

Port St Johns 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 Port St Johns Municipality

Report on the separate financial statements

Introduction

1. I audited the separate financial statements of the Port St Johns Municipality set out on pages ... to ..., which comprise the separate statement of financial position as at 30 June 2016, the separate 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 separate financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these separate 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 of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of separate 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 separate 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 separate financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the separate 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 separate 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 separate 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 of qualified opinion

Irregular expenditure

6. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for all irregular expenditure relating to the previous year. Due to a lack of systems to identify contraventions of the supply chain management (SCM) requirements, it was impracticable to confirm the full extent of irregular expenditure relating to that year. Consequently, I was unable to determine whether any adjustment to the opening balance and resulting closing balance of irregular expenditure, as disclosed in note 43 to the separate financial statements at R81,82 million (2015: R63,55 million), was necessary.

Unauthorised expenditure

7. I was unable to obtain sufficient appropriate audit evidence for unauthorised expenditure reported in the previous years, as reports to quantify actual spend by the departments or functional areas were not available in the required format. I could not determine by alternative means whether expenditure in excess of the budget per functional area or department had been recognised as unauthorised expenditure. Consequently, I was unable to determine whether any adjustment to unauthorised expenditure of R54,45 million (2015: R54,45 million), disclosed in note 41 to the financial statements, was necessary.

Qualified opinion

8. In my opinion, except for the effects of the matters described in the basis of qualified opinion paragraphs, the separate financial statements present fairly, in all material respects, the financial position of the Port St Johns 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

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

Fruitless and wasteful expenditure

10. As disclosed in note 42 to the financial statements, fruitless and wasteful expenditure of R3,22 million was incurred due to interest and penalties incurred on late payment of suppliers.

Debt impairment

11. As disclosed in notes 4 and 5 to the financial statements, debt impairment for revenue from exchange and non-exchange transactions of R4,54 million and R17,82 million respectively, was recognised in the statement of financial position.

Restatement of corresponding figures

12. As disclosed in note 46 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of an error discovered during 2016 in the financial statements of the municipality at, and for the year ended, 30 June 2015.

Additional matter

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

Unaudited supplementary information

14. The supplementary information, appropriation statement set out on pages xx to xx which is not required to be a part of the financial statements, is presented as additional information. I have not audited this statement and, accordingly, I do not express an opinion thereon.

Report on other legal and regulatory requirements

15. 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 raise findings on the reported performance information against predetermined objectives for selected development 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

16. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development objective 1: Basic service delivery and infrastructure on pages x to x in the annual performance report of the municipality for the year ended 30 June 2016.
17. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
18. 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 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 (FMPPPI).
19. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
20. The material findings in respect of the selected development objective are as follows:

Basic service delivery and infrastructure development

Usefulness of reported performance information

21. Section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 33% of the reported objectives were not consistent with those in the approved service delivery budget implementation plan.

Reliability of reported performance information

22. 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. The reported performance information was not reliable when compared to the source information provided.

Additional matter

23. I draw attention to the following matter:

Achievement of planned targets

24. Refer to the annual performance report on pages 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 for the selected development objective reported in paragraphs x and x of this report.

Compliance with legislation

25. 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

26. The financial statements submitted for auditing were not prepared, in all material respect, in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected, which resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

27. An adequate management, accounting and information system was not in place which recognised expenditure or accounted for creditors, as required by section 65(2)(b) of the MFMA.
28. Reasonable steps were not taken to prevent irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Liability management

29. An adequate management, accounting and information system which accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.
30. An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2)(c) of the MFMA.

Asset management

31. 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.

Consequence management

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

Human resource management

33. The municipal manager did not sign a performance agreement, as required by section 57(2)(a) of the Municipal Systems Act.

Procurement and contract management

34. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(a) and (c).
35. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
36. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, in contravention of section 116(2)(c) of the MFMA.

Internal control

37. 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 the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

38. The leadership should set the tone of no tolerance for poor financial and performance administration.
39. The leadership did monitor the implementation of the audit action plan. However, the audit action plan failed to address all effected years that resulted in the above qualification paragraphs.
40. There was a lack of detailed procedures which assign responsibility for the collation, recording, processing, monitoring, review and reporting of performance information.
41. Despite the review process undertaken by management with key oversight responsibilities, errors were still identified on the financial statements and performance report.

Financial and performance management

42. The municipality did not prepare regular, accurate and complete financial reports, and did not perform daily and monthly processing and reconciling of transactions throughout the financial year. These disciplines were only implemented in the later part of the year resulting in various findings identified during the audit process.

43. The municipality did not have a proper record management system to ensure that complete, relevant and accurate information is accessible and available to support performance reporting.
44. There were inadequate processes to monitor compliance with all applicable legislation within the municipality. As a result non-compliance with applicable legislation was not effectively identified or prevented and municipal officials were not held accountable for any transgression in respect of this.

Governance

45. The audit committee meetings took place after council meetings, resulting in insufficient feedback being presented to the council on internal controls, internal audits, risk and risk management, accounting policies, effective governance, performance management, financial management, loss control and compliance with legislation.

Auditor-General

East London

30 November 2016



A U D I T O R - G E N E R A L
S O U T H A F R I C A

Auditing to build public confidence

