

**REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL
LEGISLATURE AND THE COUNCIL ON KING SABATA DALINDYEBO MUNICIPALITY
REPORT ON THE FINANCIAL STATEMENTS**

Introduction

1. I was engaged to audit the financial statements of the King Sabata Dalindyebo Municipality, which comprise the statement of financial position as at 30 June 2012, the statements of financial performance, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, and the accounting officer's report, as set out on pages ... to

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 South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011 as amended) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Unauthorised expenditure

4. Unauthorised expenditure of R16,1 million (2011: R1,5 million) is disclosed in disclosure note 41 to the financial statements. The following findings relate to this note:
5. Expenditure amounting to R164 million (2011: R3,2 million) was identified during my audit which was not authorised as it exceeded the budget. This was not disclosed in the financial statements and as a result unauthorised expenditure is understated by this amount. Furthermore there were numerous errors within the accounting records which impacts on the calculation of this amount and no evidence was provided to support the condonement of the unauthorised expenditure of R1,5 million. There were no satisfactory alternative procedures I could perform to determine the unauthorised expenditure.
6. The unauthorised expenditure disclosure note refers to non-cash items that were excluded when determining the unauthorised expenditure. The depreciation disclosed as R61,9 million and impairments disclosed as R5,5 million in respect of this does not agree to note 8 to the financial statements where depreciation is disclosed as R88,6 million and the impairment loss as disclosed as R96,6 million.
7. As a result of the above, I am unable to conclude on the full extent of the unauthorised expenditure incurred during the year and if any further adjustments were necessary to this disclosure note.

Irregular expenditure

8. The municipality did not have adequate systems in place to prevent, identify and disclose all irregular expenditure incurred during the year as required by section 62(1)(d) of the MFMA. The irregular expenditure disclosed in note 43 to the financial statements is understated in respect of amounts incurred during the year that were identified during the audit process of R118,5 million (2011: R70,6 million). Due to the lack of systems and lack of sufficient appropriate audit evidence for awards, it was impracticable to determine the full extent of the understatement of irregular expenditure disclosed at R16,6 million (2011: R59,7 million).
9. In addition to the above, no evidence was provided to support the condonement of the irregular expenditure of R59,7 million as disclosed in note 43 to the financial statements.
10. Consequently, I was unable to determine whether any further adjustments were necessary to the irregular expenditure disclosure note.

Property, plant and equipment

11. Property, plant and equipment with a carrying value of R1,5 billion (2011: R1,5 billion) is disclosed in note 8 to the financial statements and statement of financial position. Included in this amount is Land and Buildings with a carrying value of R390,6 million (2011: R342,3 million), Infrastructure of R571,6 million (2011: R693,3 million), Community assets of R344,1 million (2011: R339,2 million), Other property, plant and equipment of R8 million (2011: R5,5 million) and Work in progress of R171 million (2011: R88,7 million). The following are the findings that relate to this note:
12. Land and Buildings to the value of R72,8 million and Infrastructure (Roads) to the value of R3,9 million which were included in the municipality's records in the previous years have subsequently been removed from the asset register. There was no evidence provided to me to indicate that the removal of these assets had been authorised by Council and National Treasury.
13. During the year under review the municipality fair valued their infrastructure assets in line with GRAP 17: *Property, plant and equipment*. The following are errors that have been identified in respect of the resulting adjustments made to the accounting records:
 - The municipality used the depreciated replacement cost for the valuation of Infrastructure assets (Electricity) and I was not presented with sufficient appropriate audit evidence to support the replacement costs used in the valuation of these assets. Furthermore, I am unable to obtain sufficient appropriate audit evidence for the costs per unit of items used in the fair valuing of Infrastructure assets (Roads).
 - Impairment loss/reversal of impairments of R90,3 million (2011: R11,6 million) is disclosed in the statement of financial performance. This amount does not agree to the amount disclosed in note 8 to the financial statements of R96,6 million (2011: R nil). Due to the limitations described above, I was unable to determine which amount is correct.
 - The fair value adjustment of R75 million (2011: R50,2 million) disclosed in note 8 to the financial statements does not agree to the amount disclosed in the statement of changes in net assets of R68,7 million (2011: R61,8 million).
 - There is a reclassification error in note 8 to the financial statements where the fair value adjustment is overstated by R6,3 million (2011: R11,6 million) and impairment loss is understated by R6,3 million (2011: R11,6 million).
14. No supporting documentation was provided to satisfy myself for the valuation of Work in progress of R171 million (2011: R88,7 million). There were no alternate audit procedures that I could perform as the contract register, commitments register and tender register was incomplete.

15. The municipality did not submit sufficient appropriate audit evidence for journal entries recorded in the accounting records amounting to R9,2 million in relation to Property plant and equipment.
16. As a result of the above, I am unable to perform any alternative procedures in these circumstances and consequently, I was unable to determine whether any adjustments are required to Property, plant and equipment as disclosed in note 8 to the financial statements of R1,5 billion (2011: R1,5 billion), depreciation of R88,6 million (2011: R77,9 million) disclosed in note 8 and 27 and impairment loss of R96,6 million (2011: R nil) disclosed in note 8 to the financial statements.

Property Rates revenue

17. Property rates revenue of R128,5 million (2011: R122,6 million) as disclosed in note 19 to the financial statements is based on the general valuation which does not reconcile to the municipality's billing system. Furthermore, properties have been captured onto the billing system at incorrect values and 118 properties were identified on the supplementary valuation roll which had zero values.
18. As a result of the above, I was unable to confirm the revenue from property rates by alternative means. Consequently, I could not determine whether any adjustments to property rates revenue were necessary.
19. I was unable to confirm the Other receivables and Revenue balances by alternative means. Consequently, I was unable to determine whether any further adjustments to Other receivables and Revenue in the financial statements were necessary.

Licences and permits revenue

20. Sufficient appropriate audit evidence was not submitted to support revenue from licences and permits of R11 million (2011: R10,1 million) as disclosed in note 18 to the financial statements.
21. As a result of the above, I was unable to confirm the revenue from Licences and permits by alternative means. Consequently, I could not determine whether any adjustments to Licences and permits revenue were necessary.

VAT receivable

22. VAT receivable of R5,6 million (2011: R18,7 million) is disclosed in the statement of financial position and in note 6 to the financial statements. Sufficient appropriate audit evidence was not submitted for journals amounting to R2,1 million and for amounts reflected on VAT returns of R24,5 million which did not agree to amounts reflected in the general ledger. Furthermore, VAT refunds to the value of R6 million have been disallowed by the South African Revenue Service (SARS) as disclosed in note 6 to the financial statements. There were no satisfactory alternative audit procedures that I could perform in these circumstances. Consequently, I could not determine whether any further adjustments to VAT receivable is necessary.

Other receivables from non-exchange transactions

23. Other receivables from non-exchange transactions is disclosed in note 4 to the annual financial statements to the amount of R12,7 million. Sufficient appropriate audit evidence could not be provided in respect of this balance. The municipality's records did not permit me to perform alternative audit procedures. Consequently, I could not determine whether any further adjustments to this balance was necessary.

Unspent conditional grants and receipts

24. Unspent conditional grants is disclosed in note 15 to the financial statements and the statement of financial position. The municipality did not submit service level agreements for conditional grants amounting to R23,8 million. Furthermore, adequate

supporting documentation was not submitted for journals to the value of R9 million. I could not determine by alternative means if the conditional grants were correctly accounted for in terms of *GRAP 23: Revenue from non-exchange transactions* or to determine if the grants were used for their intended purposes. Consequently, I could not determine whether any adjustments were necessary to unspent conditional grants of R81,5 million (2011: R69,4 million) as disclosed in note 15 to the financial statements.

Commitments

25. Approved and contracted for commitments and approved but not yet contracted for commitments are disclosed in note 35 to the financial statements of R87,3 million (2011: R86,5 million) and R60,8 million (2011: R21,5 million) respectively. The municipality did not have a contract management system in place for the identification and recognition of contracted commitments. Sufficient appropriate audit evidence was not available for the commitments disclosed. I was unable to confirm this disclosure by alternative means. In addition, differences were identified between the commitment schedule and supporting documentation for capital commitment projects resulting in an overstatement of R42,3 million.
26. As a result of the above, there were no satisfactory alternative audit procedures that I could perform in these circumstances. Consequently, I was unable to determine whether any further adjustments to the commitments disclosure note is necessary.

Provisions

27. Provisions of R26,3 million (2011: R21,8 million) is disclosed in the statement of financial position and in note 16 to the financial statements. Management did not provide sufficient appropriate audit evidence for the exclusion of a provision for a landfill site which was disclosed in the prior year. Furthermore, sufficient appropriate audit evidence was not available to support the unit costs used in the calculation of this provision for the current year. There were no satisfactory alternative audit procedures that I could perform in these circumstances. Consequently, I was unable to determine whether any further adjustments to provisions were necessary.

General Expenses

28. General expenses of R113,7 million (2011: R83,6 million) is disclosed in the statement of financial performance and in note 32 to the financial statements. The municipality incorrectly recorded general expenses exclusive of VAT on transactions for which the municipality could not claim VAT.
29. Included in general expenses is lease rental for R29,6 million (2011: R15 million). There was insufficient appropriate audit evidence submitted to determine if the municipality had accounted for finance leases and operating leases correctly in line with *GRAP 13: Leases*.
30. There were no satisfactory alternative audit procedures that I could perform in these circumstances. Consequently, I was unable to determine whether any further adjustments were necessary to general expenses as disclosed in the statement of financial performance and Property, plant and equipment as disclosed in the statement of financial position.

Trade and other payables from exchange transactions

31. Trade and other payables from exchange transactions is disclosed in note 13 to the financial statements and in the statement of financial position of R100,2 million (2011: R88.2 million). The following are the findings that relate to Trade and other payables from exchange transactions:

32. There are suspense accounts for uncleared deposits of R1,4 million (2011: R2,4 million). The effect of these transactions on the classes of transaction or balances in the financial statements could not be determined as sufficient appropriate audit evidence was not submitted in support of these balances.
33. Sufficient appropriate audit evidence was not submitted in support of the accruals of R17,5 million (2011: R37,7 million) as disclosed in note 13 to the financial statements. Even after performing alternative audit procedures, sufficient appropriate audit evidence was not obtained to verify if all accruals have been properly recorded.
34. As a result of the above, there were no satisfactory alternative audit procedures that I could perform in these circumstances. Consequently, I was unable to determine whether any further adjustments were necessary to Trade and other payables from exchange transactions.

Consumer deposits

35. Consumer deposits of R1,6 million (2011: R1,3 million) is disclosed in note 14 to the financial statements and the statement of financial position. The municipality's credit control and debt collection by-law requires that a consumer deposit as prescribed by Council be paid once a consumer applies for the provision of municipal services. Sufficient appropriate audit evidence was not submitted in support of amount recorded in the municipal records and there were no satisfactory alternative audit procedures that could be performed in these circumstances. Consequently, I was unable to determine whether any further adjustments were necessary to consumer deposits.

Contingent Liabilities

36. Contingent liabilities of R417,3 million (2011: R412,6 million) are disclosed in note 37 to the financial statements. Independent third party legal confirmations were received however, the amounts per these confirmations differed to the amounts disclosed for claims against the municipality in the financial statements. I was unable to confirm if contingent liabilities is disclosed accurately by alternative means. Consequently, I was unable to determine whether any adjustments to contingent liabilities were necessary.

Employee related costs

37. Employee related costs of R226,4 million are disclosed in note 25 to the financial statements. Sufficient appropriate audit evidence was not submitted to support the differences between the payroll and the general ledger. Furthermore, the municipality did not submit adequate supporting documentation for allowances paid to salaried employees and payments made to contract workers. I was unable to confirm the employee related costs by alternative means. Consequently, I was unable to determine whether any further adjustments to employee related costs were necessary.

Revaluation reserve

38. The revaluation reserve of R130,5 million (2011: R61,8 million) is disclosed in the statement of changes in net assets. This reserve could not be verified as the balance at the beginning of the financial year was eliminated against accumulated surplus and sufficient appropriate audit evidence was not submitted in respect of this. There were no satisfactory alternative audit procedures that I could perform in these circumstances and was therefore unable to determine if the revaluation reserve requires any further adjustments.

Accumulated surplus

39. The accumulated surplus of R1,5 billion (2011: R1,5 billion) is disclosed in the statement of net assets and in note 17 to the financial statements. Due to the lack of sufficient appropriate audit evidence for journals for prior year misstatements and the

limitations of scope paragraphs reported above it was not possible to determine whether any further adjustments to the accumulated surplus is necessary and there were no satisfactory alternative audit procedures that I could perform in these circumstances.

Cash flow statement

40. *GRAP: Framework for the Preparation and Presentation of Financial Statements* prescribes that an essential quality of the information provided in financial statements is that it is readily understandable by users. Included in cash flows from financing activities in the cash flow statement is Repayment of borrowings of R7,8 million (2011: R1,5 million) which should be disclosed as Increase in borrowings.

Other corresponding figures

41. The auditor's report for the year ended 30 June 2011 contained a disclaimer of opinion on the financial statements as a whole due to a limitation on the scope of the audit. The matters which gave rise to the limitation, as described below, remain unresolved in the current year.
42. The municipality could not provide sufficient appropriate evidence regarding:
- Conditional grants – capital (National Municipal Infrastructure Grant) of R4,5 million included in the disclosed amount of R210,5 million in the statement of financial performance and note 22
 - Interest received on the outstanding receivable of R22 million included in the disclosed amount of R27,7 million in the statement of financial performance and note 23
 - Revenue from fines of R1,9 million included in the disclosed amount of R1,9 million in the statement of financial performance
 - Rental of facilities and equipment of R2,8 million included in the disclosed amount of R12,3 million in the statement of financial performance and note 21
 - Services charges of R2,9 million included in the disclosed amount of R205,9 million in the statement of financial performance and note 20
 - Debt impairment of R1,2 million included in the disclosed amount of R52,4 million in the statement of financial performance
 - Grants and subsidies expenditure of R9,6 million included in the disclosed amount of R21,3 million in the statement of financial performance and note 31
 - Repairs and Maintenance of R8,1 million included in the disclosed amount of R29,9 million in the statement of financial performance
 - General expenses of R3,5 million included in the disclosed amount of R83,7 million in the statement of financial performance and note 32
 - Inventories of R358 000 included in the disclosed amount of R358 000 in the statement of financial position and note 5
 - Other deposits of R556 000 included in the disclosed amount of R556 000 in note 13
 - Trade and receivables of R7,9 million included in the disclosed amount of R83,2 million in the statement of financial position and note 3
 - Present value of estimated future cash flows of the Trade and receivables of R81,1million in the disclosed amount of R83,2 million in the statement of financial position and note 3
 - Accrued leave pay of R17,1 million in the disclosed amount of R17,1 million in note 13

- Accruals of R13,4 million in the disclosed amount of R33,7 million in note 13
43. I was unable to confirm or verify these amounts by alternative means and as a result I was unable to determine whether any further adjustments were necessary to the above mentioned amounts.

Aggregation of immaterial uncorrected misstatements

44. The financial statements as a whole are materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following elements making up the statement of financial position, and the statement of financial performance, and the notes to the financial statements:
- Revenue reflected as R734,8 million in the statements of financial performance and note 18 are overstated by R1,7 million
 - Expenditure reflected as R777,7 million in the statements of financial performance are overstated by R141 000
 - Current assets reflected as R308,5 million in the statements of financial position are overstated by R648 000
 - Non-current liabilities reflected as R84,3 million in the statements of financial position are understated by R257 000
 - Current liabilities reflected as R190,5 million in the statements of financial position are understated by R911 000

In addition, I was unable to obtain sufficient appropriate audit evidence and I was unable to confirm or verify the following elements by alternative means.

- Revenue of R3,6 million included in the disclosed amount of R734,8 million in the statement of financial performance and note 18
- Expenditure of R5,8 million included in the disclosed amount of R777,7 million in the statement of financial performance
- Current assets of R3 million included in the disclosed amount of R308,5 million in the statement of financial position
- Current liabilities of R3,1 million included in the disclosed amount of R190,5 million in the statement of financial position
- Fruitless and Wasteful expenditure of R1,2 million included in the disclosed amount of R1,2 million in note 42

As a result, we were unable to determine whether any further adjustments to these elements were necessary.

Management representation letter

45. The accounting officer did not submit a management representation letter confirming that management fulfilled its responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation, as set out in the terms of the audit engagement. It has further not been confirmed that management have provided me with all relevant information and access as agreed in the terms of the audit engagement and that all transactions have been recorded and are reflected in the financial statements. I am unable to confirm the above by alternative means. Consequently, I am unable to determine the possible effects of non-compliance with the above on the financial statements.

Disclaimer of opinion

46. 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 matters

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

Restatement of corresponding figures

48. As disclosed in note 49 to the financial statements, material adjustments were made to the corresponding figures as at 30 June 2011. The account balances, classes of transactions and disclosures have been restated due to errors identified in the prior year audit and this is included in the corresponding figures.

Material losses/ Impairments

49. Electricity distribution losses of 11.5% (2011: 6.5%) are disclosed in note 45 to the financial statements. This represents a loss of R22,8 million (2011: R12,2 million).
50. Disclosed in the statement of financial performance is a material impairment to trade and other receivables from exchange transactions amounting to R22,1 million. This is the movement in the Provision for doubtful debts.

Councillor's accounts in arrears

51. As disclosed in note 47 to the financial statements, councillors accounts are in arrears to the amount of R188 000 (2011: R378 000).

Error in appendices

52. Borrowings of R65 million (2011: R57, 2 million) is disclosed in note 11 to the financial statements. This amount disclosed does not agree to the amount disclosed in Appendix A to the financial statements of R65,3 million (2011: R57,6 million).

Additional matters

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

Withdrawal from the audit engagement

54. The numerous misstatements identified in the financial statements are indicative of potential fraud which calls into question the reliability of evidence obtained and the genuineness of the accounting records and documentation. But for the legislated requirement to perform the audit of municipality, I would have withdrawn from the engagement in terms of the ISAs.

Unaudited supplementary information

55. The supplementary information set out on pages ... to ... does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

56. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.

57. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury Framework for managing programme performance information (*FMPPI*).

The reliability of the information in respect of the selected programmes is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

58. The material findings are as follows:

Usefulness of information

59. The National Treasury Guide for the preparation of the annual report requires that explanations for major variances between the planned and reported (actual) targets should be provided in all instances and should also be supported by adequate and reliable corroborating evidence. Adequate and reliable corroborating evidence could not be provided for 100% of the explanations for major variances disclosed in the annual performance report. The institution's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the validity, accuracy and completeness of the reasons for major variances.
60. The Municipal Systems Act (MSA), section 41(c) requires that the integrated development plan should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. A total of 40% of the reported objectives, 79% of the reported indicators and 83% of the reported targets are not consistent with the objectives, indicators and targets respectively as per the approved annual performance report. This was due to the fact that management was aware of the requirements of the *FMPPI* but did not receive the necessary training to enable application of the principles.
61. The National Treasury *FMPPI* requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 82% of the targets relevant to Infrastructure, Human Settlements and Local Economic Development were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was aware of the requirements of the *FMPPI* but did not receive the necessary training to enable application of the principles.
62. The National Treasury *FMPPI* requires that performance targets be measurable. The required performance could not be measured for a total of 82% of the targets relevant to Infrastructure, Human Settlements and Local Economic Development. This was due to the fact that management was aware of the requirements of the *FMPPI* but did not receive the necessary training to enable application of the principles.
63. The National Treasury *FMPPI* requires that the time period or deadline for delivery be specified. All of the targets relevant to Infrastructure, Human Settlements and Local Economic Development were not time bound in specifying a time period or deadline for delivery. This was due to the fact that management was aware of the requirements of

the *FMPPI* but did not receive the necessary training to enable application of the principles.

64. The National Treasury *FMPPI* requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. All of the indicators relevant to Infrastructure, Human Settlements and Local Economic Development were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was aware of the requirements of the *FMPPI* but did not receive the necessary training to enable application of the principles.
65. The National Treasury *FMPPI* requires that it must be possible to validate the processes and systems that produce the indicator. A total of 77% of the indicators relevant to Infrastructure, Human Settlements and Local Economic Development were not verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to the fact that management was aware of the requirements of the *FMPPI* but did not receive the necessary training to enable application of the principles.

Reliability of information

66. The National Treasury *FMPPI* requires that documentation addressing the systems and processes for identifying, collating, verifying and storing information be properly maintained. The municipality could not provide sufficient appropriate evidence to support the actual performance reported for human settlements, infrastructure and local economic development. The municipality's records did not permit the application of alternative procedures regarding the validity, accuracy and completeness of the reported performance information. I was thus unable to obtain sufficient, appropriate audit evidence to satisfy myself as to the validity, accuracy and completeness of the actual performance reported in the annual performance report. This was due to the lack of a performance and document management system.

Additional matter

67. I draw attention to the matter below. This matter does not have an impact on the audit findings on predetermined objectives reported above.

Achievement of planned targets

68. Only 41% of the planned targets were achieved during the year under review. This was as a result of the institution not considering relevant systems and evidential requirements during the annual strategic planning process.

Compliance with laws and regulations

69. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Strategic management and performance management

70. The municipality did not afford the local community at least 21 days to comment on the final draft of its integrated development plan before the plan was submitted to council for adoption, as required by regulation 15(3) of the Municipal planning and performance management regulations.

Budgets

71. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.
72. Sufficient appropriate audit evidence could not be obtained to confirm whether quarterly reports were submitted to the council on the implementation of the budget and financial state of affairs of the municipality within 30 days after the end of each quarter, as required by section 52(d) of the Municipal Finance Management Act.
73. Monthly budget statements were not submitted to the relevant provincial treasury as required by section 71(1) of the MFMA.

Annual financial statements, performance and annual report

74. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors were not adequately corrected, which resulted in the financial statements receiving a disclaimer of opinion.
75. The accounting officer did not make the 2010/11 annual report public immediately after the annual report was tabled in the council, as required by section 127(5)(a) of the MFMA.
76. The municipal council did not adopt an oversight report, containing comments on the annual report, within two months from the date on which the 2010/11 annual report was tabled, as required by section 129(1) of the MFMA.
77. The accounting officer did not make public the council's oversight report on the 2010/11 annual report within seven days of its adoption, as required by section 129(3) of the MFMA.

Audit committees

78. An audit committee was not fully functional throughout the financial period, as required by section 166(1) of the MFMA.
79. The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA .
80. The audit committee did not submit at least twice during the financial year an audit report on the review of the performance management system to the council, as required by Municipal Planning and Performance Management Regulation 14(4)(a)(iii).
81. Sufficient appropriate audit evidence could not be obtained to confirm the appointment of the audit committee by the municipal council, as required by section 166(5) of the MFMA.

Procurement and contract management

82. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) & (c).
83. Quotations were accepted from prospective providers who are not registered on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy in contravention of SCM regulation 16(b) and 17(b).
84. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids as per the requirements of SCM regulation 19(a) and 36(1).
85. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R200 000 were procured by means of inviting competitive bids as required by SCM regulation 19(a).

86. Bid specifications were not always drafted by bid specification committees which were composed of one or more officials of the municipality as required by SCM regulation 27(3).
87. The preference point system was not applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act (PPPFA) and SCM regulation 28(1)(a).
88. Quotations were awarded to bidders based on preference points that were not allocated and calculated in accordance with the requirements of the PPPFA and its regulations.
89. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
90. Construction contracts were awarded to contractors that were not registered with the Construction Industry Development Board (CIDB), in accordance with section 18(1) of the CIDB Act.
91. Construction projects were not always registered with the CIDB, as required by section 22 of the CIDB Act and CIDB regulation 18.
92. Sufficient appropriate audit evidence could not be obtained that contract and quotations were only awarded to providers whose tax matters have been declared by the South African Revenue Service to be in order as required by SCM regulation 43.
93. Awards were made to providers who are persons in service of other state institutions, in contravention of SCM regulations 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).
94. Appropriate action was not taken against officials and role player in the supply chain management system where investigations proved improper conduct and failure to comply with the supply chain management system, as required by SCM regulation 38(1)(b).
95. The prospective providers list for procuring goods and services through quotations was not updated at least quarterly to include new suppliers that qualify for listing as per the requirements of SCM regulation 14(1)(a)(ii).
96. The municipality did not implement an SCM policy as required by section 111 of the MFMA.

Human resource management

97. Sufficient appropriate audit evidence could not be obtained to confirm whether the acting positions of the municipal manager and senior managers that exceeded 3 months was approved for an extension of three months by the MEC local government, as required by section 54A(2A)(a) and 56(1)(c) of the MSA.
98. Sufficient appropriate audit evidence could not be obtained to confirm that the municipal manager developed a staff establishment and submitted it for approval to the municipal council, as required by section 66(1)(a) of the MSA.
99. Sufficient appropriate audit evidence could not be obtained to confirm that the competencies of the financial and supply chain officials were assessed in the current year in order to identify and address gaps in competency level, as required by regulation 13 of the Regulations on Minimum Competency Levels.
100. Sufficient appropriate audit evidence could not be obtained to confirm that the municipality submitted a consolidated report on compliance with prescribed competency levels by 30 January and 30 July to the national treasury and relevant provincial treasury, as required by regulation 14(2)(a) of the Regulations on Minimum Competency Levels.

101. Sufficient appropriate audit evidence could not be obtained to confirm that the annual report of the municipality reflected the information on compliance with prescribed minimum competency as at the end of the financial year to which it relates, as required by regulation 14(2)(b) & (3) of the Regulations on Minimum Competency Levels.
102. Sufficient appropriate audit evidence could not be obtained to confirm that the municipal manager and senior managers signed an annual performance agreement within one month after the beginning of financial year (31 July) or within 60 days after being appointed, as required by section 57(2)(a) of the MSA.
103. Sufficient appropriate audit evidence could not be obtained to confirm whether the municipal manager, chief financial officer, senior manager or head of supply chain met the minimum competency levels, and the attainment of such competency levels were included in their performance agreements as a performance target, as required by regulation 16(2) (GNR 493) of the Regulations on Minimum Competency Levels.
104. Sufficient appropriate audit evidence could not be obtained to confirm whether the financial or supply chain management officials attained the minimum competency levels and the attainment of such competency levels were included in their performance agreements as a performance target, as required by regulation 16(1) (GNR 493) of the Regulations on Minimum Competency Levels.
105. Sufficient appropriate audit evidence could not be obtained to confirm that the municipal manager and senior managers signed an annual performance agreement within one month after the beginning of financial year (31 July) or within 60 days after being appointed, as required by section 57(4B) of the MSA and regulation 8 (GNR 805) of the Municipal Performance Regulations.

Expenditure management

106. The accounting officer did not take effective steps to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
107. Sufficient appropriate audit evidence could not be obtained to confirm whether irregular expenditure was recovered from the liable person, as required by section 32(2) of the MFMA.

Revenue management

108. Revenue received was not always reconciled on a weekly basis, as required by section 98(a) of the MFMA.
109. An adequate management, accounting and information system was not in place which accounted for debtors, as required by section 64(2)(e) of the MFMA.

Asset management

110. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
111. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Financial misconduct

112. Sufficient appropriate audit evidence could not be obtained to verify that investigations were instituted into all allegations of financial misconduct against officials, as required by section 171(4)(a) of the MFMA.
113. Sufficient appropriate audit evidence could not be obtained to verify that disciplinary proceedings were instituted against officials, when investigations warranted such a step, as required by section 171(4)(b) of the MFMA.

Conditional grants

114. The municipality did not submit the project implementation plans to the national department (CoGTA), as required by the Division of Revenue Grant Framework, Gazette No.34280.

Internal control

115. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

116. Leadership did not take its oversight responsibilities regarding the implementation and monitoring of internal controls as well as compliance with laws and regulations seriously. This was due to lack of commitment and accountability. This resulted in inaccurate, incomplete and inadequate financial and performance reporting
117. Leadership has not appropriately assigned responsibilities and accountability, which resulted in inadequate monitoring of the audit action plan for prior year audit findings and having repeat findings. The monitoring of the requests for information and responses to our audit findings raised during the audit was also not adequate. The municipality has a culture of not holding individuals accountable for non and or poor performance.
118. There is lack of leadership and accountability in the SCM unit. This unit is run by staff members who are employed on a temporary basis. These staff members lack knowledge of the SCM policy and regulations.
119. The municipality did not have key controls to address the systems of collection, collation, verification and storage of performance information. Sufficient supporting documentation could not be provided to support the data recorded in the performance report and this resulted in a limitation of scope on the audit.

Financial and performance management

120. The financial statements and performance report are not supported by complete, relevant and accurate information. Records management is inadequate and not systematically and regularly monitored by management to ensure that information is easily retrievable and available for audit purposes. This is mainly attributed to lack of delegation of duties within the municipality.
121. The municipality did not exercise adequate controls over daily and monthly processing and reconciling of transactions as certain significant accounts and schedules were not performed timeously or could not be provided for the audit.
122. The municipality lacked operational financial management and leadership for the major part of the reported period. This is to a large extent attributable to the post of the Accounting Officer, Chief Financial Officer and General Manager: Expenditure being vacant for 8, 11 and 12 months of the financial year respectively. The General Manager: Revenue was acting as CFO and fulfilling his position as well.
123. The municipality does not have processes in place to ensure compliance with laws and regulations and has therefore failed to monitor and address non-compliance with the requirements of the MFMA, in a timely manner.

Governance

124. The municipality's fraud prevention plan was in a draft format. Council did not discharge their responsibilities to ensure it was approved.
125. The municipality conducted a risk assessment; however they do not have a risk committee to monitor the implementation of controls to address the risks identified. This rendered the control environment ineffective.
126. The municipality has a co-sourced arrangement with a service provider for the internal audit function. Internal audit is however not adequately staffed to perform the internal audit function effectively.
127. The municipality did not have an audit committee in place for 4 months of the year. Committee members were only appointed in November 2011 as challenges were experienced in attracting suitably qualified and experienced candidates to fulfill this governance function.

OTHER REPORTS

Investigations

128. An investigation was initiated based on suspected procurement irregularities by the office of the former executive mayor. The investigation was finalised by the consulting firm on 1 August 2011. No information was provided on the details and progress of this investigation.

Auditor-General

East London

30 November 2012



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence