



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence

Mbhashe Local Municipality

Audit Report

For the year ended 30 June 2017

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

Report on the audit of the financial statements

Opinion

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 2017, and the statement of financial performance, statement of changes in net assets, and cash flow statement and of the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Mbashe Local Municipality as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with South African Standards of Generally Recognised Accounting Practise (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.

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

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

Restatement of corresponding figures

7. As disclosed in note 43 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2017.

Irregular expenditure

8. As disclosed in note 31 to the financial statements, irregular expenditure to the amount of R536 million has accumulated over a number of years. Irregular expenditure of R134 million incurred during the year.

Unauthorised expenditure

9. As disclosed in note 29 to the financial statements, unauthorised expenditure to the amount of R103 million was incurred on overspending of public safety, housing and finance and administration votes.

Fruitless and wasteful expenditure

10. As disclosed in note 30 to the financial statements, fruitless and wasteful expenditure to the amount of R6, 6 million has been accumulating for the past four years.

Other matter

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

Unaudited disclosure notes

12. In terms of section 125(2)-(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

13. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with SA standards of GRAP and the requirements of the MFMA and 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.
14. In preparing the financial statements, the accounting officer is responsible for assessing the Mphashe Local Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting officer either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

15. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

16. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

Report on the audit of the annual performance report

Introduction and scope

17. 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 material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
18. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
19. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2017:

Development priorities	Pages in the annual performance report
KPA 2 – Basic service delivery and infrastructure	x – x
KPA 3 – Local economic development	x – x

20. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
21. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

KPA 2 – Basic service delivery and infrastructure

Usefulness

Performance indicators are not well-defined

22. The evidence and method of calculation for the achievement of the following planned indicators were not clearly defined, as required by the Framework for Managing Programme Performance Information (FMPPI).

- SD 2.2 Number of transport for a held
- SD 2.3 Number of programmes implemented
- SD 1.9 Number of studies conducted
- SD 1.12 Number of programmes organised
- SD 3.4 Percentage of communal cemeteries fenced
- SD 3.5 Number of ECDCs supported

Reliability

Various indicators

23. The reported achievements for the targets listed below were misstated, as the evidence provided did not agree with the reported achievements as follows:

Performance indicator	Planned target	Reported achievement	Audited value
SD 1.7 Number of villages covered with rehabilitation of damaged land	5	5	31
SD 2.5.1 Number of improved street lights	36	3	1
SD 3.5 Number of ECDCs supported	60	77	2
SD 3.10 Number of gateways maintained	4	3	2
SD 4.1 Number of kilometers of road constructed	80	154.4	93.5

Various indicators

24. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the indicators listed as per table below. This was due to limitations placed on the scope of my work and inadequate record keeping system at the municipality. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement.

Performance indicator	Planned target	Reported achievement	Audited value
SD 2.4 - % disaster incidents assisted with disaster relief material	40%	100%	0
SD 2.5 Number of adequate street lights	610	633	0
SD 4.2- Number of kilometers of roads maintained	300	691.2	0

KPA 3: Local economic development

Usefulness

Performance indicators are not well-defined

25. The evidence and method of calculation for the achievement of the following planned indicators were not clearly defined, as required by the Framework for Managing Programme Performance Information (FMPPi).

- LED 1.4 Number of informal traders supported for growth and development
- LDE 1.5 Number of SMMEs supported for growth and development
- LED 1.6 Number of Cooperatives supported
- LED 3.1 Number of support programmes implemented
- LED 4.2 Number of ocean marine initiative supported
- LED 4.4 Number of events hosted
- LED 4.7 Number of destinations supported

Reported indicators not consistent or complete when compared with planned indicators

26. The following indicators as reported were not consistent with the indicators approved in the integrated development plan. This is not in line with the requirements of section 41 (c) of the MSA.

Performance indicator per SDP/IDP	Reported Performance Indicator
LED 2.1 Number of commodity groups assisted with seedlings and fruit trees	LED 2.1 Number of commodity groups assisted
LED 2.2 Number of villages assisted with maize production	LED 2.2 Number of villages assisted

Reliability

Various indicators

27. The reported achievements for the targets listed below were misstated, as the evidence provided did not agree with the reported achievements as follows:

Performance indicator	Planned target	Reported achievement	Audited value
LED 1.4 Number of informal traders supported for growth and development	120	120	27
LED 1.6 Number of Cooperatives supported	8	16	10
LED 2.2 Number of villages assisted	30	30	44
LED 2.4 Number of farming projects assisted with equipment and/or inputs	10	10	11
LED 2.7 Number of village farming associations assisted with stock remedy and feed	30	32	22

LED 4.7 Number of destinations supported	1	1	4
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27. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the indicators listed as per table below. This was due to limitations placed on the scope of my work and inadequate record keeping system at the municipality. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement.

Performance indicator	Planned target	Reported achievement	Audited value
LED 2.5 Number of dipping tanks renovated	5	5	0
LED 2.6 Number of shearing sheds built or renovated	5	5	0
LED 4.6 No. of craft centers renovated	3	3	0

Other matters

28. I draw attention to the matters below.

Achievement of planned targets

29. Refer to the annual performance report on page(s) x to x; x to x for information on the achievement of planned targets for the year and explanations provided for the under and overachievement of a significant number of targets. This information should be considered in the context of the qualified and adverse opinions expressed on the usefulness and reliability of the reported performance information in paragraph(s) x; x; x of this report.

Adjustment of material misstatements

30. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 2: Basic service delivery and infrastructure and KPA 3: Local economic development. Those that were not corrected are included in the basis for opinion paragraphs.

Report on audit of compliance with legislation

Introduction and scope

31. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

32. The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

Procurement and Contract Management

33. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)-(b) of the MFMA.
34. 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.
35. Competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2).

Annual Financial Statements and Annual Report

36. 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 identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, which resulted in the financial statements receiving an unqualified opinion.
37. The annual performance report for the year under review did not include the performance of each external services provider, and a comparison with the previous financial year, as required by section 46 (1)-(a) and (b) of the MSA.

Budgets

38. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R14 263 386, as disclosed in note 29 to the annual financial statements, in contravention of section 62(1)-(d) of the MFMA.

Consequence Management

39. Fruitless and wasteful expenditure incurred by the municipality in the previous years 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.
40. Unauthorised expenditure amounting to R88 364 623 incurred by the municipality in the previous years 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.

Expenditure Management

41. Effective steps were not taken to prevent irregular expenditure amounting to R32, 2 million as disclosed in note 31 to the annual financial statements, as required by section 62(1)-(d) of the MFMA.
42. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R200 113, as disclosed in note 30 to the annual financial statements, in contravention of section 62(1)-(d) of the MFMA.

Revenue management

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

Other information

44. The Mbhashe Local Municipality's accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report thereon and those selected development priorities presented in the annual performance report that have been specifically reported on in the auditor's report.
45. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
46. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact.

Internal control deficiencies

47. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the annual performance report and the findings on compliance with legislation included in this report.
48. 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.

49. The 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.

Auditor-General

East London

30 November 2017



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected development priorities and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in the auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - obtain an understanding of internal control relevant to the audit 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.
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors, which constitutes the accounting officer.
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Mbhashe Local Municipality’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor’s report. However, future events or conditions may cause a municipality to cease to continue as a going concern.
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and here applicable, related safeguards.