

Mhlontlo Municipality

Audit Report

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Mhlontlo Local Municipality set out on pages ... to ... , 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 and the statement of comparative and actual information 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 (SA Standards of 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, 2012 (Act No. 5 of 2012) (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 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 adverse audit opinion.

Basis for adverse opinion

Property, plant and equipment

6. The municipality did not comply with all of the requirements of GRAP 17 – Property, Plant and equipment (PPE), as there was no comparative movement summary for PPE disclosed

in the financial statements. Additionally, I was unable to locate assets to the value of R1 347 534, therefore PPE and accumulated surplus as disclosed in the financial statements are overstated by this amount.

7. In addition, I was unable to obtain sufficient appropriate audit evidence for both the current and prior year PPE balances as documentation in support of prior period corrections, the calculation of the cost prices of land and buildings or for the landfill site provision and associated asset was not available. The trial balance did not reconcile to the annual financial statements or asset register. Lease agreements in support of finance lease assets were not made available for audit. I was unable to confirm the property, plant and equipment by alternative means. Consequently I was unable to determine whether any adjustment to property, plant and equipment of R99 017 815 (2012: R113 617 435) as disclosed in note 2.1 of the financial statements was necessary.

Investment property

8. The municipality failed to apply the requirement of GRAP 16 – Investment property, in that the accounting policy indicated that the municipality has adopted the cost model for investment property. Contrary to the accounting policy, investment property was valued at fair value. The municipality also did not retrospectively restate its comparative amounts for previously unidentified investment property that was transferred from PPE. The amount disclosed in the annual financial statements for the current year was understated by R1 420 000 when compared to supporting documentation. Accumulated surplus is understated by the same amount. The comparative disclosure is understated by R5 675 436

Revenue

9. The municipality did not recognise its government grant revenue in terms of GRAP 23 – Revenue from non-exchange transactions. The amount disclosed as government grants and subsidies in note 14 of the annual financial statements was understated by R8 635 289, unspent conditional grant liability was overstated by R3 705 589 and accumulated surplus was overstated by R4 929 700 as a result of the following:
 - The municipality met the conditions of certain conditional grants and failed to transfer the amount spent to revenue;
 - The municipality surrendered an amount for unspent conditional grants from prior years and incorrectly reduced their equitable share revenue. They incorrectly disclosed the amount as irrecoverable DORA revenue in the prior period error disclosure as reflected in note 29.2. The 2012 comparative figure in the statement of financial performance was not amended in line with this disclosure.

Irregular expenditure

10. 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 30 to the financial statements is understated in respect of amounts incurred during the year that were identified during the audit process of R52 049 995 (2012: R1 700 000). Due to the lack of systems, and non-availability of sufficient appropriate audit evidence for all awards, it was impracticable to determine the full extent of the understatement of irregular expenditure for both the current

and the comparative years disclosed at R12 345 393 (2012: R10 721 417) in note 30.3 of the annual financial statements. I was unable to confirm the disclosure by alternative means. Consequently, I was unable to determine whether any further adjustment to the irregular expenditure disclosure note was necessary.

Cash flow statement

11. The municipality did not comply with the requirements of GRAP 2 – Cash Flow Statements. They did not reconcile note 40 of the annual financial statements, which reflects the cash generated from operations, to the amount reflected on the face of the cash flow statement. There were numerous calculation errors in the note which totalled R24 221 868. Additionally, the cash flow statement did not reflect any cash flows for the purchase of intangible assets or the sale of property, plant and equipment.
12. I was unable to obtain sufficient appropriate audit evidence to support the prior period amounts disclosed in the cash flow statement as these amounts were not adjusted for any prior period error adjustments made as disclosed in note 29 to the financial statements. As detailed above, the adjustments to comparative figures were also not supported by sufficient appropriate audit evidence. I was unable to confirm these disclosures by alternative means. Consequently I was unable to determine whether any adjustment is required to the comparative cash flow statement.

Budget presentation

13. The municipality did not adhere to the requirements of GRAP 24 – Presentation of budget information, in that it did not reconcile the information contained in its presentation of a comparison of budget and actual amounts to information contained elsewhere in the annual financial statements. Total expenditure in the statement of financial performance exceeded the statement of comparison of budget and actual amounts by R1 228 204. Additionally, capital expenditure in the statement of comparison of budget and actual amounts exceeded the capital additions included in note 2.1 and 2.5 of the annual financial statements by R4 115 581.
14. I was unable to obtain sufficient appropriate audit evidence to support numerous budget amounts included in the statement of comparison of budget and actual amounts. I was unable to confirm the amount disclosed by alternative means. Consequently I was unable to determine whether any adjustment to the statement of comparison of budget and actual amounts in the financial statements was necessary.

Contingent liabilities

15. The municipality did not disclose a contingent liability as required by GRAP 19 – Provisions, contingent liabilities and contingent assets, for a dispute declared by the unions and the pending litigation regarding the SALGA wage curve agreement of April 2010. The municipality may have an additional payable for employee wages, depending on the outcome of the pending litigation. It is not practicable to reliably estimate the amount of this payable prior to the outcome of the pending litigation, however, there should have been a contingent liability disclosed in this regard and the disclosures per note 28 of the annual financial statements are therefore understated in this regard.

Unauthorised expenditure

16. The municipality incorrectly added the amount for the current year movement of R1 623 176 for irregular expenditure into the total for current year movement for unauthorised expenditure as reflected in note 30.1 to the annual financial statements. Unauthorised expenditure is therefore overstated by this amount.
17. I was unable to obtain sufficient appropriate audit evidence to support the unauthorized expenditure amount disclosed. The municipality did not provided a detailed comparison of actual spending compared to the budget per vote. Additionally, based on the errors identified in the statement of comparison of budget and actual amounts above, these have an effect on the unauthorised expenditure amount disclosed. I was unable to confirm the amount disclosed by alternative means. Consequently I was unable to determine whether any adjustment to unauthorized expenditure stated at R38 110 305 (2012: R16 618 555) in the financial statements was necessary.

Operating expenditure

18. The municipality did not have adequate systems in place to maintain records of operating expenditure incurred which resulted in an understatement of R673 785 being recorded in the financial statements. In addition, I was unable to obtain sufficient appropriate audit evidence to support the amount disclosed as expenditure in the financial statements. The municipality did not provide sufficient support for expenditure transactions recorded and did not provide information for prior period error adjustments. I was unable to confirm these transactions by alternative means. Consequently I was unable to determine whether any adjustments to operating expenditure totalling R72 337 422 (2012: R74 648 111) were necessary.

Value Added Tax

19. I was unable to obtain sufficient appropriate audit evidence to support the amount disclosed as Value Added Tax (VAT) receivable for both the current and the comparative years. There was an unreconciled difference of R2 758 830 between the amount reflected per the statement from the South African Revenue Service and the records of the municipality. There was also an unreconciled difference in the VAT suspense account. I was unable to confirm the amount disclosed by alternative means. Consequently I was unable to determine whether any adjustment to VAT receivable stated at R5 080 473 (2012: R10 114 072) in note 5.1 of the annual financial statements was necessary.

Provisions

20. The municipality did not disclose a provision for long-service awards as required by IAS 19 – Employee benefits. I have not determined the correct disclosure amounts for this provision as it was impracticable to do so.
21. I was unable to obtain sufficient appropriate audit evidence to support the amount disclosed as provision for landfill site for both the current and the prior period as inadequate information was provided to support the balance included in the financial statements. I was unable to confirm the amount disclosed by alternative means. Consequently I was unable to determine whether any adjustment to provisions stated at R5 031 690 (2012: R4 212 131) in note 41 of the financial statements was necessary.

Employee costs

22. The municipality did not have adequate systems in place to maintain records of allowances paid which resulted in an understatement of R1 140 012 being recorded in the financial statements. In addition, I was unable to obtain sufficient appropriate audit evidence to support allowances paid to employees. I was unable to confirm the amount disclosed by alternative means. Consequently I was unable to determine whether any adjustment to allowances as stated at R8 488 999 (2012: R5 116 459) in note 17 of the financial statements was necessary.

Other corresponding figures

23. During 2012 I was unable to obtain sufficient appropriate audit evidence regarding the leave accrual, irregular expenditure, receivables from exchange and non-exchange transactions and VAT. I was unable to confirm these transactions, balances and disclosure items by alternative means. Consequently I was unable to determine whether any adjustment to the leave accrual included in payable of exchange transactions of R6 151 902 per note 10.1 of the financial statements and receivables from exchange and non-exchange transactions as disclosed in notes 3, 4 and 6 totalling R1 210 282 were necessary. My audit opinion on the financial statements for the period ended 30 June 2012 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of these matters on the comparability of the current period's figures.

Aggregation of immaterial uncorrected misstatements

24. 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:
- Councillor remuneration as disclosed in note 18 is overstated by R1 055 161
 - Trade receivables as disclosed in notes 4 and 6 to the financial statements are understated by R402 449
 - Trade payables as disclosed in note 10 are understated by R1 250 609 (2012: R1 085 601).

Mandatory disclosures

25. The municipality did not disclose the following mandatory disclosures as required by section 125 of the MFMA:
- Amounts paid during the year and owing at year end for medical aid, pension, PAYE and UIF

Adverse Opinion

26. In my opinion, because of the significance of the matters described in the Basis for adverse opinion paragraphs, these financial statements do not present fairly the financial position of the Mhlontlo Local Municipality as at 30 June 2013 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

27. 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

28. 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.
29. 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 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*.

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).

30. The material findings are as follows:

Usefulness of information

31. Section 46 of the Municipal Systems Act requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Measures to improve performance for a total of 100% of the planned targets not achieved were not reflected in the annual performance report.

This was due to a lack of adequate review processes of the presentation of the annual performance report by management.

32. The Municipal Systems Act, section 41(1)(c) requires that the annual performance should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 24% of the reported objectives are not consistent with the objectives as per the approved integrated development plan. A total of 34% of the reported indicators are not consistent with the indicators as per the approved integrated development plan. A total of 62% of the reported targets are not consistent with the targets as per the approved integrated development

plan. This is due to the lack of an adequate performance management system as well as a lack of adequate monitoring and evaluation of the internal controls over performance management.

33. The National Treasury *Framework for managing programme performance information (FMPPi)* requires that performance targets be specific in clearly identifying the nature and required level of performance, measurable and that the time period or deadline for delivery be specified. A total of 45% of the targets were not specific in clearly identifying the nature and the required level of performance, 48% of total targets could not be measured and 45% of the targets were not time bound in specifying a time period or deadline for delivery. This was due to the fact that management did not adequately review the performance targets in order to ensure that they met the requirements of the *FMPPi*.
34. The National Treasury *Framework for managing programme performance information (FMPPi)* requires that indicators/measures should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use and that it must be possible to validate the processes and systems that produce the indicators. A total of 41% of the indicators were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. In addition, 100% of the indicators 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 have not implemented a performance management system to assist the Municipality from planning through to reporting with regards to ensuring that indicators/measures have a clear and unambiguous data definition allowing for data to be consistently collected by the users of the system.

Reliability of information

35. The National Treasury *Framework for managing programme performance information (FMPPi)* 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.

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 Planning.

This was due to limitations placed on the scope of my work due to the absence of information systems or the fact that the institution could not provide sufficient appropriate evidence in support of the information presented with respect to the development objective. The institution's records did not permit the application of alternative audit procedures.

Compliance with laws and regulations

36. 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

37. The municipal council did not consult with the local community in the implementation of the

municipality's IDP, by means of a municipal wide structure for community participation or through a forum that enhances community participation, as required by section 28 of the Municipal Systems Act and Municipal Planning and Performance Management Regulation 15(1)(a)(i).

38. The municipal council did not review its integrated development plan in accordance with an assessment of its performance measurements in terms of section 41 to the extent that changing circumstances demanded, as required by section 34 of the Municipal Systems Act and Municipal planning and performance management regulation 3.
39. The performance management system of the municipality did not provide for taking steps to improve performance with regard to those development priorities and objectives where performance targets are not met, as required by section 41 (1)(d) of the Municipal Systems Act.
40. The municipality did not establish mechanisms to monitor and review its performance management system, as required by section 40 of the Municipal Systems Act.
41. Revisions to the service delivery and budget implementation plan were not approved by the council after the approval of the adjustments budget, as required by section 54(1)(c) of the MFMA.
42. The accounting officer of the municipality did not by 25 January assess the performance of the municipality during the first half of the financial year, as required by section 72(1)(a)(ii) of the MFMA .
43. The internal audit did not audit the results of performance measurements, as required by section 45(1)(a) of the Municipal Systems Act and Municipal planning and performance management regulation 14(1)(a).
44. The annual performance report for the year under review does not include the performance of each external service provider or a comparison with the previous financial year, as required by section 46 (1)[(a) and (b) of the Municipal Systems Act.
45. 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.

Budget

46. Expenditure was incurred not in terms of the approved budget, in contravention of section 15 of the MFMA.
47. Quarterly reports were not submitted to the council on the implementation of the budget and/or 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
48. The 2012/13 adjustment budget was not approved by the council as required by Municipal Budget and Reporting Regulation 25.

49. Sufficient appropriate audit evidence could not be obtained that monthly budget statements were submitted to the mayor, relevant provincial treasury and accounting officer as required by section 71(1) of the MFMA.

Annual report and annual financial statements

50. 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 property, plant and equipment, investment property, trade and other payables, employee costs, operating expenditure and capital commitments identified by the auditors in the submitted financial statements were subsequently corrected but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving an adverse audit opinion.

51. The accounting officer did not make public the council's oversight report on the 2011/12 annual report within seven days of its adoption, as required by section 129(3) of the MFMA.
52. Sufficient appropriate audit evidence could not be obtained as to whether the accounting officer made the 2011/12 annual report public immediately after the annual report was tabled in the council, as required by section 127(5)(a) of the MFMA.
53. Sufficient appropriate audit evidence could not be obtained as to whether the municipal council adopted an oversight report, containing comments on the annual report, within two months from the date on which the 2011/12 annual report was tabled, as required by section 129(1) of the MFMA.

Audit committee

54. A performance audit committee was not in place and no evidence could be provided to confirm that the audit committee was used to fulfil the performance audit committee function, as required by Municipal planning and performance management regulation 14(2)(a).
55. The audit committee did not adequately advise the council, accounting officer and the management staff on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.
56. The audit committee did not adequately review the annual financial statements to provide the council with an authoritative and credible view of the financial position of the municipality its efficiency and effectiveness and its overall level of compliance with the MFMA, as required by section 166(2)(b) of the MFMA.

Expenditure management

57. The accounting officer did not take effective steps to prevent unauthorised expenditure, irregular expenditure, as well as fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Conditional grants received

58. The municipality did not submit quarterly performance reports to the transferring national officer, the Eastern Cape provincial treasury and the National Treasury, within 30 days after the end of each quarter, as required by section 12(2)(c) of the Division of Revenue Act.
59. The municipality did not evaluate its performance in respect of programmes funded by the National Treasury within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act
60. Sufficient appropriate audit evidence could not be obtained as to whether 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.
61. Sufficient appropriate audit evidence could not be obtained as to whether the municipality submitted project implementation plans to the national department (CoGTA), as required by the Division of Revenue Grant Framework, Gazette No.35399.
62. Sufficient appropriate audit evidence could not be obtained as to whether the municipality submitted the evaluation of its performance in respect of funded programmes 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.
63. Sufficient appropriate audit evidence could not be obtained as to whether the municipality registered its master plans for bulk infrastructure with the Integrated National Electrification Programme, as required by the Division of Revenue Grant Framework, Gazette No.35399.

Revenue management

64. Sufficient appropriate audit evidence could not be obtained as to whether revenue received was always reconciled on a weekly basis, as required by section 64(2) (h) of the MFMA.

Asset management

65. Sufficient appropriate audit evidence was not provided as to whether the accounting officer submitted, within 10 working days of the end of each month, to the mayor a report describing the investment portfolio at the end of the month, as required by Municipal investment regulation 9(1).

Liability management

66. A management, accounting and information system which adequately accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.

HR compliance

67. 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 Municipal Systems Act.

68. The competencies of financial and supply chain management officials were not assessed promptly in order to identify and address gaps in competency levels as required by the Municipal Regulations on Minimum Competency Levels reg 13.
69. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury as required by the Regulations on Minimum Competency Levels reg14(2)(a)
70. The annual report of the Mhlontlo municipality did not reflect information on compliance with prescribed minimum competencies as required by the Regulations on Minimum Competency Levels reg14(2)(b)

Supply chain management

71. 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).
72. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
73. 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)
74. 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).
75. Sufficient appropriate audit evidence could not be obtained that bids were evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services and at least one SCM practitioner of the municipality as required by SCM regulation 28(2).
76. Sufficient appropriate audit evidence could not be obtained that bid adjudication was always done by committees which were composed in accordance with SCM regulation 29(2).
77. Contracts and quotations 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).
78. 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 and SCM regulation 28(1)(a).
79. Contracts and quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy

Framework Act.

80. Construction contracts were awarded to contractors that did not qualify for the contract, in accordance with section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A).
81. 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.
82. 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 MFMA 112(j) and 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).

Internal control

83. 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 adverse opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

84. The municipality did not have stability in leadership and sufficient staffing to ensure that the daily reconciliation and monitoring processes and functions were being adequately performed throughout the year.
85. Leadership has failed to perform regular oversight over reporting and did not adequately monitor the audit action plan.
86. Additionally, management have failed to establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities. This has led to the matters contained in the basis for adverse opinion and compliance matters, as well as significant shortfalls identified and communicated to management.

Financial and performance management

87. The municipality did not have staff with sufficient knowledge of the full financial reporting requirements as is evidenced by the numerous disclosure, compliance and annual performance report deficiencies that were identified
88. A proper system of record management was not adequately maintained and monitored. This resulted in the unavailability of many items requested for audit.
89. Management have not performed adequate and timely review of daily and monthly activities, including review of reconciliations that would enable them to generate reliable monthly and quarterly reporting information.
90. Management has not prepared regular, accurate and complete financial and performance

reports that are supported and evidenced by reliable information.

91. Management has failed to implement and apply adequate performance and consequence management procedures to ensure that staff can be held accountable for poor performance.

Governance

92. Management have not adequately utilised the governance structures available to them and have failed to empower their governance structures with timely information that can assist them in their governance role. This has led to inadequate review and monitoring of management activities, including financial reports, which has increased the number of avoidable errors that were identified in the financial reporting process.

Auditor General

East London

30 November 2013



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence