

REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF NTABANKULU MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Ntabankulu Local Municipality which comprise the balance sheet as at 30 June 2009, the income statement, and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages [xx] to [xx].

The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the entity specific basis of accounting as set out in accounting policy note 1.1 and in the manner determined by the National Treasury, as set out in accounting policy note 1 and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with the International Standards on Auditing and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Lack of supporting documentation for journal entries

4. The annual financial statements were prepared by external consultants. There are unexplained differences between the annual financial statements, the trial balance and the general ledger. These differences arose as a result of journals processed by the consultants in preparing the annual financial statements. Supporting documentation and explanations for the journals could not be provided by management for audit purposes. This is a result of the municipality

not introducing a practice of reviewing the preparation of the annual financial statements and not retaining adequate records of the adjustments processed.

Non-submission of documentation

5. A significant number of accounting records and other source documents could not be provided for audit purposes, and the municipality does not prepare reconciliations for many of its accounts. This is as a result of the lack of internal controls including controls over information processing and retention of documentation. The non-submission of requested information is in contravention of section 74(1) of the MFMA, which states that the accounting officer must submit to the Auditor-General such information, returns, documents, explanations and motivations as may be prescribed or as may be required. Refer to paragraphs 6 to 57 below for specific instances of non-submission.

Accounts receivable

6. Accounts receivable was disclosed at R7.24 million net of provision for doubtful debts on the face of the balance sheet and in note 3 to the annual financial statements. A difference between the general ledger accounts and the amounts presented and disclosed per the annual financial statements resulted in accounts receivable being overstated by R757 188. No explanation or reconciliation could be provided for this difference.
7. As reported in the prior year, the municipality did not have sufficient and appropriate documentation in support of the OR Tambo water and sanitation debtor amounting to R1.69 million. The municipality's records did not permit the application of alternative audit procedures.
8. Provision for doubtful debts amounting to R3.58 million was not calculated in accordance with the municipality's credit control policy. The provision is only based on 50% of debtors greater than 90 days, however, the policy also requires a provision of 100% for debtors greater than 365 days. The debtors system does not keep an accurate age analysis record of debtors exceeding 90 days and therefore the value of the misstated provision could not be determined.
9. Due to the significance of the findings above, it was not possible to determine whether accounts receivable to the value of R7.24 million are recorded and disclosed at the correct amount on the face of the balance sheet and in note 3 to the annual financial statements. There were no alternative procedures I could perform in order to obtain further assurance over receivables.

Accounts payable

10. Accounts payable was disclosed at R5.95 million on the face of the balance sheet and in note 7 to the annual financial statements. A difference between the creditors amount per the annual financial statements and the general ledger, combined with unrecorded accruals resulted in accounts payable being understated by R2.24 million. No explanation or reconciliations could be provided for this difference.
11. The municipality does not maintain a creditor sub-ledger or accrual listing at year-end. Therefore a listing of accounts payable balances reconciled to the general

ledger could not be provided by the municipality for audit purposes. The municipality's records did not permit the application of alternative procedures.

12. The municipality could not provide sufficient and appropriate documentation in support of suspense accounts totaling R1.90 million. There were inadequate reconciliations and the accounting records did not permit the application of alternative procedures regarding these suspense accounts.
13. Furthermore, no supporting documentation was presented for a journal entry processed that effectively reduced accounts payable by R1.29 million.
14. Consequently, I was unable to confirm whether the accounts payable balance of R5.95 million as disclosed in the balance sheet and in note 7 to the annual financial statements is reflected at the correct amount. There were no alternative procedures I could perform in order to obtain further assurance over payables.

Value added tax (VAT)

15. The VAT control account contained a balance of R3.66 million that could not be reconciled and was not supported by appropriate documentation. The maintenance of the VAT accounts and the completion and submission of the VAT returns are prepared by consultants, however, monthly VAT reconciliations and returns could not be provided by the municipality.
16. An amount of R6.47 million that related to a refund of input VAT claimed was allocated to the incorrect account.
17. The VAT control account is not adequately maintained by the municipality and the above amounts could not be verified as there is no proper system for recording of VAT. Furthermore, my testing of expenditure noted that the municipality processed expenditure transactions inclusive of VAT which resulted in input VAT credits not being claimed from SARS. This has resulted in the VAT creditor being overstated by R1.16 million and expenditure being overstated by the same amount.
18. Based on the limitation of scope identified above, I am unable to verify that VAT has been correctly claimed from SARS and is accurately and completely recorded in the annual financial statements. Consequently, there were no alternative procedures I could perform in order to obtain further assurance over VAT.

Employee costs

19. The payroll system was not reconciled to the general ledger by the municipality during the year and therefore it was not possible to determine whether the monthly payroll was processed correctly in the general ledger.
20. There were no reconciliations performed for the PAYE, UIF, medical aid contributions and pension fund contributions accounts in the general ledger. I am therefore unable to determine whether all payments to these third parties totaling R6.12 million are accurate and complete.
21. Journal entries amounting to R3.08 million were processed without supporting documentation or explanations and instances were identified where journal entries were not approved prior to being processed.

22. Leave gratuity calculations were not provided to employees on the termination of their contracts nor were they submitted for audit purposes. This is in contravention of the MFMA and Basic Conditions of Employment Act.
23. Owing to the extent of shortcomings in respect of employee costs I could not gather sufficient appropriate evidence to confirm that employee costs disclosed at R18.65 million in note 15 to the annual financial statements are reflected at the correct amounts. There were no alternative procedures I could perform in order to obtain assurance over employee costs.

Property, plant and equipment

24. In terms of section 63 of the MFMA, the accounting officer is responsible for the assets of the municipality including their safeguarding and maintenance as well as maintaining a system that accounts for the assets. Adequate control was not exercised over property plant and equipment during the year under review due to the following:
 - The fixed asset register was not adequately maintained, as a result additions could not be verified. The disposals of fixed assets per the disposal listing were not removed from the fixed asset register and the profit or loss was not appropriately reflected in the general ledger. I was subsequently unable to confirm that all additions and disposed items of property, plant and equipment were correctly accounted for in the records of the municipality.
 - No reconciliation was prepared between the fixed asset register and the general ledger. There is a difference of R832 276 between the fixed assets as per the financial statements as prepared by the municipality and the trial balance as audited. Due to limitations placed on the scope of my work, I could not gather sufficient appropriate evidence to confirm that all property, plant and equipment was accurately accounted for.
25. The property, plant and equipment note 1 and the analysis of property, plant and equipment in the annual financial statements is not complete and inadequate in terms of the IMFO reporting requirements which require disclosure of fixed assets at the beginning of the year, capital expenditure during the year and assets written-off, transferred or disposed of during the year. In addition, the method of financing of the fixed assets was not reflected in the note or the analysis. The amount reflected in the analysis of property, plant and equipment does not agree with note 1 to the annual financial statements.
26. Due to limitations placed on the scope of my work and municipal records not permitting the application of alternative audit procedures, I could not gather sufficient appropriate evidence to confirm that property, plant and equipment exists, were recorded at the correct amounts and were completely identified and accounted for by management.

Cash and cash equivalents

27. Bank reconciliations were not prepared by the municipality for all bank accounts and I was thus unable to determine the reasons for the R8.90 million differences between amounts per the bank confirmations and amounts per the general ledger bank accounts.

28. Furthermore, the municipality processed material journal entries to ensure that the bank accounts per the general ledger agreed to the amounts per the bank statements at year-end. Support or explanations for these journals could not be provided for audit purposes and the substance of the journals was merely to reconcile the bank balances per the general ledger to that per the bank statements.
29. Consequently I could not gather sufficient appropriate evidence to confirm that cash and cash equivalents disclosed as R1.62 million on the face of the balance sheet and in note 9 to the annual financial statements are reflected at the correct amounts. There were no alternative procedures I could perform in order to obtain further assurance over cash and cash equivalents.

Funds and reserves

30. The following supporting documentation could not be provided by the municipality for audit purposes:
 - Supporting documentation for adjustments made to fund accounts in respect of prior year adjustments;
 - Supporting documentation relating to fund contributions received;
 - Supporting documentation to verify expenditure against funds;
 - Supporting documentation relating to journals processed against the fund accounts;
 - Supporting documentation for a prior year adjustment made to the accumulated surplus account as indicated in note 10 to the annual financial statements.
31. The Project Funds total in note 5.3 has been incorrectly cast as R3.47 million instead of the correct amount casted at R1.52 million. This amounts to a difference of R1.95 million which is a misstatement in the financial statements.
32. In addition there is a material overstatement of R4.09 million between the funds amount recorded in the general ledger and the confirmation received from the bank.
33. The comparative amount for the Mbongweni Fund in note 5.2 to the financial statements does not agree to the prior year financial statements. There is a difference of R1.60 million which is not substantiated.
34. Due to the significance of the findings above and limitations placed on the scope of my work, I could not gather sufficient appropriate evidence to confirm that funds and reserves as disclosed on the face of the balance sheet at R136 164 and R3.90 million respectively, are reflected at the correct amounts. The municipal records did not permit the application of alternative audit procedures over funds and reserves.

Short term investments

35. There is a difference of R1.45 million between the balance per the annual financial statements and the amounts per the bank statements at year-end. No explanations or reconciliations could be provided for this difference.
36. Furthermore, there was insufficient documentation and explanations in support of material journal entries amounting to R5.46 million that were processed against the short term investment accounts.
37. Owing to the extent of shortcomings in respect of short term investments, I could not gather sufficient appropriate evidence to confirm that short term investments disclosed at R2.15 million on the face of the balance sheet and in note 4 to the annual financial statements was disclosed at the correct amount. There were no alternative procedures that I could perform in order to obtain further assurance over investments.

Annual financial statements

38. The review of the annual financial statements revealed several instances of inconsistencies, mathematical inaccuracies and discrepancies with the audited prior year annual financial statements. There were also instances where the general ledger accounts did not agree to the trial balance and the audited current year annual financial statements. These differences have the effect that various components of the annual financial statements as well as notes and appendices were materially misstated.

Operating income

39. There is a difference of R7.23 million between the operating income per the annual financial statements and the general ledger accounts. This primarily relates to the refund of input VAT claimed that was allocated to the incorrect account.
40. Property transfers and sales lists were not provided by the municipality for audit purposes. Furthermore, there were inadequate controls over traffic fines resulting in the completeness of revenue not being confirmed.
41. The valuation roll used by the municipality has not been updated since the year 2000. Therefore the municipality is in contravention of s 32(1)(b) and s 77 of the Property Rates Act. A manual reconciliation between the rateable valuation as per the valuation roll and rates raised through the municipality's system was not performed during the year under review. Therefore it was not possible to ensure that the rates raised were accurate and complete.
42. Due to the limitations placed on the scope of my work and the significance of the findings highlighted above, I was unable to satisfy myself that operating income disclosed at R12.11 million in the Analysis of operating income and expenditure and notes 11, 12 and 14 to the annual financial statements are reflected at the correct amounts. Consequently, there were no alternative procedures I could perform in order to obtain further assurance over operating income.

Expenditure

43. It was noted that some expenses are recorded in the appropriate ledger accounts when payment of the expense is made and not when the invoice is received. This

has the effect of understating expenditure and accounts payable as creditors are not appropriately raised as and when necessary.

44. The municipality expenditure filing system did not function effectively, resulting in documents supporting expense payments amounting to R838 872 not being provided for audit purposes. Owing to the lack of supporting documentation no alternative procedures could be performed to obtain the required audit assurance.
45. Reference is also made to paragraph 14 that highlights the material overstatement of expenditure due to the non-allocation of VAT on expenses.
46. Capital expenditure amounting to R592 337 has been incorrectly included as operating expense in the income statement.
47. Expenditure per the annual financial statements is overstated by R8.42 million due to the difference between the expenditure recorded in the financial statements and the final trial balance.
48. Due to the significance of the findings above, it was not possible to verify whether general expenditure of R21.24 million are reflected at the correct amount on the Analysis of operating income and expenditure for the year ended 30 June 2009. There were no alternative procedures I could perform in order to obtain further assurance over expenditure.

Compliance with IMFO

49. According to the accounting policies the annual financial statements were prepared so as to conform to the standards laid down by the Institute of Municipal Treasurers and Accountants in its Code of Practice (1997). The preparation of these financial statements did not conform to these standards in the following instances:
 - The treasurer's report does not include capital expenditure split into capital expenditure per category of fixed assets, showing actual compared to budget.
 - No disclosure has been made in the treasurer's report of resources used to finance capital expenditure.
 - The Treasurer's report states that there are no external loans, investments and cash. This statement is in conflict with disclosures in the financial statements.
 - The accounting policy note refers to accumulated surplus and does not refer to accumulated deficit whereas there is an accumulated deficit.
 - There is no accounting policy indicating how leases are recognised and treated.
 - In the notes to the annual financial statements, there is no reconciliation in the note for property, plant and equipment; distinction between listed and unlisted investments; debtors written off; additional information on the installment sale loan accounts and there is insufficient information on the prior year adjustment.
 - There is no disclosure of auditors' remuneration in the notes to the annual financial statements.

- There is no disclosure of going concern in the notes to the annual financial statements.

Unauthorised expenditure

50. The municipality's actual expenditure has exceeded its budgeted expenditure in the annual financial statements by R13.44 million. This is due to a lack of proper monitoring of funds available for expenditure. Accordingly, there has been non-compliance with section 69 of the MFMA.
51. The identified unauthorised expenditure was not disclosed in the annual financial statements as required by section 125(2)(d) of the MFMA.

Irregular expenditure

52. Expenditure amounting to R1.32 million was incurred without obtaining the pre-requisite number of quotations, as required by the municipality's Supply Chain Management Policy.
53. The municipality has omitted disclosure of this irregular expenditure incurred during the financial year. This is contrary to section 125(2)(d) of the MFMA, which requires disclosure of irregular expenditure in the annual financial statements.

Fruitless and wasteful expenditure

54. The following were identified as fruitless and wasteful expenditure:
 - Consultants charged a commission of 25% (R1.61 million) on VAT recovered from SARS. The reconciliations, calculations and returns submitted to SARS were not handed to the municipality for authorising and record keeping. The municipality could not supply this documentation for audit purposes.
 - A consultant was contracted to perform the bank reconciliations and was paid R236 000. The municipality could not supply this documentation for audit purposes.
55. Fruitless and wasteful was not treated as prescribed by the MFMA, was not classified as such in the municipal accounting records and details were not disclosed in the annual financial statements as required by section 125(2)(d) of the MFMA.

Going concern

56. The financial statements have been prepared on the going concern basis which assumes that it will be able to meet its future obligations and commitments as it occurs in the ordinary course of business. However, certain matters have come to my attention which places uncertainty over the municipality's ability to continue as a going concern. The aforementioned factors include, inter alia, the following:
 - The collection of overdue amounts due to the municipality by customers remains a constant factor facing the municipality. There is no implemented

credit control or debt collection policy and there is no current or future plans for the recoverability of long outstanding debtors.

- Current assets expressed as a ratio to current liabilities has decreased from 2.71 in 2008 to 1.33 in 2009. This decrease combined with the fact that 66% of current assets consists of long outstanding debtors with doubtful recoverability, is a clear indication of deterioration in the liquidity of the municipality.
- The municipality has been incurring deficits in the last 3 years with the annual financial statements reporting a current year deficit of R8.06 million.
- The municipality is highly dependent on Grants and Subsidies which constitutes 76% of total income for the municipality. In the event that government grants decrease significantly, the municipality may not be able to continue rendering basic services to the local community.
- As a result of the above, the adverse effect on cash flows is expected to remain in the foreseeable future. The municipality will continue to rely on support from the government.

Comparative figures

57. A disclaimer audit opinion was issued on the annual financial statements of Ntabankulu Local Municipality for the financial years ended 30 June 2007 and 30 June 2008. I am unable to determine whether the opening balances in the general ledger are complete, valid or accurate and consequently I am unable to determine the effect this may have on the balances audited this year.

Disclaimer of opinion

58. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matter

I draw attention to the following matter on which I do not express a disclaimer of opinion:

Basis of accounting

59. The Municipality's policy is to prepare financial statements on the entity-specific basis of accounting, as set out in accounting policy note 1 to the financial statements.

OTHER MATTERS

I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements

Unaudited supplementary schedules

60. The supplementary information set out in pages [xx] to [xx] does not form part of the annual financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

Non compliance with applicable legislation

Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA)

- 61. The municipality did not maintain a proper fixed asset register as required by section 63(2)(c) of the MFMA.
- 62. The municipality did not have all the required information disclosed on its website as required by section 75(2) of the MFMA.
- 63. There was no disclosure of fruitless and wasteful, unauthorised and irregular expenditure as required by section 125(2)(d) of the MFMA.
- 64. The municipality has not adhered to its supply chain management policy as required by the Municipal Supply Chain Management Regulations.

Housing Act No. 107 of 1997

- 65. The municipality did not submit detailed statements, signed by the manager, showing the results of the previous year's transactions and the balance sheets in respect of the separate accounts to the accounting officer of the provincial housing board as required by the section 10(4)(f) of the Housing Act No. 107 of 1997.

Environment Conservation Act, 1989 (Act No. 73 of 1989)

- 66. Section 20(1)(a) of the Act states that "No person shall establish, provide or operate any disposal site without a permit issued by the Minister of Water Affairs and that the Minister may issue a permit subject to such conditions as he may deem fit." The municipality's landfill site is illegal as the municipality failed to obtain a permit for the site.

Value Added Tax Act, 1991 (Act No. 89 of 1991) (VAT)

- 67. The municipality did not keep and maintain the required records and documents as required by section 55 of the VAT Act and there was inadequate monitoring of VAT to ensure compliance with the VAT Act.
- 68. The municipality did not maintain an adequate audit trail for VAT recorded in the accounting records and no VAT 201 reconciliations were prepared.

Municipal Property Rates Act, 2004 (Act No. 6 of 2004).

- 69. The municipality has not yet adopted a property rates policy as required by section 3 of the Municipal Property Rates Act. This policy should be consistent with the Municipal Property Rates Act on the levying of rates on the rateable properties in the municipality.

Governance framework

70. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the internal control deficiencies and key governance responsibilities addressed below:

Internal control deficiencies

71. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the deficiencies in the system of internal control, which led to the disclaimer of opinion. The root causes are categorised according to the five components of an effective system of internal control. (The number listed per component can be followed with the legend below the table.) In some instances deficiencies exist in more than one internal control component.

Par. No.	Basis for disclaimer of opinion	CE	RA	CA	IC	M
4	Lack of supporting documentation for journal entries	5,6		4,5	1	1
5	Non-submission of information	5,6		4,5	1	1
6 - 9	Accounts receivable	5		6		
10 - 14	Accounts payable	5		6		3
15 - 18	Value added tax (VAT)	5		3,6		
19 - 23	Employee costs	5		4,5		1
24 - 26	Property, plant and equipment	5,7		3,6		
27 - 29	Cash and cash equivalents	5,7		6		
30 - 34	Funds and reserves	5,7		6,3		
35 - 37	Short term investments	5		6		1
38	Annual financial statements	7		6		1
39 - 42	Operating income	5,7		5,6		1
43 - 48	Expenditure	5		4		
49	Compliance with IMFO	5,7				1

50 - 55	Unauthorised, irregular, fruitless and wasteful expenditure	5,7				1
56	Going concern		3,4			
57	Comparative figures	5,6				1

72. The control environment was mostly affected by the inadequacy or non-existence of control activities. The effectiveness and functioning of internal controls were adversely affected by the organizational structure and capacity constraints within the municipality.

73. Inadequate supporting documentation for financial transactions resulted in a substantial amount of transactions being incorrectly classified, recorded in the incorrect periods and an overall lack of audit trail.

74. There is a general lack of control over the occurrence, authorisation, completeness and accuracy of transactions and journals processed.

75. There is a lack of monitoring and supervision to assess the effectiveness of internal control over financial reporting.

Legend	
CE = Control environment (ISA 315.14(b) and A69-A75)	
The organisational structure does not address areas of responsibility and lines of reporting to support effective control over financial reporting.	1
Management and staff are not assigned appropriate levels of authority and responsibility to facilitate control over financial reporting.	2
Human resource policies do not facilitate effective recruitment and training, disciplining and supervision of personnel.	3
Integrity and ethical values have not been developed and are not understood to set the standard for financial reporting.	4
The accounting officer/authority does not exercise oversight responsibility over financial reporting and internal control.	5
Management's philosophy and operating style do not promote effective control over financial reporting.	6
The entity does not have individuals competent in financial reporting and related matters.	7
RA = Risk assessment	
Management has not specified financial reporting objectives to enable the identification of risks to reliable financial reporting.	1
The entity does not identify risks to the achievement of financial reporting objectives.	2
The entity does not analyse the likelihood and impact of the risks identified.	3
The entity does not determine a risk strategy/action plan to manage identified risks.	4
The potential for material misstatement due to fraud is not considered.	5
CA = Control activities	
There is inadequate segregation of duties to prevent fraudulent data and asset misappropriation.	1
General information technology controls have not been designed to maintain the integrity of the information system and security of the data.	2
Manual or automated controls are not designed to ensure that the transactions occurred, are authorised, and are completely and accurately processed.	3
Actions are not taken to address risks to the achievement of financial reporting objectives.	4
Control activities are not selected and developed to mitigate risks over financial reporting.	5
Policies and procedures related to financial reporting are not established and communicated.	6
Realistic targets are not set for financial performance measures, which are in turn not linked to	7

an effective reward system.	
IC = Information and communication	
Pertinent information is not identified and captured in a form and time frame to support financial reporting.	1
Information required to implement internal control is not available to personnel to enable internal control responsibilities.	2
Communications do not enable and support the understanding and execution of internal control processes and responsibilities by personnel.	3
M = Monitoring	
Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.	1
Reviews by internal audit, the audit committee or self-assessment are not evident.	2
Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.	3

Key governance responsibilities

76. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.		✓
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material amendments resulting from the audit.		✓
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.		✓
Timeliness of financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines per section 126 of the MFMA.	✓	
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.		✓
Development and compliance with risk management, effective internal control and governance practices			
6.	Audit committee		
	<ul style="list-style-type: none"> The Ntabankulu Municipality had an audit committee in operation throughout the financial year. 		✓
	<ul style="list-style-type: none"> The audit committee operates in accordance with approved, written terms of reference. 	✓	
	<ul style="list-style-type: none"> The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA. 		✓
7.	Internal audit		
	<ul style="list-style-type: none"> The Ntabankulu Municipality had an internal audit function in operation throughout the financial year. 	✓	

No.	Matter	Y	N
	<ul style="list-style-type: none"> The internal audit function operates in terms of an approved internal audit plan. The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA. 	✓	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		✓
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		✓
10.	The information systems were appropriate to facilitate the preparation of the financial statements.		✓
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(c)(i)/95(c)(i) of the MFMA.		✓
12.	Delegations of responsibility are in place, as set out in section 79/106 of the MFMA.	✓	
Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.		✓
14.	SCOPA resolutions have been substantially implemented.	n/a	n/a
Issues relating to the reporting of performance information			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.		✓
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		✓
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Ntabankulu Municipality against its mandate, predetermined objectives, outputs, indicators and targets [section 68/87 of the MFMA (municipalities)].		✓
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.		✓

77. Management's attention is specifically drawn to the key governance responsibilities which, according to the table above, have not been effectively addressed.
78. The organisational structure and financial systems at Ntabankulu Municipality did not support proper recording and monitoring of accounting transactions. This weakness also affected the availability of a proper audit trail and the ability of the financial section to provide documentation in a timely manner.
79. Undue reliance had to be placed on consultants for the preparation of the financial statements as well as the preparation of monthly reconciliations. This is primarily due to the capacity constraints as well as the lack of skill and competencies within the Finance area.
80. No Performance Audit Committee was established and the audit committee did not review performance information as this oversight function was not in operation throughout the entire financial year.
81. Deficiencies in the design and implementation of internal controls were identified. Regular risk assessments were not performed while a fraud prevention plan was not implemented at the municipality. Prior year audit findings were not addressed.

Investigations

82. There are no known investigations being conducted against the municipality or its officials.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

83. I have reviewed the performance information as set out on pages [xx] to [xx].

The accounting officer's responsibility for the performance information

84. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

The Auditor-General's responsibility

85. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.

86. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

87. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit findings (performance information)

Non-compliance with regulatory requirements

Existence and functioning of a performance audit committee

88. The Ntabankulu Local Municipality did not appoint and budget for a performance audit committee, nor was another audit committee utilised as the performance audit committee, as required by regulation 14(2) of the Municipal Planning and Performance Management Regulations, 2001.

Lack of adoption or implementation of a performance management system

89. The Ntabankulu Local Municipality did not implement a framework that describes and represents how the municipality's performance management system works with respects to planning, monitoring of and reporting on performance against targets, including determining the roles of the different role players, as required

in terms of regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

Usefulness and reliability of reported performance information

90. The following criteria were used to assess the usefulness and reliability of the information on the municipality's performance with respect to the objectives in its integrated development plan:

- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan?
- Relevance: Is the performance information as reflected in the indicators and targets clearly linked to the predetermined objectives and mandate. Is this specific and measurable, and is the time period or deadline for delivery specified?
- Reliability: Can the reported performance information be traced back to the source data or documentation and is the reported performance information accurate and complete in relation to the source data or documentation?

The following audit findings relate to the above criteria:

Inconsistency reported performance information

91. The Ntabankulu Local Municipality did not report on all the targets and priorities as per the approved integrated development plan.

Reported performance information not relevant

92. The targets with regard to all of the objectives were not:

- specific in clearly identifying the nature and the required level of performance
- measurable in identifying the required performance
- time bound in specifying the time period or deadline for delivery.

Reported performance information not reliable

Lack of appropriate information systems generating performance information

93. Sufficient appropriate audit evidence with regard to the reported performance information of the objectives could not be obtained, as the information system used for generating performance information was not appropriate to ensure that the reported information was accurate and that all the information was included.

Source information not accurate and complete

94. The information to support the actual reported performance was not accurate and complete.

APPRECIATION

95. The assistance rendered by the staff of the Ntabankulu Local Municipality during the audit is sincerely appreciated.

East London

23 March 2010



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