

# REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON SUNDAYS RIVER VALLEY MUNICIPALITY

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I was engaged to audit the financial statements of the Sundays River Valley Municipality set out on pages 4 to 67, which comprise statement of financial position as at 30 June 2013, the statement of financial performance, changes in net assets and cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### 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 (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 (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 opinion

#### Property, plant and equipment

4. Sufficient and appropriate evidence was not available to support infrastructure, land, buildings and finance lease assets disclosed in note 10 to the financial statements. Supporting documentation was either not submitted for audit purposes or that which was submitted, was incomplete. I was unable to confirm the property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to infrastructure of R250 037 341 (2012: R229 855 303), land of R59 595 494 (2012: R59 595 494), buildings of R23 365 542 (R23 340 042) and finance lease assets of R3 187 874 (2012: R2 969 997) as disclosed in note 10 to the financial statements.

#### Investment property

5. Sufficient and appropriate evidence was not available to support investment property disclosed in note 9 to the financial statements. Supporting documentation was either not submitted for audit purposes or that which was submitted, was incomplete. I was unable to confirm the investment property by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to investment property of R42 174 306 (2012: R42 174 306) as disclosed in note 9 to the financial statements.

### **Irregular expenditure**

6. The municipality did not have adequate systems in place to identify and disclose all irregular expenditure incurred during the year as required by section 125(2)(d)(i) of the MFMA. The irregular expenditure disclosed in note 45 to the financial statements is understated in respect of the amounts incurred during the year that were identified during the audit process of R23 500 488 (2012: Rnil). Due to the lack of systems, and the non-availability of sufficient appropriate audit evidence for all awards, it was impracticable to determine the full extent of the understatement of irregular expenditure disclosed at R11 859 632 (2012: R11 626 663). I was unable to confirm the disclosure by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the irregular expenditure as disclosed in note 45 to the financial statements.

### **Commitments**

7. Sufficient and appropriate evidence was not available to support commitments disclosed in note 36 to the financial statements. Supporting documentation was either not submitted for audit purposes or that which was submitted, was incomplete. I was unable to confirm the commitments by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to commitments of R23 539 348 (2012: R54 976 763) as disclosed in note 36 to the financial statements.

### **Operating expenses**

8. The municipality did not maintain adequate records of operating expenses incurred as required by section 62(1) of the MFMA, resulting in an understatement of operating expenses as disclosed in the statement of financial performance by at least R10 808 786. Due to the lack of systems in place, it was impracticable for me to determine the full extent of the understatement in operating expenses.

### **Other debtors**

9. Sufficient and appropriate evidence was not available to support other debtors disclosed in note 5 to the financial statements. Supporting documentation was either not submitted for audit purposes or that which was submitted, was incomplete. I was unable to confirm the other debtors by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to other debtors of R10 602 293 (2012: R10 085 190) as disclosed in note 5 to the financial statements.

### **Other financial liabilities**

10. Sufficient and appropriate evidence was not available to support other financial liabilities disclosed in note 13 to the financial statements. Supporting documentation was either not submitted for audit purposes or that which was submitted, was incomplete. I was unable to confirm the other financial liabilities by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to other financial liabilities of R9 497 856 (2012: R9 061 111) as disclosed in note 13 to the financial statements.

### **Aggregation of immaterial uncorrected misstatements**

11. The financial statements as a whole are materially misstated due to the cumulative effect of numerous individual immaterial uncorrected misstatements in the following elements making up the statement of financial position and the statement of financial performance:
- Operating expenses as disclosed on the statement of financial performance is understated by R2 161 460.
  - Employee related costs as disclosed in note 29 is overstated by R1 387 619.
  - Revenue from exchange transactions as disclosed in note 22 is overstated by R1 318 627.
  - Finance lease obligation as disclosed in note 14 is overstated by R1 148 025.
  - Accumulated surplus as disclosed on the statement of financial position is overstated by R1 108 747.
  - Unspent conditional grants as disclosed in note 18 is understated by R826 082.
  - Accrued leave pay as disclosed in note 15 is understated by R640 287.

12. In addition, I was unable to obtain sufficient appropriate audit evidence due to individually immaterial amounts that were unsubstantiated and I was unable to confirm the following elements by alternative means:

- Provision for long service awards as disclosed in note 20.
- VAT payable as disclosed in note 17.
- Traffic fines debtor as disclosed in note 5.
- Other payables as disclosed in note 15.
- Intangible assets as disclosed in note 11.

#### **Prior year comparative information**

#### **Prior period errors**

13. Sufficient and appropriate evidence was not available to support the changes made to the comparative information disclosed in note 38 to the financial statements. Supporting documentation was either not submitted for audit purposes or that which was submitted, was incomplete resulting in payables from exchange transactions being overstated by R16 121 746, trade receivables being understated by R9 958 873, provisions being understated by R8 958 910 and accumulated surplus being understated by R14 120 289. I was unable to confirm the changes to comparative information by alternative means.

#### **VAT receivable**

14. Sufficient and appropriate evidence was not available to support the VAT receivable disclosed in the comparative amount in note 8 to the financial statements. A reconciliation of the amounts recorded in the financial statements to the VAT amounts owing to the South African Revenue Service was not submitted for audit purposes or that which was submitted, was incomplete. I was unable to confirm the VAT accounts by alternative means. Consequently, I was unable to determine whether any further adjustments to VAT accounts was necessary.

#### **Aggregation of immaterial uncorrected misstatements**

15. The comparative information as a whole are materially misstated due to the cumulative effect of numerous individual immaterial uncorrected misstatements in the following elements making up the statement of financial position and the statement of financial performance:

- Property rates as disclosed in note 22 is overstated by R1 319 270.
- Employee related costs as disclosed in note 29 is overstated by R1 727 977.
- Investment property as disclosed in note 9 is understated by R1 149 195.
- Finance lease liability as disclosed in note 14 is overstated by R1 412 621.
- Leave pay accrual as disclosed in note 15 is overstated by R1 994 732.

#### **Emphasis of matters**

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

#### **Restatement of corresponding figures**

17. As disclosed in note 38 to the financial statements, the corresponding figures for 30 June 2013 have been restated to correct errors relating to the financial year ended 30 June 2012. These misstatements relate mainly to:

- The reclassification of the landfill provision from a provision to a current liability as the landfill sites, which are not licensed, are required to be rehabilitated.
- Numerous allocation errors were corrected between the cash and cash equivalents, receivables and payables accounts.

#### **Material losses**

18. As disclosed in note 2 to the financial statements, bad debts expenditure amounted to R11 million. This is due to an increase in the provision for doubtful debts.

19. As disclosed in note 23 to the financial statements, material losses of approximately R6 million were incurred as the municipality did not charge interest on outstanding receivables due to difficulties noted with the billing module of the financial management system.

### **Unaudited supplementary schedules**

20. The supplementary information as set out on pages 68 to 77 does not form part the financial statements. I have not audited these schedules and accordingly I do not express an opinion thereon.

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

21. 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**

22. I was engaged to audited the annual performance report of the Sundays River Valley Municipality for the year ended 30 June 2013 as set out in the annual report.

#### **The accounting officer responsibilities**

23. The accounting officer is responsible for the preparation and fair presentation of the annual performance report in accordance with the identified performance management and reporting framework, as defined in paragraph 6 of *General Notice 839 of 2011*, regarding the planning, management, monitoring and reporting of performance against predetermined objectives and for such internal control as management determines necessary to enable the preparation of annual performance report that is useful and reliable.

#### **The Auditor-General's responsibilities**

24. As required by sections 4 and 20 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), read with *General Notice 839 of 2011*, issued in *Government Gazette 34783 of 28 November 2011*, my responsibility is to prepare an audit conclusion on the annual performance report. Because of the matters described in the basis for disclaimer conclusion paragraphs, however, I was not able to obtain sufficient appropriate evidence to provide a basis for an audit conclusion.

### **Usefulness of annual performance report**

#### **Presentation**

#### **Basis for adverse conclusion**

#### **Measures taken to improve performance**

25. Improvement measures in the annual performance report for all the planned targets not achieved were not disclosed as required by section 46 of the Municipal Systems Act (MSA). This was due to a lack of skilled resources needed to review the annual performance report to ensure that all the required information was reported.

#### **Consistency**

#### **Basis for adverse conclusion**

#### **Reported objectives, indicators and targets are not consistent with planned objectives, indicators and targets**

26. The MSA, section 41(c) requires that the integrated development plan (IDP) should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents.

27. A total of 71% of the reported objectives are not consistent with the objectives as per the approved IDP, a total of 66% of the reported indicators are not consistent with the indicators as per the approved IDP and a total of 95% of the reported targets are not consistent with the targets as per the approved IDP.

28. This is due to the lack of an established performance management system which entails reviews from management, internal audit and the audit committee of the annual performance report against the IDP.

## Measurability

### Basis for adverse conclusion

#### Performance indicators are not well defined

29. The National Treasury *Framework for managing programme performance information* (FMPPi) requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 88% of the indicators in relation to infrastructure development and basic services, local economic development and financial viability and management were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently.
30. 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.

#### Performance indicators are not verifiable

31. The National Treasury *FMPPi* requires that it must be possible to validate the processes and systems that produce the indicator. A total of 85% of the indicators in relation to infrastructure development and basic services, local economic development and financial viability and management were not verifiable in that valid processes and systems that produce the information on actual performance did not exist.
32. 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.

#### Performance targets are not specific

33. The National Treasury *FMPPi* requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 83% of the targets in relation to infrastructure development and basic services, local economic development and financial viability and management were not specific in clearly identifying the nature and the required level of performance.
34. 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.

#### Performance targets are not measurable

35. The National Treasury *FMPPi* requires that performance targets be measurable. The required performance could not be measured for a total of 79% of the targets in relation to infrastructure development and basic services, local economic development and financial viability and management.
36. 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.

#### Performance targets are not time bound

37. The National Treasury *FMPPi* requires that the time period or deadline for delivery be specified. A total of 99% of the targets in relation to infrastructure development and basic services, local economic development and financial viability and management were not time bound in specifying a time period or deadline for delivery.
38. 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.

#### Adverse conclusion

39. In my opinion, because of the significance of the matters described in the basis for adverse conclusion paragraphs, the annual performance report is not useful in accordance with the identified performance management and reporting framework.

## **Reliability of selected development priorities in the annual performance report**

### **Infrastructure development and basic services**

#### **Basis for disclaimer conclusion**

40. The National Treasury FMPPPI requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

41. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of information presented with respect to infrastructure development and basic services.

42. This was due to a lack of an established document management system which did not allow me to perform alternate procedures as a result of the unavailability of supporting evidence.

#### **Disclaimer conclusion**

43. Because of the significance of the matter described in the basis for disclaimer conclusion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for a conclusion. Accordingly, I do not express a conclusion on selected infrastructure development and basic services development priority as set out in the annual performance report.

### **Local economic development**

#### **Basis for disclaimer conclusion**

44. The National Treasury FMPPPI requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

45. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of information presented with respect to local economic development.

46. This was due to a lack of an established document management system which did not allow me to perform alternate procedures as a result of the unavailability of supporting evidence.

#### **Disclaimer conclusion**

47. Because of the significance of the matter described in the basis for disclaimer conclusion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for a conclusion. Accordingly, I do not express a conclusion on selected local economic development priority as set out in the annual performance report.

### **Financial viability and management**

#### **Basis for disclaimer conclusion**

48. The National Treasury FMPPPI requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

49. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of information presented with respect to financial viability and management.

50. This was due to a lack of an established document management system which did not allow me to perform alternate procedures as a result of the unavailability of supporting evidence.

#### **Disclaimer conclusion**

51. Because of the significance of the matter described in the basis for disclaimer conclusion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for a conclusion. Accordingly, I do not express a conclusion on selected financial viability and management development priority as set out in the annual performance report.

## **Compliance with laws and regulations**

52. 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 planning and performance management**

53. The IDP adopted by the municipality does not reflect and identify a financial plan, the key performance indicators and targets, as required by sections 26 and 41 of the MSA.
54. The municipality did not set key performance indicators, including input indicators, output indicators and outcome indicators, in respect of each of the development priorities and objectives set out in the IDP, as required by section 41(1)(a) of the MSA and the *Municipal planning and performance management regulation* (MPPMR) 1 and 9(1)(a).
55. The municipality did not give effect to its IDP and/or conduct its affairs in a manner which was consistent with its IDP, as required by section 36 of the MSA, section 21(2)(a) of the MFMA and MPPMR 6.
56. The performance management system of the municipality was not in line with the priorities, objectives, indicators and targets contained in its IDP and did not relate to the municipality's performance management processes, as required by section 38(a) of the MSA and MPPMR 7(2)(f).
57. The performance audit committee did not make recommendations to the council, as required by MPPMR 14(4)(a)(ii).
58. The performance 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 MPPMR 14(4)(a)(iii).
59. The internal audit unit did not audit the performance measurements on a continuous basis and submitted quarterly reports on their audits to the municipal manager and the performance audit committee, as required by MPPMR 14(1)(c).
60. The municipality did not have and maintain effective, efficient and transparent systems of financial and risk management and internal controls as required by section 62(1)(c)(i) of the MFMA.

### **Budgets**

61. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 87(8) of the MFMA.
62. Quarterly reports were not 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 MFMA.
63. Monthly budget statements were not submitted to the mayor and relevant provincial treasury, as required by section 71(1) of the MFMA.

### **Annual financial statements, performance and annual reports**

64. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and/or the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.
65. Financial statements were not submitted for auditing within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.
66. Late submission of the annual financial statements to the Auditor-General for auditing was not appropriately addressed by the mayor, as required by section 133(1) of the MFMA.
67. Oversight report, containing comments on the annual report, was not adopted by council within two months from the date on which the 2012/13 annual report was tabled, as required by section 129(1) of the MFMA.

### **Procurement and contract management**

68. 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).
69. Sufficient appropriate audit evidence could not be obtained that bid specifications for procurement of goods and services through competitive bids were drafted in an unbiased manner that allowed all potential suppliers to offer their goods or services, as per required by SCM regulation 27(2)(a).
70. Sufficient appropriate audit evidence could not be obtained that bid specifications were drafted by bid specification committees which were composed of one or more officials of the municipality as required by SCM regulation 27(3).
71. Invitations for competitive bidding were not always advertised for a required minimum period of days, as required by SCM regulation 22(1) & 22(2).
72. Contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding, in contravention of SCM Regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations.
73. Bid adjudication was not always done by committees which were composed in accordance with SCM regulation 29(2).
74. Contracts were extended without tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the MFMA.
75. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
76. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.
77. 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.
78. Sufficient appropriate audit evidence could not be obtained that contracts 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.
79. Contracts were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).

80. Sufficient appropriate audit evidence could not be obtained that awards were made to providers who are in the service of the municipality in contravention of section 112(j) of the MFMA and SCM regulations 44.
81. Sufficient appropriate audit evidence could not be obtained that 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, as required by SCM regulation 46(2)(e).

#### **Human resource management and compensation**

82. Sufficient appropriate audit evidence could not be obtained that appointments were only made in posts which were provided for in the approved staff establishment of the municipality, as required by section 66(3) of MSA.
83. Sufficient appropriate audit evidence could not be obtained that job descriptions were established for all posts in which appointments were made in the current year, as required by section 66(1)(b) of MSA.
84. Sufficient appropriate audit evidence could not be obtained that appointments were made in posts of municipal manager/manager directly accountable to municipal manager that were advertised, as required by section 54A(4) /56(3) of MSA.
85. Sufficient appropriate audit evidence could not be obtained that newly appointed managers directly accountable to municipal managers submitted original/certified copies of academic and professional qualifications/proof of previous employment/disclosure of financial interests prior to appointment as per the requirements of regulation 4 of GNR 805.
86. Sufficient appropriate evidence could not be obtained that the municipality appointed a manager directly accountable to the municipal manager who was not dismissed for financial misconduct after expiry of 10 years.
87. Sufficient appropriate audit evidence could not be obtained that the municipality developed and adopted appropriate systems (policies) and procedures to monitor, measure and evaluate performance of staff as required by MSA sec 67(d).
88. Sufficient appropriate audit evidence could not be obtained that bonuses awarded to the municipal manager and/ or senior managers directly accountable to the municipal manager were in compliance with of section 57(4)(b) MSA.

#### **Expenditure management**

89. Money owing by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the MFMA.
90. Sufficient appropriate audit evidence could not be obtained that payments were approved by the accounting officer or a properly authorised official as required by section 11(1) of the MFMA.
91. An effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, was not in place, as required by section 65(2)(a) / 99(2)(a) of the MFMA.
92. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

#### **Conditional grants**

93. Sufficient appropriate audit evidence could not be obtained that the municipality evaluated its performance in respect of funded programmes funded and submit the evaluation to the transferring national officer within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (DORA).

94. Sufficient appropriate audit evidence could not be obtained that the municipality timeously submitted project registration forms, for projects it intends implementing in the financial year 2013/14, to the department of local government, as required by the Division of Revenue Grant Framework, Gazette No.35399.
95. Sufficient appropriate audit evidence could not be obtained that the municipality submitted project implementation plans to the national department (CoGTA), as required by the Division of Revenue Grant Framework, Gazette No.35399.
96. Sufficient appropriate audit evidence could not be obtained that the municipality submitted MFMA implementation plans to National Treasury to address weaknesses in financial management, as required by the Division of Revenue Grant Framework, Gazette No.35399.
97. Sufficient appropriate audit evidence could not be obtained that the municipality submitted its signed activity plan and/or in the prescribed format to the national department (CoGTA), as required by the Division of Revenue Grant Framework, Gazette No.35399.
98. The municipality did not submitted, within 10 days after the end of each month, its monthly expenditure reports to the national department (CoGTA), as required by the Division of Revenue Grant Framework, Gazette No.35399.

#### **Revenue management**

99. An adequate management, accounting and information system which accounts for revenue, debtors and receipts of revenue was not in place, as required by section 64(2)(e) of the MFMA.
100. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
101. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

#### **Financial misconduct**

102. Unauthorised, irregular and fruitless and wasteful expenditure was not recovered from the liable person, as required by section 32(2) of the MFMA.
103. The accounting officer did not always report to the South African Police Service cases of alleged irregular expenditure that constituted a criminal offence, as required by section 32(6), 32(7) and 102(2) of the MFMA.

#### **Asset and liability management**

104. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.
105. 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.
106. All investments were not made in accordance with the requirements of the investment policy as all monies were invested in one financial institution, as required by Municipal investment regulation 3(3).
107. Investments were made without proper care being exercised (include details), as required by Municipal investment regulation 5.
108. An adequate management, accounting and information system which accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.
109. An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2)(c) of the MFMA.

### **Internal control**

110. I considered internal control relevant to my audit of the financial statements, the 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**

111. Key positions in senior management were vacant during critical periods of the financial year and audit, namely the Chief Financial Officer and the Director of Community services.

112. The human resources policies are not adequately implemented as certain individuals do not have the appropriate level of understanding of the applicable financial and reporting frameworks.

113. Key staff members were not always available for meetings throughout the audit.

### **Financial and performance management**

114. There was inadequate planning and testing performed before the implementation of the accounting system, which has resulted in inaccurate and unreliable information being produced by the system.

115. There was inadequate controls implemented over daily and monthly processing and reconciling of transactions as reconciliations for various accounts were either not performed timeously or could not be provided for the audit.

116. There is an inadequate performance management system in place as the staff lack the required knowledge and understanding of the requirements of the MSA with regards to planning, executing and reporting on the performance of the municipality.

### **Governance**

117. The risk strategy was poorly implemented which contributed to the control deficiencies identified during the audit.

118. The internal audit department was established during the financial year, however certain fundamental tasks which were not performed by the department includes:

- A review of the performance measurements on a continuous basis.
- A detailed review over the financial statements.

## OTHER REPORTS

### Investigations

119. The municipality is still in the process of investigating the misuse of petrol cards. This investigation will be finalised by the end of February 2014. The case has been reported to the South African Police Service who are waiting for the finalisation of the internal disciplinary process.

120. Irregular expenditure was not recovered from the liable person, nor was the expenditure reported to the South African Police Service in the case where the alleged irregular expenditure constituted a criminal offence. However all cases that resulted in a criminal offence have been reported to the South African Police Service.

Criminal charges have been laid by the police for the two incumbents. The civil claim will follow on the completion of the criminal process; there is a pending appeal in the case of one incumbent.

East London

Date of signing



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*