



Auditing to build public confidence



**AUDITOR - GENERAL
SOUTH AFRICA**

Elundini 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 Elundini Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Elundini Local Municipality set out on pages xx to xx, 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 Elundini 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 matter

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

Restatement of corresponding figures

8. As disclosed in note 43 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. Unauthorised Expenditure of R2,9 million as disclosed in note 48.1 to the annual financial statements was incurred due to overspending of the budget.

Additional matter paragraph

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

Unaudited supplementary information

11. 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

12. 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

13. 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 priority 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

14. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected key performance areas presented in the annual performance report of the municipality for the year ended 30 June 2015:
 - Key Performance Area 2: Basic Service and Infrastructure on pages x to x
 - Key Performance Area 4: Financial Management and Viability on pages x to x
15. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
16. 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).
17. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
18. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected programmes.

Additional matters

19. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected key performance areas, I draw attention to the following matters:

Achievement of planned targets

20. Refer to the 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

21. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for Basic Service and Infrastructure as well as Financial Management and Viability. 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

22. 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

23. 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:

Expenditure management

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

Internal control

25. 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

26. Slow response to audit messages and ineffective leadership to deal with the issue of incurring unauthorised, irregular and fruitless and wasteful expenditure, has result in repeat compliance findings raised in this report.
27. The accounting officer did not adequately review the annual performance report before submitting for auditing as there were misstatements identified by auditors and these were subsequently corrected by the municipality.

Financial and performance management

28. The municipality did not adequately implement processes to monitor compliance with the respective legal and regulatory requirements. As a result the municipality thus incurred unauthorised, irregular, fruitless and wasteful expenditure and did not comply with the MFMA.

Auditor-General
East London

30 November 2015



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