



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence

Sakhisizwe 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 Sakhisizwe Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Sakhisizwe 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), 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 Sakhisizwe 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, 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:

Restatement of corresponding figures

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

Unauthorised expenditure

9. As disclosed in note 36.1 of the financial statements, the municipality incurred unauthorised expenditure of R 11.9 million (2014: R 30.3 million) as a result of expenditure incurred which exceeded the total approved budget.

Irregular expenditure

10. As disclosed in note 36.3 of the financial statements, the municipality incurred irregular expenditure of R 17.2 million (2014: R 6.3 million) as a result of non-compliance with procurement requirements. Goods and services were received for the supply chain management related irregular expenditure disclosed in note 36.3.

Additional matters

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

Unaudited supplementary schedules

12. 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 report thereon.

Unaudited disclosure notes

13. 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

14. 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

15. 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 x 34: KPA 2: Service delivery on pages x to x
16. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
17. 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)*.
18. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
19. The material findings in respect of the selected development objectives are as follows:

Service delivery

Usefulness of reported performance information

Consistency of objectives and targets

20. Section 41(c) of the Municipal Systems Act requires the annual performance, integrated development plan and service delivery agreement to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. 82% of the reported objectives were not consistent with those in the approved integrated development plan. This was due to the lack of documented and approved internal policies and procedures to address strategic planning.

21. Section 54(1)(c) of the MFMA determines that the service delivery and budget implementation plan adopted by the municipal council may be amended only if the council approves an adjustments budget. Changes to the service delivery and budget implementation plan in the year have to be made in accordance with the process as prescribed per section 28 of the MFMA. Material changes were made to the objectives, indicators and targets in the annual performance report, without following the process as prescribed in section 28 of the MFMA and without adoption by the municipal council. This was due to majority of objectives, indicators and targets been changed at the end of the year with no review of the annual report.

Measurability of indicators and targets

22. Performance indicators and measures must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. 41% of the indicators were not well defined.
23. Performance indicator must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. 41% of the indicators were not verifiable

Reliability of reported performance information

24. 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 auditee could not provide sufficient appropriate evidence in support of the reported performance information and the auditee's records did not permit the application of alternative audit procedures.
25. The municipality did not have adequate standard operating procedures and key controls for collection, collation, verification and storage of information that support significant important indicators in relation to Service Delivery. Furthermore completeness of source documentation in support of actual achievements was not monitored by management.

Additional matter

26. I draw attention to the following matter:

Achievement of planned targets

27. 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 and reliability of the reported performance information for the selected development objectives reported in paragraphs x to xx of this report.

Unaudited supplementary schedules

28. 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

29. 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 and annual report

30. 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 identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion
31. The 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.

Revenue management

32. A credit control and debt collection policy was not implemented, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of the MFMA.

Conditional grants received

33. The municipality did not evaluate its performance in respect of programmes or functions funded by the Municipal Infrastructure Grant allocation, the Municipal Systems Improvement Grant allocation and Local Government Finance Management Grant, as required by section 12(5) of DoRA.

Expenditure management

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

Procurement and contract management

36. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, as required by SCM regulation 17(a) and (c).

37. Construction projects were not always registered with the Construction Industry Development Board (CIDB), as required by section 22 of the CIDB Act and CIDB regulation 18.
38. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
39. 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.
40. 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).

Consequence management

41. Unauthorised expenditure and fruitless incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, in accordance with the requirements of section 32(2)(a)(ii) of the MFMA.
42. Authorisation of unauthorised expenditure was not done through an adjustment budget, as required by section 32(2)(a)(i) of the MFMA.

Strategic planning and performance management

43. Measurable performance targets for the financial year with regard to each of the development objectives and key performance indicators were not set in the IDP, as required by section 41(1)(b) of the MSA and the MPPMR 12(1) and 12(2)(e).
44. The performance management system was not in line with the priorities, objectives, indicators and targets contained in its IDP and did not clarify the roles and responsibilities of each role-player, as required by section 38(a) of the MSA and MPPMR 7(2) (c) and (e).
45. 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.

Audit committee

46. The audit committee did not advise the council and the accounting officer on matters relating to internal financial control and internal audits, risk management, accounting policies, effective governance, performance management and performance evaluation, as required by section 166(2)(a) of the MFMA.
47. The audit committee did not adequately 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, as evidenced by the material adjustments made to the annual financial statements.

48. The audit committee did not review the municipality's performance management system and did not make recommendations to the council, as required by MPPMR 14(4)(a)(ii).
49. The audit committee did not review the quarterly internal audit reports on performance measurement, as required by MPPMR 14(4)(a)(i).
50. 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 MPPMR 14(4)(a)(iii).
51. 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.
52. The audit committee was not constituted, in the manner required by section 166(4)(a) MFMA as it did not have three members for the duration of the year.
53. The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA.
54. 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.

Internal audit

55. The internal audit unit did not function as required by section 165(2) of the MFMA. as it did not prepare a risk-based audit plan and an internal audit programme for the financial year under review and it did not advise the accounting officer or report to the audit committee on matters relating to internal audit, internal controls, accounting procedures and risk management.
56. 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.

Human resource management

57. Job descriptions were not established for all posts in which appointments were made in the current year, in contravention of section 66(1)(b) of MSA.
58. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury as required by the Regulations on Minimum Competency Levels reg14(2)(a).

Internal control

59. 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

60. Slow response to audit message and effective leadership remains a challenge as the roles and responsibilities for recording and filing of financial and performance information have been communicated to all relevant staff, but there is a lack of effective oversight by senior leadership to ensure accountability and adequate consequences for poor performance and transgressions, which has resulted in repeat performance information and compliance findings raised during the audit.
61. The municipality did not develop documented and approved internal policies and procedures to address the collection, recording, processing, monitoring of, and reporting on predetermined objectives. Consequently, material misstatements were identified in the annual performance report.

Financial and performance management

62. Management did not implement daily and monthly controls as designed for the entity's business processes and did not have a proper system of record management that provides for the maintenance of information to be reported in the annual performance report.
63. Compliance with the applicable legislation was not monitored on a regular basis and the municipality's information technology systems environment remained weak as numerous deficiencies identified in the prior year had still not been addressed.
64. This is mainly attributable to a lack of credible in year reporting by leadership and oversight committees in respect to performance management and compliance matters resulting in numerous recurring findings.
65. Management did not adequately review the financial statements prior to submission and utilised the audit process to correct their financial statements which included the correction of numerous material misstatements which improved the audit outcome from a qualified opinion to an unqualified opinion.

Governance

66. The municipality did not conduct a risk assessment as required by the MFMA. Consequently, there was a failure to monitor compliance with the MFMA, MSA and SCM regulations, as well as the GRAP reporting framework requirements.
67. The internal audit unit and audit committee were not fully effective in strengthening the control environment within the municipality as numerous material misstatements were identified during the audit. Furthermore recurring findings on performance reporting and compliance matters were identified during the audit process.

Auditor-General

East London

30 November 2015



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