



Auditing to build public confidence

**AUDITOR-GENERAL
SOUTH AFRICA**

Maletswai 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 Maletswai Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Maletswai 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 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, 2015 (Act No. 5 of 2015) (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 Maletswai 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.

Financial sustainability

8. Note 55 to the financial statements indicates that the municipality's current liabilities exceeded its current assets. This situation, along with other matters as set forth in the note, indicates that the municipality may encounter difficulty realising its assets and discharging its liabilities in the normal course of business.

Debt impairment

9. As disclosed in notes 19 and 20 to the financial statements, debt impairment for revenue from exchange and non-exchange transactions of R5,5 million and R 2,6 million respectively, was recognised in the statement of financial position.

Unauthorised expenditure

10. As disclosed in note 45.1 to the financial statements, unauthorised expenditure amounting to R15,5 million was incurred due to overspending on votes.

Fruitless and wasteful expenditure

11. As disclosed in note 45.2 to the financial statements, fruitless and wasteful expenditure amounting to R5,3 million was incurred due to interest and penalties incurred on late payment of suppliers.

Irregular expenditure

12. As disclosed in note 45.3 to the financial statements, irregular expenditure amounting to R798,850 was incurred due to non-compliance with supply chain management policies and processes.

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 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

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 the selected key performance area (KPA) 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 KPA presented in the annual performance report of the municipality for the year ended 30 June 2015:
 - KPA 3: Basic services 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 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* (FMPPI).
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 KPA are as follows:

KPA 3: Basic services delivery

Usefulness of reported performance information

21. The FMPPI requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. In total, 44% of the indicators relevant to the selected KPA were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the lack of development and implementation of proper performance planning

and management practices to facilitate the development of performance indicators for inclusion in the integrated development plan (IDP).

22. The FMPPPI requires that it must be possible to validate the processes and systems that produce the indicator. In total, 41% of the indicators relevant to the selected KPA were not verifiable in that valid processes and systems that produced the information on actual performance did not exist. This was due to the lack of maintaining standard operating procedures and key controls in the relevant systems of collection, collation, verification and storage of actual performance information throughout the period.

Reliability of reported performance information

23. The FMPPPI requires that institutions should 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.
24. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of information presented with respect to KPA 3: Basic services delivery.
25. This was due to limitations placed on the scope of my work due to the fact that the institution could not provide sufficient appropriate evidence in support of the information presented with respect to the KPA. The institution's records did not permit the application of alternative audit procedures.

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 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 objective reported in paragraphs 21 to 25 of this report.

Unaudited supplementary schedules

28. The supplementary information set out on pages X to X 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 report and annual financial statements

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 of unpaid conditional government grants and receipts (grant debtor) and commitments identified by the auditors in the submitted financial statements were subsequently corrected, with the result that the financial statements received an unqualified audit opinion.

Strategic planning and performance management

31. The local community was not afforded adequate opportunity to comment on the final draft IDP before adoption, as required by section 42 of the Municipal Systems Act (Act No. 32 of 2000) (MSA) and Municipal planning and performance management regulations 9, 13(1), 13(4)(c) and 15(3) (MPPMR).
32. The performance management system and related controls were not appropriately maintained as they did not sufficiently describe and represent the processes of performance planning, monitoring, measurement, review, reporting and improvement and how they were conducted, organised and managed, as required by section 38 of the MSA and regulation 7 of the MPPMR.
33. Measurable performance targets for the financial year with regard to each of the development priorities or objectives and key performance indicators were not set in the IDP, as required by section 41(1)(b) of the MSA and regulations 12(1) and 12(2)(e) of the MPPMR.
34. The municipality did not establish mechanisms to monitor and review its performance management system, as required by section 40 of the MSA.
35. Sufficient appropriate audit evidence could not be obtained to confirm that measures were taken to improve performance as required by section 46 (1)(c) of the MSA.

Budgets

36. In total, unavoidable expenditure to the amount of R15,5 million was incurred, in contravention of Municipal budget and reporting regulation 72.

Human resource management

37. The head of supply chain management did not meet all of the prescribed competency areas as required by section 119 of the MFMA and regulations 10 and 11 of the Municipal regulations on minimum competency levels (MRMCL).
38. Financial officials at middle management level did not meet all of the prescribed competency areas as required by regulations 8 and 9 of the MRMCL.

Expenditure management

39. Money owed by the municipality to creditors was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

40. 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

41. Quotations were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, as required by Supply chain management regulation 43.

Internal audit

42. The internal audit unit did not advise the accounting officer and report to the audit committee on matters relating to compliance with the MFMA, DoRA and other applicable legislation, as required by section 165(2)(b)(vii) of the MFMA.
43. The internal audit unit did not function as required by section 165(2) of the MFMA, in that it did not advise the accounting officer and report to the audit committee on matters relating to accounting procedures and practices, risk and risk management and loss control.

Audit committee

44. The audit committee did not review all the quarterly internal audit reports on performance measurement, as required by MPPMR 14(4)(a)(i).
45. 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).

Internal control

46. I considered internal control relevant to my audit of the financial statements, the annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

47. Leadership did not exercise adequate oversight and accountability to ensure consistent implementation and monitoring of internal controls over performance information. Leadership did not implement a system of consequence management to ensure that the findings on predetermined objectives and non-compliance with laws and regulations were adequately dealt with, which resulted in repeat findings.
48. Audit action plans for addressing findings on predetermined objectives and compliance with laws and regulations were not monitored by leadership to ensure that management had addressed all deficiencies effectively and timeously.

Financial and performance management

49. The annual performance report was not supported by complete, relevant and accurate information. Records management was inadequate and not systematically and regularly monitored by management to ensure that information was easily retrievable and available for audit purposes.
50. The municipality did not have adequate systems in place to monitor compliance with all applicable legislation. As a result, material findings could not be prevented.

Governance

51. The municipality did not implement adequate risk assessment procedures and processes in a timely manner.
52. Internal audit did not function effectively during the financial year. Reports were not issued regularly throughout the year resulting in insufficient time for their recommendations to be adequately implemented by management.
53. The audit committee did not exercise sufficient oversight to ensure the effectiveness of action plans used by management to address internal and external audit matters in respect of compliance with laws and regulations and predetermined objectives. The effectiveness of the audit committee was further impaired by the inadequate functioning of the internal audit unit.

Auditor-General

East London

30 November 2015



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