



Auditing to build public confidence



**AUDITOR - GENERAL
SOUTH AFRICA**

Ndlambe Local Municipality

Audit Report

For the year ended 30 June 2018

Report of the auditor-general to the Eastern Cape Provincial Legislature on Ndlambe Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of Ndlambe Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information 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, except for the effects of the matters described in the basis of qualified opinion of my report, the financial statements present fairly, in all material respects, the financial position of Ndlambe Municipality as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (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, 2017 (Act No. 3 of 2017) (DoRA).

Basis for qualified opinion

Value-added tax (VAT) payable

3. I was unable to obtain sufficient appropriate audit evidence for the VAT payable as disclosed in statement of financial position and note 17 to the financial statements. The municipality did not have adequate systems to maintain records of VAT owed to the South African Revenue Service. I was unable to obtain evidence required by alternative means. As a result, I was unable to determine whether any adjustments to the VAT payable of R10,5 million disclosed in the statement of financial position and note 17 to the financial statements were required.

Irregular expenditure

4. Irregular expenditure disclosed in note 47 of the financial statements included R28 million that does not meet the definition of irregular expenditure contained in the MFMA. The municipality did not have adequate systems to identify and classify irregular expenditure. Due to the state of the accounting records, it was impractical for me to determine the full extent of adjustments required to the irregular expenditure of R441 million disclosed in note 47 to the financial statements.
5. In my previous report I modified my opinion on irregular expenditure because I could not determine the full extent of the understatement of irregular expenditure. Management did not adequately correct the misstatement identified. Due to the state of the accounting records, it was still impractical for me to determine the full extent of the understatement of the corresponding figure of irregular expenditure. As a result, I was unable to determine the adjustment required to the corresponding figure of irregular expenditure amounting to R368,5

million as well as the opening and closing balance of irregular expenditure disclosed in note 47 to the financial statements.

Context for the opinion

6. 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 this auditor's report.
7. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and 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.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

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

Restatement of corresponding figures

10. As disclosed in note 41 to the financial statements, the corresponding figures for the previous balance sheet date were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2018.

Material losses and impairments

11. As disclosed in note 49 to the financial statements, material water losses of R23,1 million (2016-17: R12 million) were incurred, which represented 49,9% (2016-17: 34,4%) of the total water purchased. The losses were due to metering inefficiencies, meter faults as well as unauthorised and unmetered consumption.
12. As disclosed in note 32 to the financial statements, material losses of R28,4 million were incurred as a result of a movement in the debt impairment provision and a write-off of irrecoverable trade debtors.

Unauthorised expenditure

13. As disclosed in note 45 to the financial statements, unauthorised expenditure of R166, 4 million was incurred due to overspending of the operational and capital budget.

Other matter

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

Unaudited disclosure note

15. 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 on it.

Responsibilities of the accounting officer for the financial statements

16. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA standards of GRAP and the requirements of the MFMA and the DoRA, and the requirements, 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.
17. In preparing the financial statements, the accounting officer is responsible for assessing the 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 appropriate governance structure 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

18. 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 the 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
19. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

20. 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.
21. 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.

22. 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 2018:

Development priorities	Pages in the annual performance report
Key performance area 1: basic service delivery	x – x
Key performance area 3: local economic development	x – x

23. 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.

24. The material findings in respect of the usefulness and reliability of the selected key performance areas are as follows:

Key performance area 1: basic service delivery

Usefulness

Indicator: SAI 1.2.13 - Roads & Storm Water Master plan development

25. The target of complete road and storm water master plan was reported in the annual performance report while it was not included in the service delivery agreement.

Indicators and targets were not complete

26. The indicators and targets listed below were approved in the service delivery and budget implementation plan (SDBIP) but were not included in the annual performance report (APR). This change was also not approved.

Planned indicator	Reported indicator	Planned target	Reported target
SAI 1.2.3 number of increased households with access to sanitation services	No indicator reported in SDBIP	Target reported in SDBIP	Target not reported in APR
SAI 1.2.15: Confirmation of funding allocation	No indicator reported in the APR	DORA & Confirmation letters	No planned target on the APR
SAI 1.2.17: Confirmation of funding allocation	No indicator reported in the APR	DORA & Confirmation letters	No planned target on the APR

Planned indicator	Reported indicator	Planned target	Reported target
SAI 1.2.23: % of Adequate fleet in place	No indicator reported in the APR	20% Funding confirmation letter / contract signed	No planned target on the APR
SAI 1.2.24: Fleet management policy in place and implemented	No indicator reported in the APR	No planned target in the (SDBIP)	No planned target on the APR
SSE 2.3.5: Required traffic management measures are implemented according to legislation	SSE 2.3.5: Required traffic management measures are implemented according to legislation	No planned target in the (SDBIP)	No planned target on the APR

Indicators and targets were not consistent

27. The reported indicators and targets per the annual performance report were not consistent with the planned indicators and targets:

Planned indicator	Reported indicator	Planned target	Reported target
SAI 1.2.2: Number and location of Identified projects and sites	SAI 1.2.2: Number and location of Identified projects and sites	Potential projects & sites identified	3 Potential projects & sites identified
SAI 1.2.7: Confirmation of funding allocation	SAI 1.2.7: % Confirmation of funding allocation spent	20% Funding confirmation letter / contract signed	20% Funding confirmation letter / contract signed
SAI 1.2.10: % Improvement in compliance	SAI 1.2.10: % implementation of action plan to improve compliance	40% Progress on the implementation Plan - 45% Blue water compliance	The action plan was developed and is being implemented. The MUSSA results show improvement on BLUE DROP... MUSSA on file
SAI 1.2.11: % Improvement in compliance	SAI 1.2.11: % implementation of action plan to improve compliance	25% Progress on the implementation of the Action Plan - 45% Green water compliance	The action plan was developed and is being implemented. The MUSSA results show improvement on BLUE DROP... MUSSA on file
SAI 1.2.18: No. of applications processed within legislated time	SAI 1.2.18: % of applications processed within legislated time	50% of applications processed within legislated time (legal compliance issue - should be 100%)	50% of applications processed within legislated time (legal compliance issue - should be 100%)

Planned indicator	Reported indicator	Planned target	Reported target
SAI 1.2.20: Reviewed spatial development framework in line with SPLUMA, Land audit, eCadastre system in place	SAI 1.2.20: Reviewed spatial development framework in line with SPLUMA, Land audit, eCadastre system in place	An approved spatial development framework (Due 2018/19)	A reviewed spatial development framework (Due 2018/19)

Indicator: SAI 1.2.13 - Roads & Storm Water Master plan development

28. The target of complete road and storm water master plan was reported in the annual performance report while it was not included in the service delivery agreement.

Reported achievements were not consistent with planned and reported indicator and target

29. The reported achievement of the following indicators was not consistent with the planned and reported indicator and target:

Planned indicator	Planned target	Reported target	Actual achievement
SAI 1.2.2: Number and location of Identified projects and sites	Potential projects & sites identified	3 Potential projects & sites identified	Alexandria Bulk Water Project, Bathurst Bulk Water Project and Thornhill Link services sites identified.
SAI 1.2.3: number of increased households with access to sanitation services	No planned target in the SDBIP	No reported target in the APR	No reported achievement in the APR
SAI 1.2.7: Confirmation of funding allocation	20% Funding confirmation letter / contract signed	20% Funding confirmation letter /contract signed	MIG AND Office of the Premier confirmed
SAI 1.2.10: % Improvement in compliance	40% Progress on the implementation Plan - 45% Blue water compliance	40% Progress on the implementation Plan - 45% Blue water compliance	The action plan was developed and is being implemented. The MUSSA results show improvement on BLUE DROP... MUSSA on file
SAI 1.2.11: % Improvement in compliance	25% Progress on the implementation of the Action Plan - 45% Green water compliance	25% Progress on the implementation of the Action Plan - 45% Green water compliance	The action plan was developed and is being implemented. The MUSSA results show improvement on BLUE DROP... MUSSA on file
SAI 1.2.13: Roads & Storm Water Master plan development	No planned target in the SDBIP	Complete Road and Storm water master plan	There is a draft master plan which still needs to be worked on adding the technical information
SAI 1.2.15: Confirmation of funding allocation	No planned target in the SDBIP	No reported target in the APR	No reported achievement in the APR

Planned indicator	Planned target	Reported target	Actual achievement
SAI 1.2.17: Confirmation of funding allocation	No planned target in the SDBIP	No reported target in the APR	No reported achievement in the APR
SAI 1.2.18: No. of applications processed within legislated time	50% of applications processed within legislated time (legal compliance issue - should be 100%)	50% of applications processed within legislated time (legal compliance issue - should be 100%)	By law 100% of the application must be processed within 16 months as legislated in SPLUMA, this target was reached in difficult conditions due to challenge of staff shortage in the section and the absence of a Planning Tribunal during this period, however the this is addressed.
SAI 1.2.22: Enhanced caravan park infrastructure	20% Funding confirmation letter / contract signed	20% Funding confirmation letter / contract signed	The municipality maintains the current Park and keep it in a habitable state. The intention though is to lease the Caravan Park to a private entity/individual
SAI 1.2.23: % of Adequate fleet in place	20% Funding confirmation letter / contract signed	No reported target in the APR	No reported achievement in the APR
SAI 1.2.24: Fleet management policy in place and implemented	No planned target in the SDBIP	No reported target in the APR	No reported achievement in the APR
SSE 2.3.5: Required traffic management measures are implemented according to legislation	No planned target in the SDBIP	No reported target in the APR	There is a shift system, as approved by Council. This increases visibility on the roads.
SSE 2.3.6: % of all applications of all learners and drivers licenses is completed within the confirmed timelines	75% of all applications of all learners and drivers licenses is completed within the confirmed timelines (Bookings Backlogs to be addressed when extra resources are available)	75% of all applications of all learners and drivers licenses is completed within the confirmed timelines (Bookings Backlogs to be addressed when extra resources are available)	There are currently two DLTCs (Driving License Testing Centres) within the Ndlambe Municipality.
SSE 2.3.7: % of all reported fire and emergency related incidences are dealt with comprehensively	75% of all reported fire and emergency related incidences are dealt with comprehensively	75% of all reported fire and emergency related incidences are dealt with comprehensively	The IERC (Integrated Emergency Response Centre) in Bushman's' River Mouth is partly in operation. Thirteen (13) Retained Fire Fighters have been appointed
SSE 2.3.10: % of refuse removals and cleansing services carried out as per relevant schedules	75% of refuse removals and cleansing services carried out as per relevant schedules	75% of refuse removals and cleansing services carried out as per relevant schedules	An informal shift system has been introduced for Cleansing. There is a lack of capital budget for procurement of Fleet iro Refuse.

Planned indicator	Planned target	Reported target	Actual achievement
SSE 2.3.11: % of waste separation at source / processed where measuring equipment exists	20% of waste separation at source / processed where measuring equipment exists	20% of waste separation at source /processed where measuring equipment exists	This function is currently being carried out by a service-provider on behalf of the Municipality. There are no formal agreements with said service-provider.
SSE 2.3.12: % of complaints on unkempt parks, public open spaces, cemeteries attended to	Improved Parks & recreation services in Ndlambe covering parks, public open spaces	Improved Parks & recreation services in Ndlambe covering parks, public open spaces	We are currently reliant on manual Registers, which results in challenges with record-management.
SSE 2.3.13: No of Maintenance carried out on sports fields & cemeteries & recreational areas as per maintenance schedule	Effective Maintenance of sports fields & cemeteries & recreational areas	Effective Maintenance of sports fields & cemeteries & recreational areas	There is currently a lack of capital Budget to maintain sports fields, cemeteries & recreational areas.
NBE 3.1.1: No. of adults & scholars serviced in line with environmental themes & number of programs as per environmental calendar	1600 adults & scholars serviced in line with environmental themes & 26 programs as per environmental calendar	1600 adults & scholars serviced in line with environmental themes & 26 programs as per environmental calendar	An Environmental Education Officer has been appointed.
NBE 3.1.2: No. of beaches obtaining full blue flag status and pilot blue flag beach status	2 Blue Flag status beaches & 3 pilot blue flag status beaches	2 Blue Flag status beaches & 3 pilot blue flag status beaches	Failure to adhere to rigorous Blue Flag standards can result in non-achievement of status.
NBE 3.1.3: No. of law enforcement patrols carried out estuaries, beaches, nature reserves (Impact of patrols, reduced violations)	200 law enforcement patrols carried out estuaries, beaches, nature reserves	200 law enforcement patrols carried out estuaries, beaches, nature reserves	An Environmental Law Officer and a River Control Officer have been appointed to carry out these functions.
NBE 3.1.4: Ecological capacity of the reserve not exceeded, effectively manage the accommodation estb in the reserve including maintenance of hiking trails, No. of fence patrols	Carrying capacity 100%	Carrying capacity 100%	A lack of capital Budget for the full operation of the Reserves.

Planned indicator	Planned target	Reported target	Actual achievement
NBE 3.1.5: Disaster avoidance / mitigation & management strategy & plan in place	Disaster avoidance / mitigation & management strategy & plan in place	Disaster avoidance / mitigation & management strategy & plan in place	The Disaster Co-Ordinator is appointed by the District and reports directly to SBDM.

Indicators were not well defined

30. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined method of collection to be used when measuring the actual achievement for the indicators due to a lack of technical indicator descriptions. I was unable to test whether the indicators listed below were well defined by alternative means:

Planned indicator	Reported indicator	Planned target
SAI 1.2.2: Number and location of Identified projects and sites	SAI 1.2.2: Number and location of Identified projects and sites	Potential projects & sites identified
SAI 1.2.7: Confirmation of funding allocation	SAI 1.2.7: % Confirmation of funding allocation spent	20% Funding confirmation letter / contract signed
SAI 1.2.10: % Improvement in compliance	SAI 1.2.10: % implementation of action plan to improve compliance	40% Progress on the implementation Plan - 45% Blue water compliance
SAI 1.2.11: % Improvement in compliance	SAI 1.2.11: % implementation of action plan to improve compliance	25% Progress on the implementation of the Action Plan - 45% Blue water compliance
SAI 1.2.15: Confirmation of funding allocation	No indicator reported in the APR	DORA & Confirmation letters
SAI 1.2.17: Confirmation of funding allocation	No indicator reported in the APR	DORA & Confirmation letters
SAI 1.2.22: Enhanced caravan park infrastructure	SAI 1.2.22: Enhanced caravan park infrastructure	20% Funding confirmation letter / contract signed
SAI 1.2.23: % of Adequate fleet in place	No indicator reported in the APR	20% Funding confirmation letter / contract signed
SAI 1.2.24: Fleet management policy in place and implemented	No indicator reported in the APR	Target not reported in the SDBIP
SSE 2.3.5: Required traffic management measures are implemented according to legislation	SSE 2.3.5: Required traffic management measures are implemented according to legislation	Target not reported in the SDBIP
NBE 3.1.4: Ecological capacity of the reserve not exceeded, effectively manage the accommodation established in the reserve including	NBE 3.1.4: Ecological capacity of the reserve not exceeded, effectively manage the accommodation estb in the reserve including maintenance of hiking	Carrying capacity 100%

Planned indicator	Reported indicator	Planned target
maintenance of hiking trails, No. of fence patrols	trails, No. of fence patrols	

Targets were not specific and measurable

31. The planned targets in the table below were not specific and measurable in clearly identifying the nature and required level of performance:

Planned indicator	Planned target	Reported target
SAI 1.2.3: number of increased households with access to sanitation services	Target not reported in the SDBIP	Target not reported in the APR
SSE 2.3.12: % of complaints on unkempt parks, public open spaces, cemeteries attended to	Improved Parks & recreation services in Ndlambe covering parks, public open spaces	Improved Parks & recreation services in Ndlambe covering parks, public open spaces
SSE 2.3.13: No of Maintenance carried out on sports fields & cemeteries & recreational areas as per maintenance schedule	Effective Maintenance of sports fields & cemeteries & recreational areas	Effective Maintenance of sports fields & cemeteries & recreational areas

Indicators were not verifiable

32. I was unable to obtain sufficient appropriate audit evidence to validate the existence of systems and processes that enable reliable reporting of actual service delivery against the indicators listed below. This was due to a lack of technical indicator descriptions and formal standard operating procedures or documented system descriptions. I was unable to validate the existence of systems and processes by alternative means.

Planned indicator	Planned target	Reported target
SAI 1.2.3: number of increased households with access to sanitation services	Target not reported in the SDBIP	Target not reported in the APR
SAI 1.2.7: Confirmation of funding allocation	20% Funding confirmation letter / contract signed	20% Funding confirmation letter / contract signed
SAI 1.2.10: % Improvement in compliance	40% Progress on the implementation Plan - 45% Blue water compliance	40% Progress on the implementation Plan - 45% Blue water compliance
SAI 1.2.11: % Improvement in compliance	25% Progress on the implementation of the Action Plan - 45% Blue water compliance	25% Progress on the implementation of the Action Plan - 45% Green water compliance
SAI 1.2.15: Confirmation of funding allocation	DORA & Confirmation letters	Target not reported in the APR

Planned indicator	Planned target	Reported target
SAI 1.2.17: Confirmation of funding allocation	DORA & Confirmation letters	Target not reported in the APR
SAI 1.2.22: Enhanced caravan park infrastructure	20% Funding confirmation letter / contract signed	20% Funding confirmation letter /contract signed
SAI 1.2.23: % of Adequate fleet in place	20% Funding confirmation letter / contract signed	Target not reported in the APR
SAI 1.2.24: Fleet management policy in place and implemented	Target not reported in the SDBIP	Target not reported in the APR
SSE 2.3.5: Required traffic management measures are implemented according to legislation	Target not reported in the SDBIP	Target not reported in the APR
NBE 3.1.4: Ecological capacity of the reserve not exceeded, effectively manage the accommodation established in the reserve including maintenance of hiking trails, No. of fence patrols	Carrying capacity 100%	Carrying capacity 100%

Comparison between planned and actual performance

33. A comparison between the planned and actual performance of the year under review and the previous year was not included for all indicators and targets in key performance area 1: basic service delivery.

Measures taken to improve performance not disclosed

The measures taken to improve performance on targets not achieved were not reported in the annual performance report for key performance area 1: basic service delivery.

Measures taken to improve performance not corroborated

34. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against target as reported in the annual performance report. This was due to limitations placed on the scope of my work. I was unable to confirm the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance for the indicators listed below:

Planned indicator	Planned target	Reported target	Actual achievement
SAI 1.2.7: Confirmation of funding allocation	20% Funding confirmation letter / contract signed	20% Funding confirmation letter /contract signed	MIG AND Office of the Premier confirmed
SAI 1.2.9: Water Conservation & Water Demand Management Strategy	Water Conservation & Water Demand Management Strategy Implemented	Water Conservation & Water Demand Management Strategy Implemented	Water Conservation and Water Demand Management Strategy is in place and is being implemented. The Municipality has established a unit to deal with leaks on an everyday

Planned indicator	Planned target	Reported target	Actual achievement
			basis.
SAI 1.2.10: % Improvement in compliance	40% Progress on the implementation Plan - 45% Blue water compliance	40% Progress on the implementation Plan - 45% Blue water compliance	The action plan was developed and is being implemented. The MUSSA results show improvement on BLUE DROP... MUSSA on file
SAI 1.2.11: % Improvement in compliance	25% Progress on the implementation of the Action Plan - 45% Green water compliance	25% Progress on the implementation of the Action Plan - 45% Green water compliance	The action plan was developed and is being implemented. The MUSSA results show improvement on BLUE DROP... MUSSA on file
SAI 1.2.13: Roads & Storm Water Master plan development	No planned target in the SDBIP	Complete Road and Storm water master plan	There is a draft master plan which still needs to be worked on adding the technical information
SAI 1.2.15: Confirmation of funding allocation	No planned target in the SDBIP	No reported target in the APR	No reported achievement in the APR
SAI 1.2.17: Confirmation of funding allocation	No planned target in the SDBIP	No reported target in the APR	No reported achievement in the APR
SAI 1.2.18: No. of applications processed within legislated time	50% of applications processed within legislated time (legal compliance issue - should be 100%)	50% of applications processed within legislated time (legal compliance issue - should be 100%)	By law 100% of the application must be processed within 16 months as legislated in SPLUMA, this target was reached in difficult conditions due to challenge of staff shortage in the section and the absence of a Planning Tribunal during this period, however the this is addressed.
SAI 1.2.20: Reviewed spatial development framework in line with SPLUMA, Land audit, eCadastre system in place	An approved spatial development framework (Due 2018/19)	A reviewed spatial development framework (Due 2018/19)	Even though engagements and requests for funding were not successful, the review of the SDF was budgeted for and approved for 2018/2019. Process of advertising for service providers will commence in August. In the past quarters the 2013 SDF was still compliant as it is only due in this financial year.
SAI 1.2.21: Framework for mixed housing development in place	Framework for mixed housing development in place	Framework for mixed housing development in place	Framework for mixed housing development in place and an item was taken to Council to approve the mixed housing.
SAI 1.2.22: Enhanced caravan park infrastructure	20% Funding confirmation letter / contract signed	20% Funding confirmation letter / contract signed	The municipality maintains the current Park and keep it in a habitable state. The intention though is to lease the Caravan Park to a private entity/individual

Planned indicator	Planned target	Reported target	Actual achievement
SAI 1.2.23: % of Adequate fleet in place	20% Funding confirmation letter / contract signed	No reported target in the APR	No reported achievement in the APR
SAI 1.2.24: Fleet management policy in place and implemented	No planned target in the SDBIP	No reported target in the APR	No reported achievement in the APR
SSE 2.3.5: Required traffic management measures are implemented according to legislation	No planned target in the SDBIP	No reported target in the APR	There is a shift system, as approved by Council. This increases visibility on the roads.
SSE 2.3.11: % of waste separation at source / processed where measuring equipment exists	20% of waste separation at source / processed where measuring equipment exists	20% of waste separation at source /processed where measuring equipment exists	This function is currently being carried out by a service-provider on behalf of the Municipality. There are no formal agreements with said service-provider.
SSE 2.3.12: % of complaints on unkempt parks, public open spaces, cemeteries attended to	Improved Parks & recreation services in Ndlambe covering parks, public open spaces	Improved Parks & recreation services in Ndlambe covering parks, public open spaces	We are currently reliant on manual Registers, which results in challenges with record-management.
NBE 3.1.4: Ecological capacity of the reserve not exceeded, effectively manage the accommodation estb in the reserve including maintenance of hiking trails, No. of fence patrols	Carrying capacity 100%	Carrying capacity 100%	A lack of capital Budget for the full operation of the Reserves.
NBE 3.1.5: Disaster avoidance / mitigation & management strategy & plan in place	Disaster avoidance / mitigation & management strategy & plan in place	Disaster avoidance / mitigation & management strategy & plan in place	The Disaster Co-Ordinator is appointed by the District and reports directly to SBDM.

Reliability

35. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of indicators relating to this programme. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report of the indicators listed below:

Indicator	Target
SAI 1.2.3: number of increased households with access to sanitation services	No planned target
SAI 1.2.7: % Confirmation of funding allocation spent	20% Funding confirmation letter / contract signed
SAI 1.2.15: Confirmation of funding allocation	No indicator reported in the APR
SAI 1.2.17: Confirmation of funding allocation	No indicator reported in the APR
SAI 1.2.18: % of applications processed within legislated time	50% of applications processed within legislated time (legal compliance issue - should be 100%)
SAI 1.2.21: Framework for mixed housing development in place	Framework for mixed housing development in place
SAI 1.2.22: Enhanced caravan park infrastructure	20% Funding confirmation letter / contract signed
SAI 1.2.23: % of Adequate fleet in place	No indicator reported in the APR
SAI 1.2.24: Fleet management policy in place and implemented	No indicator reported in the APR
SSE 2.3.5: Required traffic management measures are implemented according to legislation	100% compliant with national legislation
SSE 2.3.6: % of all applications of all learners and drivers licenses is completed within the confirmed timelines	75% of all applications of all learners and drivers licenses is completed within the confirmed timelines (Bookings Backlogs to be addressed when extra resources are available)
SSE 2.3.7: % of all reported fire and emergency related incidences are dealt with comprehensively	75% of all reported fire and emergency related incidences are dealt with comprehensively
SSE 2.3.10:	75% of refuse removals and cleansing services carried out as per relevant schedules
SSE 2.3.11: % of waste separation at source / processed where measuring equip statement exists	20% of waste separation at source / processed where measuring equipment exists
SSE 2.3.12: % of complaints on unkempt parks, public open spaces, cemeteries	Improved Parks & Recreation services in Ndlambe covering parks, public open spaces
SSE 2.3.13: No of Maintenance carried out on sports fields & cemeteries & recreational areas as per maintenance schedule	Effective Maintenance of sports fields & cemeteries & recreational areas

Indicator	Target
SAI 1.2.3: number of increased households with access to sanitation services	No planned target
NBE 3.1.1: No. of adults & scholars serviced in line with environmental themes & number of programs as per environmental calendar	1600 adults & scholars serviced in line with environmental themes & 26 programs as per environmental calendar
NBE 3.1.2: No. of beaches obtaining full blue flag status and pilot blue flag beach status	2 Blue Flag status beaches & 3 pilot blue flag status beaches
NBE 3.1.3: No. of law enforcement patrols carried out estuaries, beaches, nature reserves (Impact of patrols, reduced violations)	200 law enforcement patrols carried out estuaries, beaches, nature reserves
NBE 3.1.4: Ecological capacity of the reserve not exceeded, effectively manage the accommodation established in the reserve including maintenance of hiking trails, No. of fence patrols	Carrying capacity 100%
NBE 3.1.5: Disaster avoidance / mitigation & management strategy & plan in place	Disaster avoidance / mitigation & management strategy & plan in place

36. The reported achievement in the annual performance report did not agree to the supporting evidence provided for the indicators listed below. The supporting evidence provided indicated that the achievements of these indicators were as follows:

Indicator	Target	Reported achievement	Audited results
SAI 1.2.9: Water Conservation & Water Demand Management Strategy	Water Conservation & Water Demand Management Strategy Implemented	Water Conservation and Water Demand Management Strategy is in place and is being implemented. The Municipality has established a unit to deal with leaks on an everyday basis.	Water Conservation and Water Demand Management Strategy is in place and is in draft.
SAI 1.2.20: Reviewed spatial development framework in line with SPLUMA, Land audit, eCadastre system in place	A reviewed spatial development framework (Due 2018/19)	Even though engagements and requests for funding were not successful, the review of the SDF was budgeted for and approved for 2018/2019. Process of advertising for service providers will commence in August. In the past quarters the 2013 SDF was still compliant as it is only due in this financial year.	Framework not relevant for the current year

Key performance area 3: local economic development

Usefulness

Reported achievements were not consistent with the planned and reported indicator and target.

37. The reported achievement of the following indicators was not consistent with the planned and reported indicator and target:

Planned Indicator	Reported target	Actual achievement
VAE 1.3.1: No. of identified sources of funding for SMEs development support, % engaged & % target funds raised	Annual: 50% of business plans submitted funded:	Annual: 4 funders have supported our local SMME's: NYDA, DRDAR, DRDLA & NDT
VAE 1.3.2: No. of SMEs horticulture projects at implementation stage	Annual: 3 funded agri - based project implementation plans in place	Annual: 1 agri - park project identified in Ndlambe, known as Alexandria Farmer Support Unit (FCU)
VTE 1.4.1: No. of identified sources of funding for SMEs support for heritage tourism	Annual: 5 possible funding sources of funding partners / Instruments Identified	Annual: 2 data captures from NDT to be deployed at Ndlambe
VTE 1.4.2: % of identified potential SME heritage support partners & funders engaged	Annual: 50% of potential partners / funders engaged	Reported: None
VTE 1.4.3: % of business plans for identified & engaged possible funders for SME heritage tourism support & developed, submitted & funded	Annual: 50% of business plans submitted funded.	Annual: 50% of business plans submitted funded.
VOE 1.5.2: % of potential initiatives funders engaged, business plans submitted & funded	Annual: 50% of business plans submitted funded	Annual: 50% of business plans submitted funded
VOE 1.5.3: % of potential funders / partners for the development of SMMEs and maritime skills engaged, business plans submitted & funded	Annual: 50% of business plans submitted funded	Annual: 50% of business plans submitted funded
VNE 1.6.1: New economy strategy in place	Annual: New economy strategy	Annual: New economy strategy
VNE 1.6.2: Feasibility studies of new economy technologies prioritized undertaken	Annual: 4 feasibility studies of new economy technologies prioritized undertaken	Annual: 4 feasibility studies of new economy technologies prioritized undertaken
VNE 1.6.2: No. of linkages with BRICS partners established	Annual: 4 linkages with BRICS partners established	Annual: 4 linkages with BRICS partners established

Indicator was not well defined and verifiable

Indicator: VNE 1.6.2: No. of linkages with BRICS partners established

38. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined source information and method of collection to be used when measuring the actual achievement for the indicator. In addition, I was unable to obtain sufficient appropriate audit evidence to validate the existence of systems and processes that enable reliable reporting of actual service delivery against the indicator. This was due to a lack of technical indicator descriptions and I was unable to test whether the indicators listed below were well-defined by alternative means.

Comparison between planned and actual performance

39. A comparison between the planned and actual performance of the year under review and the previous year was not included for all indicators and targets in key performance area 1: basic service delivery.

Measures taken to improve performance were not disclosed

40. The measures taken to improve performance on targets not achieved were not reported in the annual performance report for key performance area 1: basic service delivery.

Reliability

41. The reported achievement in the annual performance report did not agree to the supporting evidence provided for the indicators listed below. The supporting evidence provided indicated that the achievements of these indicators were as follows:

Reported indicator	Reported target	Actual achievement	Audited value
VAE 1.3.1 No. of identified sources of funding for SMEs development support, % engaged & % target funds raised	5 sources of funding identified SMEs Development support, 50 % potential partners / funders engaged	4 funders have supported our local SMME's, NYDA, DADAR, DRDLA & NDT	1 Source have supported our local - NDT funded Ndlambe
CAS 2.2.3 No of projects at participation of previously disadvantaged groups in local economy put in place	2 SMME support projects launched	Seda MOU in place, ECDC MOU in progress	Seda MOU in place

42. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of indicators relating to this programme. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report of the indicators listed below:

Report indicator	Reported target
VTE 1.4.1 No of identified sources of funding for SMEs support for heritage tourism	5 major investors/partners identified
VAE 1.3.2 No of SMEs horticulture projects at implementation stage	3 funded agri based project implementation plans in place
VNE 1.6.1: New economy strategy in place	Annual: New economy strategy
VOE 1.5.2: % of potential initiatives funders engaged, business plans submitted & funded	50% of business plans submitted funded

Other matter

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

Achievement of planned targets

44. Refer to the annual performance report on pages x to x and x to x for information on the achievement of 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 24 to 39 of this report.

Report on the audit of compliance with legislation

Introduction and scope

45. 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.

46. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements, annual performance report and annual report

47. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA.

48. Material misstatements of current assets, current liabilities, revenue and expenditure identified by the auditors in the submitted financial statements were subsequently corrected but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Revenue management

49. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.

Consequence management

50. Unauthorised 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) of the MFMA.
51. Irregular expenditure 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)(b) of the MFMA.

Strategic planning and performance management

52. The integrated development plan (IDP) did not include a financial plan, as required by section 26(a), (c), (h) and (i) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and municipal planning and performance management regulation 2(1)(c) and 2(3).
53. The IDP was not drafted considering the integrated development process and proposals submitted by the district municipality, as required by section 29(3)(b) of the MSA.
54. Performance targets were not set for each of the key performance indicators for the financial year, as required by section 41(1)(b) of the MSA and municipal planning and performance management regulation 12(1).
55. The performance management system and related controls were inadequate, as it did not describe how the performance planning, monitoring, measurement, review, reporting and improvement processes should be organised, as required by municipal planning and performance management regulation 7(1).
56. The SDBIP for the year under review did not include monthly revenue projections by source of collection and the monthly operational and capital expenditure by vote, as required by section 1 of the MFMA.

Procurement and contract management

57. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(a) and (c).
58. Some goods and services with a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1). Similar non-compliance was also reported in the prior year.
59. Some of the competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2).
60. Some of the construction contracts were awarded to contractors that did not qualify for the contract in accordance with section 18(1) of the Construction Industry Development Board (CIDB) Act, 2000 (Act No. 38 of 2000) and CIDB regulations 17 and 25(7A). Similar non-compliance was also reported in the prior year.

61. Bid documentation for the procurement of commodities designated for local content and production did not stipulate the minimum threshold for local production and content, as required by preferential procurement regulation 8(2) of 2017. Similar non-compliance was also reported in the prior year.
62. 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.
63. The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.
64. Awards were made to providers who were in the service of other state institutions or whose directors were in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).
65. Persons in the service of the municipality who 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), the code of conduct for councillors issued in terms of the MSA and the code of conduct for staff members issued in terms of the MSA.
66. 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

67. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
68. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified, as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with SCM regulations.
69. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R382 028, as disclosed in note 46 to the financial statements, in contravention of section 62(1)(d) of the MFMA. This was due to penalties and interest charged on late payments.
70. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R46,7 million, as disclosed in note 45 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The unauthorised expenditure was incurred due to overspending of the operational and capital budget.

Human resource management

71. Senior manager was appointed without council approval, as required by section 56(1)(a) of the MSA and regulations on appointment and conditions of employment of senior managers 17(2).

72. Financial interests were not disclosed by the senior managers within 60 days from date of appointment, as required by regulation 36(1)(a) on appointment and conditions of employment of senior managers.

Other information

73. The 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 and those selected development priorities presented in the annual performance report that have been specifically reported in this auditor's report.

74. 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.

75. 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.

76. I did not receive the other information prior to the date of this auditor's report. After I receive and read this information, and if I conclude that there is a material misstatement, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

77. 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 on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report:

- Leadership did not adequately discharge its oversight responsibilities with regard to the implementation and monitoring of internal controls to ensure sound financial and performance management and compliance with laws and regulations. Consequently, the correct tone was not set at the top to ensure that all municipal officials were held accountable for their actions through consequence management.
- Leadership did not adequately review financial and performance management, which resulted in inaccurate, incomplete and inadequate financial and performance reporting. In addition, although management developed a plan to address external audit findings, significant shortcomings in this plan remained, as evidenced by the basis for the qualified opinion and repeat findings on the performance report and compliance with legislation. The external audit findings raised in the prior year were therefore not sufficiently addressed.

- Information made available by management was at times either incomplete or did not support the financial statements and the performance report. For some areas under both financial and performance management, the regular processes of collecting, collating and reporting on credible information were not implemented, which resulted in material findings being identified on the reported financial and performance information.
- The municipality did not have an adequate risk management process in place, as there were no processes to identify risks to the municipality and to develop mitigating controls for such risks.
- The internal audit unit did not review internal controls and compliance with laws and regulations. This was due to the lack of co-operation by management as well as the capacity, skill and resource shortages in the internal audit unit.
- The impaired functioning of the internal audit unit greatly affected the effectiveness and the functioning of the audit committee.

AUDITOR - GENERAL

East London

30 November 2018



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 this 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 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 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 this auditor’s report. However, future events or conditions may cause a municipality to cease continuing 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, where applicable, related safeguards.

