

Mbhashe Municipality

Audit Report

For the year ended 30 June 2016

Report of the auditor-general to the Eastern Cape Provincial Legislature and the council on Mbashe Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Mbashe Local 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, and 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.1 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^[E8] 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 Mbhashe Local Municipality as at 30 June 2016 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.

Restatement of corresponding figures

8. As disclosed in note 43 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of an error discovered during 30 June 2016 in the financial statements of the Mbhashe Local municipality at, and for the year ended, 30 June 2016.

Material impairments

9. As disclosed in note 24 to the financial statements, material losses to the amount of R2,1 million were incurred as a result of a write-off of irrecoverable trade debtors.

Fruitless and wasteful expenditure

10. As disclosed in note 30 to the financial statements, fruitless and wasteful expenditure balance of R6.3 million has been accumulating for the past three years. No investigations were conducted by the municipality.

Irregular expenditure

11. As disclosed in note 31 to the financial statements, irregular expenditure amounting to R79.1 million was incurred by the municipality during the year ended 30 June 2016. This is primarily a result of non-compliance with required procurement processes.

Additional matter

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

Unaudited disclosure notes

13. 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

14. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of 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

15. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected development priority presented in the annual performance report of the municipality for the year ended 30 June 2016:
- KPA 2: Service delivery and Infrastructure services on pages x to x
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.

Service Delivery and Infrastructure Services

18. I did not identify any material findings on the usefulness and reliability of the reported performance information for the following development priority:
- KPA 2: Service delivery and Infrastructure services

Additional matter

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

Adjustment of material misstatements

20. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA2-Service delivery and infrastructure services. As management subsequently corrected the misstatements, I did not identify any material findings on the usefulness and reliability of the reported performance information.

Compliance with legislation

21. 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:

Procurement and Contract Management

22. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.
23. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
24. Construction contracts were awarded to contractors that did not qualify for the contract, in contravention of CIDB regulations 17 and 25(7A).

Expenditure Management

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

Revenue Management

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

Asset Management

27. The municipality did not establish an investment policy that was adopted by council, as required by section 13(2) of the MFMA and municipal investment regulation 3(1)(a) / 3(2).

Human Resource Management

28. The municipality did not develop and adopt appropriate systems (policies) and procedures to monitor, measure and evaluate performance of staff in contravention of section 67(d) of the Municipal Systems Act.
29. Job descriptions were not established for all posts in which appointments were made in the current year, in contravention of section 66(1)(b) of Municipal Systems Act.

Annual Financial Statements and Annual Report

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 disclosure items identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

Consequence Management

31. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the Municipal Finance Management Act.
32. Irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the Municipal Finance Management Act / Municipal budget and reporting regulations 75(1).

Strategic Planning

33. The annual performance report for the year under review did not include:

- a comparison of the performance with the previous financial year, and
- measures taken to improve performance, as required by section 46 (1)(a), (b) and (c) of the MSA.

Internal control

34. 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 opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

35. Ownership of responsibility and living the financial disciplines were not rolled out to all levels of staff to ensure sound financial administration. There was a lack of oversight over the processes to ensure document management systems were in place to support the achievement of pre-determined objectives and inadequate structures to ensure compliance with applicable laws and regulations

Financial and performance management

36. There was a lack of understanding and review of the disclosures made in the financial statements and municipality did not have an effective records management system in place to reliably account for the reporting on predetermined objectives. In addition there was inadequate daily and monthly reviews performed to ensure that compliance with laws and regulations was achieved.

Governance

37. There was not always an effective oversight review over financial information, compliance with laws and regulations and reporting on predetermined objectives, as findings in these areas were identified during the year.

Auditor-General.

East London

30 November 2016



AUDITOR-GENERAL
SOUTH AFRICA

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