

## **REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON NYANDENI LOCAL MUNICIPALITY**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Introduction**

1. I have audited the financial statements of the Nyandeni Local Municipality set out on pages XX to XX, which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets, the cash flow statement for the year then ended and a statement of comparison of budget and actual amounts, 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), 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, 2011 (Act No. 5 of 2012 as amended) (DoRA), and for such internal control as management determines 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 these financial statements based on my audit. I conducted my 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. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Nyandeni Local Municipality as at 30 June 2013, and its financial performance and cash flows for the year then ended in accordance with GRAP and the requirements of the MFMA and DoRA.

### **Emphasis of matter**

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

### **Restatement of corresponding figures**

8. As disclosed in note 29 to the financial statements, the prior year corresponding figures for 30 June 2012 have been restated as a result of errors only corrected during the year ended 30 June 2013 that existed in the financial statements at, and for the year ended, 30 June 2012.

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

9. 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**

10. 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.
11. 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's annual reporting principles and whether the reported performance is consistent with the planned development 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 development priorities is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

12. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

### **Additional matter**

13. Although no material findings concerning the usefulness and reliability of the performance information were identified in the annual performance report, I draw attention to the following matter below.

### **Achievement of planned targets**

14. Of the total number of 252 targets planned for the year, 94 targets were not completely achieved during the year under review. As a result only 63% of the planned targets were achieved during the year under review. This was mainly due to a lack of monitoring and a lack of corrective actions taken to ensure that the planned targets were achieved.



### **Compliance with laws and regulations**

15. 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:

#### **Annual financial statements**

16. 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 of non-current assets, current assets, liabilities, expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

#### **Procurement and contract management**

17. Goods and services with a transaction value below R200 000 were procured without obtaining the required written price quotations as required by SCM regulation 17(a) and (c).
18. 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).
19. Bids were disqualified from evaluation based on criteria that were not stipulated in the bid invitation/documents contrary to the fairness requirement in section 112 of the MFMA.
20. Bid evaluations were not always evaluated by bid evaluation committees that included an SCM practitioner as required by SCM regulation 28(2).
21. Bid adjudication was not always done by committees which were composed in accordance with SCM regulation 29(2).
22. Construction projects were not always registered with the Construction Industry Development Board (CIDB), as required by section 22 of the CIDB Act and CIDB regulation 18.
23. Awards were made to providers who are in the service of the municipality in contravention of section 112(j) of the MFMA and SCM regulation 44. Furthermore, the provider failed to declare that he/she was in the service of the municipality, as required by SCM regulation 13(c).
24. Awards were made to providers who are in the service of other state institutions or whose directors/principal shareholders are in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44. Similar awards were identified in the 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).
25. 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)/the code of conduct for staff members issued in terms of the Municipal Systems Act (MSA).

## **Expenditure management**

26. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d)/95(d) of the MFMA.

## **Revenue management**

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

## **Internal control**

28. 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 unqualified opinion, the findings on compliance with laws and regulations included in this report.

## **Leadership**

29. The municipality has not exercised oversight responsibility regarding financial reporting, compliance and related controls. The municipality did not have sufficient monitoring controls to ensure adherence to the internal policies and procedures at a programme/objective level, as well as for purposes of taking corrective action. This resulted in numerous instances of non-compliance and material misstatements.
30. Although an SCM practitioner was appointed towards the end of the year, there are a number of leadership actions that need to be taken in order to reduce the level of non-compliance with SCM legislation. These include capacitating and training of staff, including non-SCM personnel and the introduction of performance management and consequences for those who deliberately or negligently flout the SCM legislation.

## **Financial and performance management**

31. The municipality did not have reliable information systems for recording and reporting on the financial statements. The lack of reliable systems resulted in misstatements in the financial statements.
32. The municipality did not have processes to prevent and detect non-compliance with laws and regulations. Non-compliance with laws and regulations could have been prevented had compliance been adequately reviewed and monitored.
33. An adequate review of the financial statements prior to submission thereof for audit purposes was not conducted, resulting in numerous misstatements being detected during the audit process.

## **Governance**

34. The municipality has an adequate internal audit division. The division is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively. However, the level of assurance that was provided by internal audit was hampered by management's slow response to the messages contained in their reports.



35. The audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations. Although the audit committee is doing what it is supposed to do in terms of the legislation, its effectiveness and the level of assurance provided by it was below expectations. This was due to the quality of information provided to it relating to financial information and compliance with laws and regulations and the response by management in implementing its recommendations
36. The municipality has implemented appropriate risk management activities to ensure that regular risk assessments, including consideration of fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored. The risk management strategy, however, did not appropriately address the risks relating to compliance with laws and regulations and in particular the risks relating to supply chain management.

*Auditor General*

East London

30 November 2013



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SOUTH AFRICA

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