

Engcobo 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 Engcobo Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Engcobo 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 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 misstatements, 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 Engcobo 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.

Additional matters

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

Unaudited supplementary information

8. The supplementary information set out on pages XX to XX 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.

Unaudited disclosure notes

9. 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.

Report on other legal and regulatory requirements

10. 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 priorities 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

11. 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 2015:
 - Basic service delivery and infrastructure on pages x to x
12. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

13. 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).
14. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
15. I did not raise any material findings on the usefulness, however the material findings on the reliability of the reported performance information for the selected programmes were subsequently adjusted.

Additional matters

16. I draw attention to the following matters:

Achievement of planned targets

17. Refer to annual performance report on page(s) X to X for information on the achievement of the planned targets for the year.

Adjustment of material misstatements

18. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for Basic Service Delivery and Infrastructure. As management subsequently corrected the misstatements, I did not identify material findings on the usefulness and reliability of the reported performance information.

Unaudited supplementary information

19. The supplementary information set out on pages XX to XX does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.

Compliance with legislation

20. 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:

Annual financial statements, performance and annual report

21. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act.

22. Material misstatements identified by the auditors in the submitted financial statements were subsequently corrected, which resulted in the financial statements receiving an unqualified audit opinion.

Asset management

23. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the Municipal Finance Management Act.

Revenue management

24. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the Municipal Finance and Management Act.

Expenditure management

25. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the Municipal Finance Management Act.

Internal control

26. 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 compliance with legislation included in this report.

Leadership

27. The municipality did not establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities. Also, they did not establish IT governance policies and procedures that support and enables the business to improve performance.

Financial and performance management

28. The municipality continued to make use of consultants to perform financial and performance reporting functions that should be performed by the staff employed by the municipality. This is due to a lack of skills in key positions. In addition, manual reconciliations of accounting records and supporting schedules are required at year-end, because these controls are not performed on a regular basis during the year. Should adequate monitoring, supervision and controls be implemented, these misstatements would be identified and corrected by management timeously.
29. The financial statements and annual performance report submitted for audit purposes contained misstatements. Furthermore, errors between the financial statements, general ledger and underlying supporting documents were identified. This is as a result of non-implementation of adequate review mechanisms to ensure that the report on predetermined objectives and the annual financial statements are reviewed for accuracy and completeness prior to submission for the audit purposes.

Governance

30. The municipality did not implement appropriate risk management activities to ensure that regular risk assessment, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.
31. The internal audit and audit committee did not properly review the financial and performance report prior to submission to the external auditors and also did not adequately review compliance with laws and regulations, as there were still a number of material misstatements identified through the audit process.

Auditor-General

East London

30 November 2015



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence