

Nyandeni Local 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 Nyandeni Local Municipality

Report on the financial statements

Introduction

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

Irregular expenditure

8. As disclosed in note 37 to the financial statements, the municipality incurred irregular expenditure of R13, 9 million during the year ended 30 June 2015. All of this irregular expenditure was the result of non-compliance with procurement requirements in previous financial years. The audit process confirmed that although the procurement process had not been followed, goods and services were received.

Unauthorised expenditure

9. As disclosed in note 35 to the financial statements, the municipality incurred unauthorised expenditure of R12, 2 million during the year ended 30 June 2015. This unauthorised expenditure was mainly due to overspending on the employee-related cost and remuneration of councillor votes.

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:
 - Provision of access roads and road maintenance set out on pages x to x
 - Municipal public amenities set out on pages x to x
 - Urban centre infrastructure set out 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*.

14. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
15. I did not identify material findings on the usefulness and reliability of the reported performance information for the following selected development priorities:
 - Provision of access roads and road maintenance
 - Municipal public amenities
 - Urban centre infrastructure

Additional matter

16. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected development priorities, I draw attention to the following matter:

Achievement of planned targets

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

Compliance with legislation

18. 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

19. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA.

Revenue management

20. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Annual report and annual financial statements

21. The financial statements submitted for auditing were not prepared in all material respects in accordance with section 122 of the MFMA. Material misstatements – in aggregate – of non-current assets, liabilities and expenditure identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Internal control

22. 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 compliance with legislation included in this report.

Leadership

23. The slow response by the accounting officer and management to my office's messages of the previous audit contributed to repeat non-compliance findings on the charging of interest on outstanding consumer debts and material adjustments to the financial statements. Furthermore, improved in-year monitoring of budget/forecast versus actual spending is required to prevent unauthorised expenditure.

Financial and performance management

24. The slow response by management to my office's messages relating to the preparation of a full set of management accounts on a monthly basis contributed to the finding on material misstatements in the submitted financial statements. The preparation of monthly financial accounts that include proper key account reconciliations and the preparation of supporting schedules will go a long way in eliminating the need for material adjustments at year-end or during the audit process.

Auditor-General

East London

30 November 2015



AUDITOR - GENERAL
SOUTH AFRICA

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