



AUDITOR - GENERAL  
SOUTH AFRICA

The accounting officer  
Gariep Municipality  
Private Bag 03  
Burgersdorp  
9744

30 November 2016

Reference: 21294REG15/16

Dear Sir/Madam

**Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Gariep Local Municipality for the year ended 30 June 2016**

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA)
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA, you are required to include the audit report in the municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA, the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
  - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
  - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely



.....  
**Sivuyile Ndabambi**  
**Senior Manager**

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# Report of the auditor-general to the Eastern Cape Provincial Legislature and the Council on the Gariep Local Municipality

## Report on the financial statements

### Introduction

1. I have audited the financial statements of the Gariep 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 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 the South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 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 the 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 qualified audit opinion.

## Basis for qualified opinion

### Irregular expenditure

6. The municipality did not have adequate systems to identify and disclose all irregular expenditure for the 2015-16, as required by section 125(2) (d)(i) of the MFMA. The irregular expenditure disclosed in note 44.3 was understated by amounts that were identified during the audit process. Due to the lack of systems, it was impracticable to determine the full extent of the understatement of irregular expenditure.

## Qualified opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Gariiep 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

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

### Restatement of corresponding figures

9. As disclosed in note 41 to the financial statements, the corresponding figures for 2014-15 have been restated as a result of an error discovered during 2015-16 in the financial statements of the municipality for the year ended 30 June 2015.

### Material losses

10. As disclosed in note 45.8 to the financial statements, material losses to the amount of R6,3 million were incurred as a result of unaccounted electricity. The percentage of material losses incurred amounted to 36.54%, which is above the norm of between 7% and 10%.

### Material underspending of the budget

11. As disclosed in the statement of comparison of budget vs actual amounts, the municipality materially underspent the budget by R3,3 million.

### Fruitless and wasteful expenditure

12. As disclosed in note 44.2 to the financial statements, fruitless and wasteful expenditure of R15,7 million was incurred by the municipality during the year ended 30 June 2016. This was a result of interest charged for the late payments of suppliers.

### Unauthorised expenditure

13. As disclosed in note 44.1 to the financial statements, unauthorised expenditure of R9 million was incurred by the municipality during the year ended 30 June 2016. This was a result of poor budget management.

## Going concern

14. The statement of financial performance of the municipality indicates that the municipality incurred a net loss of R 11, 9 million during the year ended 31 June 2016. There are also not enough liquid assets to finance municipality's debts. Furthermore the municipality is experiencing difficulties paying their creditors when they are due. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

## Merger

15. As disclosed in note 40 to the financial statements, the municipality was in the process of merging into a combined municipality (Walter Sisulu Local Municipality). The merger was due to occur on 8 August 2016. The municipality would merge with Maletswai Local Municipality to become the Walter Sisulu Local Municipality, as stipulated in Government Gazette no. 13 of 2016.
16. Accounting policy on mergers describes the conditions and recognition criteria on which the merger is based.
17. No adjustments to comparative information were made in these financial statements for the sole purpose of giving rise to reporting figures as required by the combined entity's accounting policies.
18. The binding agreement stipulates that all assets and liabilities would be transferred to the combined entity.

## Material non-compliance with the Pension Fund Act

19. As disclosed in note 14 to the financial statements, the municipality had R40,3 million in other payables. Included in this amount were pension fund contributions deducted from employees and not paid over to the pension funds.

## Additional matter

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

## Unaudited supplementary schedules

21. The supplementary information set out on pages 79 to 90 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

## Report on other legal and regulatory requirements

22. In accordance with the Public Audit Act, 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

23. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following objectives presented in the annual performance report of the municipality for the year ended 30 June 2016:
- Infrastructure and basic service delivery: key performance area 1 on pages x to x
24. 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).
25. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
26. The material findings in respect of the selected objectives are as follows:

### **Infrastructure and basic service delivery**

#### Reliability of reported performance information

27. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the reported performance information. This was because the auditee could not provide sufficient appropriate evidence in support of the reported performance information.

### **Additional matter**

28. I draw attention to the following matter:

#### Achievement of planned targets

29. Refer to the annual performance report on page 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 usefulness and reliability of the reported performance information in paragraphs 28 to 29 of this report.

## Compliance with legislation

30. 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:

## **Expenditure management**

31. Money owed by the municipality was not paid within 30 days or the agreed period, as required by section 65(2)(e) of the MFMA.
32. I could not obtain sufficient appropriate audit evidence that payments from the municipality's bank account were approved by a properly authorised official, as required by section 11(1) of the MFMA.
33. Reasonable steps were not taken to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

## **Consequence management**

34. Unauthorised, irregular and fruitless and wasteful expenditure by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.

## **Human resource management**

35. There were no performance agreement in place for other employees other than municipal manager and senior manager directly accountable to the municipality, as required by section 67(1) (d).
36. Bonuses were awarded to the municipal manager and senior managers directly accountable to the municipal manager without approval of such evaluation by the municipal council in contravention of section 57(4)(b) of the Municipal Systems Act.
37. Sufficient appropriate audit evidence could not be obtained that job descriptions were established for all posts in which appointments were made in the current year, as required by section 66(1) (b) of Municipal Systems Act.

## **Budgets**

38. Expenditure was in excess of the approved budget, in contravention of section 87(8) of the MFMA.

## **Strategic planning and performance**

39. The local community was not afforded the opportunity to comment on the final draft of the integrated development plan(IDP) before adoption, as required by section 42 of the MSA and Municipal planning and performance management regulation 9, 13(1), 13(4)(c) and 15(3).

## **Annual financial statements and annual report**

40. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.
41. Material misstatements of current liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently

corrected and the supporting records provided, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

## Procurement and contract management

42. Goods and services with a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).
43. I could not obtain sufficient appropriate audit evidence that bid adjudication committees were always composed in accordance with SCM regulation 29(2).
44. Contracts were awarded to bidders who did not submit a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
45. Construction contracts were awarded to contractors that did not qualify for the contract, in contravention of section 18(1) of the Construction Industry Development Board (CIDB) Act and CIDB regulations 17 and 25(7A).
46. I could not obtain sufficient appropriate audit evidence that all extensions or modifications to contracts were approved by a properly delegated official, as required by SCM regulation 5.
47. Contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43.

## Asset management

48. An adequate management, accounting and information system to account for assets was not in place, as required by section 63(2) (a) of the MFMA.
49. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

## Internal control

50. I considered internal controls 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 qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

## Leadership

51. The leadership did not oversee the implementation and monitoring of internal controls and compliance with legislation. The leadership also did not insist on daily disciplines to ensure sound financial and performance management and compliance with legislation. This resulted in inaccurate, incomplete and inadequate financial and performance reporting. In addition, there was a lack of capacity to produce financial statements and related disclosures presented in conformity with the GRAP.



52. The leadership did not set the tone at the top, as management was not held accountable for non-compliance with legislation. In addition, a slow response by management to recurring issues resulted in repeated contraventions of the SCM regulations and irregular expenditure by the municipality.
53. The leadership did not oversee financial and performance reporting, compliance with relevant legislation and weaknesses in the related controls. This is evidenced by the ineffective oversight roles of the audit committee and internal audit.

## Financial and performance management

54. The clearing and reconciling of suspense accounts was still an issue in 2015-16 and the balances that remained in suspense accounts at year end increased significantly over the years. The municipality also did not account for interest accrued as a result of non-payment of pension fund contributions, which resulted in material misstatements and fruitless and wasteful expenditure in 2015-16.
55. Management did not adequately manage and monitor key daily and monthly processes, which included reconciling accounts, maintaining registers and clearing suspense accounts, throughout the financial year. This resulted in material misstatements in the financial statements submitted for auditing, inconsistencies in the annual performance report and non-compliance with legislation. The municipality was granted an opportunity to adjust the material misstatements identified, which resulted in a reduction of uncorrected material misstatements.
56. Management had not designed and implemented controls to identify and monitor compliance with all applicable legislation. This resulted in non-compliance with legislation that could have been prevented had controls been properly designed and implemented.

## Governance

57. The municipality did not implemented appropriate risk management activities to ensure that regular risk assessments, including considerations of fraud prevention, were conducted and that a risk strategy to address the risks was developed and monitored. There is no evidence or supporting documents to verify that the internal audit and the audit committee exist.

58. The municipality did not have an internal audit function during 2015-16. As a result, internal audits or reviews of performance information systems and management ,that focused on compliance aspects as well as the usefulness and reliability of the reported performance information, were not conducted.

AUDITOR-GENERAL

East London

30 November 2016



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*