

Report of the auditor-general to the Eastern Cape provincial legislature and the council on Amahlathi Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Amahlathi 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, cash flow statement and the 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. 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 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 Amahlathi 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.

Unauthorised expenditure

8. As disclosed in note 40 to the financial statements, unauthorised expenditure amounting to R23,5 million has been incurred due to overspending on the budget.

Irregular expenditure

9. As disclosed in note 42 to the financial statements, irregular expenditure amounting to R36,5 million has been incurred in the current year due to the supply chain management (SCM) processes not being followed. Subsequent to the investigation performed by the municipality's council, it was resolved to write off the irregular expenditure incurred and disclosed.

Material losses

10. As disclosed in note 43 to the financial statements, material losses on electricity distribution of R2,8 million were incurred due to environmental and technical factors.

Restatement of corresponding figures

11. As disclosed in note 45 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of errors only corrected during the year ended 30 June 2016 in the financial statements at, and for the year ended, 30 June 2015.

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 this legislation. This disclosure requirement did not form part of the audit of the financial statements and accordingly we 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) (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 raise 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 strategic objective presented in the annual performance report of the municipality for the year ended 30 June 2016: development priority: service delivery and institutional development (KPA 4) 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.
18. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected development priority.

Additional matters

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

Achievement of planned targets

20. Refer to the annual performance report on pages x to x and x to x for information on the achievement of the planned targets for the year.

Adjustment of material misstatements

21. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of service delivery and institutional development priority. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Unaudited supplementary information

22. The supplementary information set out on pages XX to XX 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

23. 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

24. 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, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Strategic planning and performance management

25. The KPIs set by the municipality did not include indicators on the percentage of households with access to the basic level of solid waste removal and were not set by the municipality as required by section 43(2) of the Municipal Systems Act (Act No. 32 of 2000) (MSA) and the municipal planning and performance management regulation 10(a).

Procurement and contract management

26. Persons in the service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e) and the code of conduct for staff members issued in terms of the MSA.

Expenditure management

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

Revenue management

30. A credit control and debt collection policy was not implemented, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of MFMA.

Consequences management

31. Unauthorised 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)(a) and (b) of the MFMA.

Internal control

32. 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 findings on compliance with legislation included in this report.

Leadership

33. Implementation of the code of conduct was not effective due to a lack of management oversight to ensure that instances of irregular, fruitless and wasteful as well as unauthorised expenditure do not occur.

34. Furthermore, management did not put measures in place to ensure that appropriate consequences are taken against officials responsible for instances of non-compliance. Management has not set the correct tone at the top with regard to the importance of compliance with all laws and regulations by the municipal officials.

Financial and performance management

35. Management has not effectively implemented daily and monthly controls as designed for the municipality's business processes, resulting in significant misstatements not being detected or corrected by management before submission of the annual financial statements to auditors.

Governance

36. The municipality has a functional internal audit unit and audit committee; however, the internal control weaknesses identified by external and internal auditors have not been addressed adequately by management and the audit committee has not been effective in monitoring the action plan.

Other reports

37. There was an ongoing investigation by the special investigations unit relating to improper conduct in procurement processes relating to the 2013-14 financial year. It was not known when the outcome of this will be issued.

38. There were two cases of theft of municipal property that had been referred to the South African Police Service that were ongoing at year-end. It was not known when the outcome of this would be finalised.

Auditor - General

East London

30 November 2016



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence