



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Intsika Yethu Municipality

Audit Report

For the year ended 30 June 2016

Report of the auditor-general to the Eastern Cape Provincial Legislature and the council of Intsika Yethu Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Intsika Yethu Local Municipality set out on pages xxx to xxx, 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 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 entity'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 entity'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 Intsika Yethu 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.

Irregular expenditure

8. Irregular expenditure of R64,6 million (2015: R55,7 million) as disclosed in note 38 to the financial statements has been incurred in the current year due to the supply chain management (SCM) processes not being followed. No disciplinary action has been taken with regards to the irregular expenditures incurred.

Unauthorised expenditure

9. Unauthorised expenditure of R0,78 million (2015: R19,6 million) as disclosed in note 36 to the financial statements has been incurred in the current year due to overspending of the budget.

Restatement of corresponding figures

10. As disclosed in note 33 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of errors discovered during the year ended 2016 in the financial statements of the municipality at, and for the year ended, 30 June 2015.

Additional matter

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

Unaudited supplementary schedules

12. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedule(s) and, accordingly, I do not express an opinion thereon.

Report on other legal and regulatory requirements

13. 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 objectives 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

14. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected objective presented in the annual performance report of the municipality for the year ended 30 June 2016:
- KPA 1: Basic service delivery and infrastructure development on pages x to x
15. 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 objectives. 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).
16. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
17. I did not identify any material findings on the usefulness of the reported performance information for KPA1: Basic service delivery and infrastructure development.
18. The material findings in respect of the reliability of the selected objective are as follows:

KPA 1: Basic services and infrastructure development

Reliability of reported performance information

19. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets were not reliable when compared to the source information and evidence provided.
20. This was due to a lack of formally adopted and approved standard operating procedures and documented system descriptions for the accurate recording of actual achievements

and the lack of technical indicator descriptions for the accurate measurement, recording and monitoring of performance.

Additional matters

21. I draw attention to the following matters. My conclusion is not modified in respect of these matters:

Achievement of planned targets

22. Refer to the annual performance report on page(s) x to x; x to x for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the reliability of the reported performance information in paragraphs 20 to 21 of this report.

Unaudited supplementary schedules / information

23. The supplementary information set out on pages x to x 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 on them.

Compliance with legislation

24. 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:

Consequence Management

25. Unauthorised, irregular, 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 32(2)(b) of the MFMA.

Expenditure management

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

Conditional grants

27. The Integrated National Electrification Programme allocation was not spent in accordance with the applicable grant framework, in contravention of section 17(1) of the DoRA.

Procurement and contract management

- 28. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).
- 29. Contracts were awarded to bidders that did not score the highest points in the evaluation process, in contravention of section 2(1)(f) of the Preferential Procurement Policy Framework Act.

Annual reports and Annual Financial Statements

- 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.
- 31. Material misstatements of current assets identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Internal control

- 32. 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 findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

- 33. The lack of enforcement of controls related to the procurement and contract management does not reflect a tone at the top that promotes ethical business practice. This is further emphasised by the amounts of irregular expenditure incurred in the current year.
- 34. The lack of oversight of compliance with laws and regulations has resulted in a number of instances of material non-compliances being identified during the audit.

Financial and performance management

- 35. The municipality does not have appropriate systems in place to monitor compliance with all applicable legislation. Non-compliance with laws and regulations could have been prevented had compliance been adequately reviewed and monitored throughout the year.
- 36. The financial statements contained material misstatements that were corrected. The annual performance report contained numerous misstatements that resulted in a

qualification in terms of reliability of information. This was mainly due to staff not fully understanding the requirements of the financial reporting framework. Consultants as opposed to municipal officials were involved in the correction of the identified misstatements, which indicates the municipality's reliance on consultants in preparing reports that are free from misstatements.

Governance

37. Risks related to non-compliance with the MFMA, procurement and contract management regulations and financial reporting requirements were not adequately addressed.
38. Both the internal audit unit and audit committee recommendations were not timeously implemented by management thus resulting in repeat audit findings being identified.

Auditor-General

East London

30 November 2016



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence