

# Report of the auditor-general to the Eastern Cape Provincial Legislature and the council on the Ikwezi Municipality

## Report on the financial statements

### Introduction

1. I was engaged to audit the financial statements of the Ikwezi Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2016, 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, 2015 (Act No. 10 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 the financial statements based on conducting the audit in accordance with International Standards on Auditing. Because of the matter described in the basis for disclaimer of opinion paragraph, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### Basis for disclaimer of opinion

#### Limitations on the financial statements

4. I was unable to obtain sufficient appropriate audit evidence regarding the financial statements as a whole as the financial statements were presented for audit purposes without accurate and complete underlying accounting records. I was unable to audit the financial statements by alternative means. Consequently, I was unable to determine whether any adjustments relating to the financial statements as a whole were necessary.

## **Disclaimer of opinion**

5. Because of the significance of the matter described in the basis for disclaimer of opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

## **Emphasis of matters**

6. I draw attention to the matters below. Our opinion is not modified in respect these matters:

### Events after reporting date

7. As disclosed in note 34 to the annual financial statements, the Ikwezi Local Municipality was amalgamated into the Dr Beyers Naude Municipality on the 7th August 2016.

## **Additional matter**

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

### Withdrawal from the engagement

9. Due to the limitation imposed on the scope of the audit by management, I have disclaimed my opinion on the financial statements. But for the legislative requirement to perform the audit of the municipality, I would have withdrawn from the engagement in terms of International Standards on Auditing.

### Unaudited disclosure notes

10. 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**

11. 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 key performance areas 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**

12. I was unable to perform procedures to obtain evidence about the usefulness and reliability of the reported performance information, as the municipality did not submit its annual performance report for auditing, as required by section 46 of the Municipal

Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and section 121(3)(c) of the MFMA.

## **Compliance with legislation**

13. I was engaged to perform procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. Due to the limitations placed on my work by management, it was not possible for me to obtain sufficient appropriate audit evidence to determine whether the municipality had complied with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, which include the legislative requirements relating to procurement and contract management, human resources management, revenue management, expenditure management, asset management, liability management, annual report and annual financial statements, budgets, conditional grants and transfers, use of consultants and consequence management.

## **Internal control**

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

## **Leadership**

15. Effective leadership, based on ethical business practices and good governance and protecting and enhancing the best interest of the municipality was not demonstrated by top management. The municipal manager was on suspension throughout the entire financial period due to matters relating to alleged fraud.
16. Leadership has not provided adequate direction and oversight with regards to the control environment as it relates to financial management and compliance with laws and regulations. Adequate policies have not been developed, reviewed and implemented to guide all significant processes within the municipality.
17. The leadership did not implement effective human resource management to ensure that adequately and sufficiently skilled resources were in place and that performance is monitored and where necessary consequence management is applied. The inability to address and prioritise this critical area has a direct bearing on the poor status of recordkeeping leading to the disclaimer of opinion.

## **Financial and performance management**

18. The municipality does not maintain a document management system for paper-based and electronic records, or for the timely retrieval thereof. This is evident in that annual financial statements were not supported by the relevant schedules and supporting documentation and an annual performance report was not submitted. Furthermore, there was no general ledger submitted for audit purposes and the trial balance did not agree to the annual financial statements.
19. Controls over daily and monthly processing and key reconciliations of transactions were not implemented. There are no processes in place to monitor compliance with all

applicable laws and regulations within the municipality. This area should therefore be prioritised by leadership and management for any improvement.

20. The municipality does not have an established performance management system to enable the strategic planning and reporting of performance information. There were no mechanisms in place to monitor and review its performance management system. These factors contributed towards the municipality's failure to submit its annual performance report for auditing.

## **Governance**

21. No risk assessment was performed and the audit committee and internal audit did not function as required by legislation.

## Other reports

## Investigations

22. We draw attention to the following engagements conducted by various parties that have or could potentially have an impact on the matters reported on. The reports noted do not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
23. Based on previous management findings and audit reports issued, the Mayor decided to investigate areas indicative of fraud in the 2013-2014 year. The members of Council appointed an independent consulting firm to compile a forensic report into these matters. We cannot confirm if the investigation is complete as the forensic report was not made available to us.

*Auditor - General*

East London

30 November 2016



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