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 Emalahleni 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.

## Material losses and impairments

8. As disclosed in note 38.4 to the financial statements, material electricity distribution losses to the amount of R5,5 million (2014: R6 million) were incurred.
9. Disclosed in notes 15 and 16 to the financial statements are impairments of R40 million (69%) and R8 million (67%) respectively that were provided for in respect of debtors.

## Unauthorised expenditure

10. Unauthorised expenditure of R9,9 million as disclosed in note 38.1 to the financial statements was incurred due to overspending of the budget. No disciplinary action is deemed necessary due to the nature of the expenditure and the amount was written off by council during the year.

## Irregular expenditure

11. Irregular expenditure of R20,3 million as disclosed in note 38.3 to the financial statements has been incurred in the current year due to the supply chain management (SCM) processes not being followed. No disciplinary action has been taken with regard to this expenditure.

## Restatement of corresponding figures

12. As disclosed in note 33 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of errors only corrected during the year ended 30 June 2015 in the financial statements at, and for the year ended, 30 June 2014.

## Additional matter

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

## Unaudited disclosure notes

14. 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

15. 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

16. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development objective presented in the annual performance report of the municipality for the year ended 30 June 2015:
  - Development objective 1: Infrastructure Development and Service Delivery on pages x to x
17. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
18. 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 objective. 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* (FMPPPI).

19. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

20. The material findings in respect of the selected development objective are as follows:

## **Infrastructure development and service delivery**

### **Usefulness of performance information**

21. I did not raise material findings on the usefulness of the reported information pertaining to development objective 1: Infrastructure Development and Service Delivery.

### **Reliability of the reported performance information**

22. 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 municipality could not provide sufficient appropriate evidence in support of the reported performance information.

## **Additional matter**

23. I draw attention to the following matter:

### **Achievement of planned targets**

24. Refer to the annual performance report on pages 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 finding on the reliability of the reported performance information for the selected development objectives reported in paragraph 22 of this report.

## **Compliance with legislation**

25. 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:

## **Procurement and contract management**

26. Bid adjudication was not always done by committees which were composed in accordance with SCM regulation 29(2).

## **Conditional grants received**

27. Performance in respect of programmes funded by the Municipal Infrastructure Grant (MIG), the Municipal Systems Improvement Grant (MSIG) and the Local Government Finance Management Grant (FMG) allocation was not evaluated by the municipality, within two months after the year end, as required by section 12(5) of the DoRA.

## **Annual financial statements and annual reports**

28. 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 irregular expenditure identified by the auditors in the submitted financial statement were subsequently corrected resulting in the financial statements receiving an unqualified audit opinion.

## **Expenditure management**

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

## **Human resource management**

30. The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies as required by the Municipal Regulations on Minimum Competency Levels 14(2)(b) and 14(c).

## **Strategic and performance management**

31. Revisions to the service delivery and budget implementation plan were not approved by the council after the approval of the adjustments budget, as required by section 54(1)(c) of the MFMA.
32. 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 (MSA).
33. 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 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.
34. The local community was not afforded the full 21 days to comment on the final draft of the 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).

## **Internal control**

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

## **Leadership**

36. The audit of the financial statements is reliant on inputs of all departments, and, although top leadership displays a positive attitude towards sound financial administration, the current forward momentum is not sustainable unless the ownership of responsibilities and living financial disciplines is rolled out to all levels of staff in the municipality. An increase in accountability by senior management has been noted in the current year; however there is still a lack of oversight over predetermined objectives.

## **Financial and performance management**

37. The municipality did not have an effective records management system in place to reliably account for the reporting on predetermined objectives. As a result, the municipality still had a challenge in providing documentation to support their reported performance.
38. The municipality's compliance monitoring process has not been effective in the implementation and monitoring of controls to ensure compliance with its laws and regulations is prevented and detected. This contributed to repeat non-compliance findings in the current year.
39. Management utilised the audit process to correct their financial statements which included the correction of a material misstatement which improved the audit outcome from a qualified opinion to an unqualified opinion.

## Governance

40. The effectiveness of the audit committee was impacted by management's poor response to recommendations that were made for improvements, as evidenced by the findings on the annual financial statements, performance report and compliance with applicable laws and regulations.

*Auditor - GENERAL*

East London

30 November 2015



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