



Auditing to build public confidence



**AUDITOR - GENERAL
SOUTH AFRICA**

Amathole District 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 Amathole District Municipality

Report on the consolidated and separate financial statements

Introduction

1. I have audited the consolidated and separate financial statements of the Amathole District Municipality and its subsidiary 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 consolidated and separate financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated and separate 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 consolidated and separate 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 consolidated and separate 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 consolidated and separate financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate 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 consolidated and separate 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 consolidated and separate 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 consolidated and separate financial statements present fairly, in all material respects, the financial position of the Amathole District Municipality and its subsidiary 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.

Unauthorised, irregular and fruitless and wasteful expenditure

8. As disclosed in note 54 to the consolidated and separate financial statements the entity incurred unauthorised expenditure of R2, 3 million as the expenditure was incurred in excess of the approved budget on various expense items.
9. As disclosed in note 55 to the consolidated and separate financial statements, the municipality and the entity incurred fruitless and wasteful expenditure of R3, 5 million on interest, penalties, legal fees and payment of the salary for the suspended CEO.
10. As disclosed in note 56 to the consolidated and separate financial statements, irregular expenditure of R292, 6 million was incurred in the year under review as a result of non-compliance with supply chain management (SCM) legislation.

Material losses

11. As disclosed in note 62 to the consolidated and separate financial statements, material losses of R58, 3 million were incurred as a result of water distribution losses.

Material impairments

12. As disclosed in note 13 to the consolidated and separate financial statements, cumulative debt impairments totalling R503, 7 million were disclosed relating to receivables from exchange transactions.

Restatement of corresponding figures

13. As disclosed in note 50 and 51 to the consolidated and separate financial statements, the corresponding figures for 30 June 2014 were restated as a result of errors discovered during 30 June 2015 in the consolidated and separate financial statements of the municipality and its entity at, and for the year ended, 30 June 2014.

Additional matters

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

Unaudited disclosure note

15. 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 consolidated and separate financial statements and, accordingly, I do not express an opinion thereon.

Unaudited supplementary schedules

16. The supplementary information set out on pages xxx to xxx does not form part of the consolidated and separate financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Report on other legal and regulatory requirements

17. 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

18. 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 Amathole District Municipality for the year ended 30 June 2015:
 - Development priority 2: Basic service delivery and infrastructure investment on pages xxx to xxx
 - Development priority 4: Municipal finance viability and management on pages xxx to xxx
19. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
20. 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).

21. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
22. I did not identify material findings on the usefulness and reliability of the reported performance information for the selected development priorities.

Additional matter

23. 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 matters:

Achievement of planned targets

24. Refer to the annual performance report on pages xxx to xxx for information on the achievement of the planned targets for the year.

Compliance with legislation

25. 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 reports

26. 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 non-current assets, current assets, general expenses and disclosure notes identified by the auditors in the submitted financial statements were subsequently corrected and/or the supporting records provided, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

27. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
28. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

Procurement and contract management

29. Quotations were accepted from prospective providers who were not registered on the list of accredited prospective providers and did not meet the listing requirements prescribed by the SCM policy, in contravention of SCM regulations 16(b) and 17(b).

Internal control

30. I considered internal control relevant to my audit of the consolidated and separate 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 compliance with legislation included in this report

Leadership

31. Senior management did not adequately exercise their oversight responsibility of financial reporting, compliance and related internal controls. This was the result of not adequately monitoring the functioning of internal controls, in-year reporting and progress with the implementation of the audit action plan. In addition, there was a slow response to messages of the Auditor-General of South Africa from the leadership and lack of consequences for poor performance and transgressions. As a result of non-compliance with the MFMA, records were updated and corrections made during the preparation of the consolidated and separate financial statements and the audit process.

Financial and performance management

32. The systems for assets and capital commitments were not reconciled and reviewed adequately during the year, which resulted to material misstatements only being identified during the audit process. Management did not adequately monitor compliance with applicable legislation during the year.

Governance

33. The recommendations of internal audit and audit committee were not adequately implemented by management during the year. Consequently, material misstatements in the consolidated and separate financial statements and material non-compliance findings were only identified during the audit process.

Other reports

Investigations

34. The Public Protector was conducting an investigation into alleged procurement irregularities. At the time of this report, the investigation was in progress and the expected date of the outcome was unknown.
35. An external investigation was conducted into alleged manipulation of procurement processes and fraud in procuring goods and services. At the time of this report, the investigation was in progress and the expected date of the outcome was unknown.
36. An internal investigation was conducted on payments of monies owed to a service provider into a fraudulent bank account. The investigation was completed and a report submitted to the accounting officer.

37. An internal investigation was conducted into alleged stock theft by an employee of the municipality. At the time of this report, the investigation was in progress and the expected date of the outcome was unknown.

Auditor - General

East London

10 December 2015



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