

Ndlambe Municipality

Audit Report

For the year ended 30 June 2017

Report of the auditor-general to the Eastern Cape Provincial Legislature and the council on the Ndlambe Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Ndlambe Municipality set out on pages... to ..., which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects of the matters described in the basis for qualified opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Ndlambe Municipality as at 30 June 2017, and financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 01 of 2015) (DoRA).

Basis for qualified opinion

Irregular expenditure

3. 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 43 to the financial statements is understated as a result of the poor systems. Due to the lack of systems, it was impracticable for me to determine the full extent of the understatement of irregular expenditure disclosed. Consequently, I was unable to determine the adjustments to the current and prior year irregular expenditure of R368.6 million (2016:R284.6 million).

Receivables

4. I was unable to obtain sufficient appropriate audit evidence for the impairment allowance disclosed in notes 4 and 5 to the financial statements due to non-availability of the estimates and assumptions used in the computation of the impairment allowance. I was unable to confirm the appropriateness of the impairment allowance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the exchange and non-exchange transactions stated at R21 million and R16 million respectively in the financial statements and the debt impairment of R22 million as disclosed in the statement of financial performance.

Context for the opinion

5. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this report.

6. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

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

Material losses

9. As disclosed in note 50 to the financial statements, material electricity losses of R5,6 million (2016: R6,8 million) was incurred, which represents 13,25% (2016: 17,24%) of total electricity purchased. The losses were due to meter reading losses and faulty underground infrastructure.
10. As disclosed in note 50 to the financial statements, material water losses to the amount of R12 million (2016: R15 million) was incurred, which represents 34,4% (2016: 40,4%) of total water purchased. The losses were due to meter reading inefficiencies and faulty meters.

Restatements of corresponding figures

11. As disclosed in note 46 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of errors discovered by management during 2017 in the financial statements of the municipality at, and for the year ended, 30 June 2017.

Unauthorised expenditure

12. As disclosed in note 42 to the financial statements, unauthorised expenditure of R97.6 million was incurred due to overspending of the operational and capital budget at vote level.

Other matters

Unaudited disclosure notes

13. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

14. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with SA Standards of GRAP and the requirements of the MFMA and for such internal control as the accounting officer determines is

necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

15. In preparing the financial statements, the accounting officer is responsible for assessing the Ndlambe Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the intention is to liquidate the municipality or cease operations, or there is no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

16. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
17. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

18. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
19. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
20. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2017:

Development priorities	Pages in the annual performance report
Key performance area (KPA) 1 – basic service delivery	x – x
KPA 3 – local economic development	x – x

21. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

22. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

Key performance area 1 – basic service delivery (BSD)

Key performance area 1 – basic service delivery (BSD)

Usefulness

Consistency

Objective BSD 10: Provide recreational and sport facilities to communities and ensure access to well-maintained facilities is not reported

23. The strategic objective was not reported while the planned strategic objective was approved in the service delivery agreement. This is not in line with the requirements of section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000).

Indicators not consistent

24. The indicators and targets were not reported while the indicator and target was approved service delivery agreement. This is not in line with the requirements of the Municipal Systems Act, 2000 (Act No. 32 of 2000) of the Municipal Finance Management Act.

Indicator no.	Indicator	Target
BSD10.1	No. of sports fields built	100%
BSD10.3	Monitor implementation of maintenance of recreational and sports facilities against expenditure targets for this financial year	100%
BSD11.2	Monitor implementation of maintenance plan against expenditure targets for the current financial year	100% Monitoring
BSD13.3	Protection and management of all natural resources according to the targets set for each operational manager	100%
BSD17.2	Monitor implementation against the Draft Fire and Emergency Plan	100% of monitoring Fire and Emergency Plan

Measurability

25. The source information, evidence and calculation for the achievement of the planned indicator were not clearly defined, as required by the Framework for Managing Programme Performance Information (FMPPi).

26. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not adequately designed as there was no regular reporting and indicator descriptions, as required by the FMPPi.

The indicators below were not well defined and not verifiable. Targets relating to these indicators were not specific and not measurable.

Indicator	Indicators	Target
BSD1.1	A revised Water Safety Plan in place and implemented for each water supply system	85% compliance
BSD1.3	Supply sufficient potable water that meets national compliance standards.	100%
BSD1.5	% increase in Blue Drop Status	100%
BSD2.2	Water conservation and water demand management business plan in place and implemented	100%
BSD3.2	Generating funding to provide for 5% increase in waterborne sewerage	MIG Funding & Eradication Quantum
BSD3.6	% increase in Green Drop status	100%
BSD4.1	Roads and Storm Water Management Plan in place and implemented	15%
BSD4.2	Improved implementation of roads and storm water against % of budget expended	100%
BSD5.1	Measure implementation against the Housing Sector Operational Plan for the year under review.	100% allocation
BSD6.1	Monitor the provision of electricity according to the existing Electricity Maintenance Plan	100% on draft of maintenance plan
BSD7.1	Improved turnaround time on approval of land use applications within statutory frameworks	100%
BSD7.3	Reduction in number of land use practices/decisions that are not aligned with the applicable regulatory framework	100%
BSD9.1	Improved turnaround time for approving qualifying building plans within statutory timeframes measured against meeting agenda and minutes of the Building Committee	100%
BSD9.2	Improved law enforcement of buildings that are not complying to legislative requirements	100%
BSD10.3	Monitor implementation of maintenance of recreational and sports facilities against expenditure targets for this financial year	100%
BSD11.2	Monitor implementation of maintenance plan against expenditure targets for the current financial year	100% monitoring
BSD13.3	Protection and management of all natural resources according to the targets set for each operational manager	100%
BSD14.1	Measure implementation against compliance with standards as provided in national legislation	To run an effective Municipal Health services

BSD 15.1	Required traffic management measures are implemented according to legislation	100%
BSD17.2	Monitor implementation against the Draft Fire and Emergency Plan	100% of monitoring fire and emergency plan

Relevance

27. The indicators did not relate to the strategic objective of promoting and supporting enterprise development to stimulate economic growth and development that will result in the creation of jobs which it aimed to achieve, as required by the FMPPI.

Indicator no.	Indicator	Target
BSD10.2	Draft Strategy and Implementation Plan for the provision of access to well-maintained sports and recreational facilities are in place	Strategy and plan in place
BSD11.1	Draft Maintenance Plan in place for all cemeteries	100% Monitoring
BSD17.1	Draft Fire Emergency Implementation Plan in place	Fire and Emergency Implementation Plan in Place

Reliability

28. I was unable to obtain sufficient appropriate evidence for the actual reported performance of the indicators detailed in the table below. This was due to limitations placed on the scope of my work. Consequently, I was unable to determine if any - adjustments were required to the reported achievements, for the indicators as detailed in the table below:

Indicator no.	Indicator	Target
BSD1.1	A revised Water Safety Plan in place and implemented for each water supply system.	85% compliant.
BSD1.2	% increase of indigent households having access to free basic potable water	100%
BSD1.3	Supply sufficient potable water that meets national compliance standards.	97%
BSD1.4	% reduction in number of households without potable water	100%
BSD1.5	% increase in Blue Drop Status	100%
BSD2.1	Annual % decrease in water losses	100%
BSD2.2	Water conservation and water demand management business plan in place and implemented	100%
BSD3.1	% increase of waterborne sewerage installation	100%

BSD3.2	Generating funding to provide for 5% increase in waterborne sewerage	MIG Funding & Bucket Eradication Quantum
BSD3.3	% increase of households with access to sanitation services	100%
BSD3.4	% increase of indigent household with access to free basic sanitation services	100%
BSD3.6	% increase in Green Drop status	100%
BSD4.1	Roads and Storm Water Management Plan in place and implemented	15%
BSD4.2	Improved implementation of roads and storm water against % of budget expended	100% of total alignment utilising 100% budget allocation
BSD5.1	Measure implementation against the Housing Sector Operational Plan for the year under review.	100% Allocation
BSD6.1	Monitor the provision of electricity according to the existing Electricity Maintenance Plan	100% on draft of maintenance plan
BSD6.3	% increase of households with access to electricity in direct proportion to housing projects implemented	100% of formal urban households to have access to electricity
BSD6.4	% increase of indigent households with access to basic electricity service in direct proportion to housing projects coming on-line -	100% of formal urban households to have access to electricity
BSD6.5	% increase of indigent households with access to free alternative energy sources	Register for the distribution of gel stoves and fuel to all indigent households to be expanded by 5% per quarter.
BSD7.1	Improved turnaround time on approval of land use applications within statutory frameworks	Improved turnaround time on approval of land use applications within statutory frameworks
BSD7.3	Reduction in number of land use practices/decisions that are not aligned with the applicable regulatory framework	100%
BSD9.1	Improved turnaround time for approving qualifying building plans within statutory timeframes measured against meeting agenda and minutes of the Building Committee	100%
BSD9.2	Improved law enforcement of buildings that are not complying to legislative requirements	100%
BSD10.1	No Reported Indicator measures per APR	100%

BSD10.2	Draft Strategy and Implementation Plan for the provision of access to well-maintained sports and recreational facilities are in place	Strategy and plan in place
BSD10.3	No Reported Indicator measures per APR	100%
BSD11.1	Draft Maintenance Plan in place for all cemeteries	100% Monitoring
BSD11.2	No Reported Indicator measures per APR	100% Monitoring
BSD13.2	Obtain and maintain Blue Flag International standards of all Blue Flag Beaches	100%
BSD13.3	No Reported Indicator measures per APR	100%
BSD14:1	Measure implementation against compliance with standards as provided in national legislation	To run an effective Municipal Health services
BSD15:1	Required traffic management measures are implemented according to legislation	100%
BSD17.1	Draft Fire Emergency Implementation Plan in place	Fire and Emergency Implementation Plan in Place
BSD17.2	No Reported Indicator measures per APR	100% of monitoring fire and emergency plan

Key performance area 3 – local economic development (LED)

Usefulness

Consistency

29. The targets were reported in the annual performance report while the targets were not included in the service delivery agreement. This is not in line with the requirements of section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000).

Targets not consistent

Indicator no.	Indicator	Target
LED1.1	Draft Enterprise Development Strategy and plan in place	Enterprise Development Strategy
LED1.2	Measures implemented against targets set in Draft Enterprise Development Strategy	100%
LED2.1	Agricultural Development Strategy and plan in place	Agricultural Development Strategy and plan in place
LED2.2	Measures implemented for agricultural development against targets set in Agricultural Development Plan	100%
LED3.1	Tourism Strategy and Plan in place	Tourism Strategy and Plan in place
LED3.2	Measure the impact of the tourism strategy and plan against target set in the strategy and plan	Impact made by tourist on local economy
LED5.2	No of jobs created in accordance with CWP	500

Measurability

30. The evidence and method of calculation for the achievement of the planned indicator was not clearly defined, as required by the Framework for Managing Programme Performance Information (FMPPI).
31. The targets for these indicators are not specific in clearly identifying the nature and required level of performance, are not measurable and did not specify the period or deadline for delivery during the planning process, as required by the FMPPI.
32. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not adequately designed as the municipality does not have a clear indication of the required performance, as required by the FMPPI.

The indicators below were not well defined and not verifiable. Targets relating to these indicators were not specific and not measurable.

Indicator no.	Indicator	Target
LED1.2	Measures implemented against targets set in Draft Enterprise Development Strategy	100%
LED2.2	Measures implemented for agricultural development against targets set in Agricultural Development Plan	100%
LED3.2	Measure the impact of the tourism strategy and plan against target set in the strategy and plan	Impact made by tourist on local economy

Relevance

33. The indicators did not relate to the strategic objective of promoting and supporting enterprise development to stimulate economic growth and development that will result in the creation of jobs which it aimed to achieve, as required by the FMPPI.

Indicator no.	Indicator	Target
LED1.1	Draft Enterprise Development Strategy and plan in place	Enterprise Development Strategy
LED1.2	Measures implemented against targets set in Draft Enterprise Development Strategy	100%

Reliability

34. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of target per the underlying records. This was due to lack of proper supporting evidence for the reported performance. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of the following indicators:

Indicator no.	Indicator	Target
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LED2.2	Measures implemented for agricultural development against targets set in Agricultural Development Plan	100%
LED3.2	Measure the impact of the tourism strategy and plan against target set in the strategy and plan	Impact made by tourist on local economy
LED5.2	No of jobs created in accordance with CWP	500

Indicator: Tourism Strategy and Plan in place

- 35. Reported achievement did not agree with the evidence provided and therefore is not valid, accurate and complete.
- 36. The reported achievement for the target tourism strategy and plan in place was misstated as the evidence provided indicated that the strategy was not yet approved and not target met as reported.

Other matter

- 37. I draw attention to the matter below.

Achievement of planned targets

- 38. Refer to the annual performance report on page(s) x to x; x to x for information on the achievement of planned targets for the year and explanations provided for the under achievement of a number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs [x; x; x] of this report.

Report on audit of compliance with legislation

Introduction and scope

- 39. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

- 40. The material findings on compliance with specific matters in key legislations are as follows:

Revenue management

- 41. An effective system of internal control for debtors/revenue was not in place, as required by section 64(2)(f) of the MFMA.

Annual financial statements

- 42. The financial statements submitted for auditing were not prepared, in all material respects, in accordance with the requirements of section 122 of the MFMA.
- 43. Material misstatements of non-current assets and revenue 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 a qualified audit opinion.

Consequence management

44. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(a) of the MFMA.
45. Irregular expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.
46. Losses resulting from irregular expenditure were not recovered from the liable person, as required by section 32(2) of the MFMA and municipal budget and reporting regulations 75 (2).
47. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA and municipal budget and reporting regulations 75(1).
48. Losses resulting from fruitless and wasteful expenditure were not recovered from the liable person, as required by section 32(2)(b) and 102(1) of the MFMA and municipal budget and reporting regulations 75(2).

Strategic planning and performance management

49. The Integrated Development Plan (IDP) did not include the financial plan, as required by sections 26(h) of the MSA and municipal planning.
50. The IDP was not drafted considering the integrated development process and proposals submitted by the district municipality as required by section 29(3) of the Municipal Systems Act, 2000 (Act No. 32 of 2000).

Procurement and contract management

51. Some of the quotations were accepted from prospective providers who were not on the list of accredited prospective providers and did not meet the listing requirements prescribed by the SCM policy, in contravention of SCM regulations 16(b) and 17(b). Similar non-compliance was also reported in the previous year.
52. Some of the 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).
53. 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).
54. 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). Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the Supply and delivery of quarry Material to Ndlambe area.

55. Some of the contracts 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 and Preferential Procurement Regulations. This non-compliance was identified in the procurement processes for the Upgrading of Runeli Drive Road in Ndlovini Township.
56. Some of the contracts were awarded to bidders based on preference points that were not all calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations. This non-compliance was identified in the procurement processes for the Upgrading of Beach Road, Port Alfred, Runeli Drive Road.
57. Some of the construction contracts were awarded to contractors that did not qualify for the contract, in contravention of section 18(1) of the Construction Industry Development Board Act, 2000 (Act No. 38 of 2000) (CIDB Act) and CIDB regulations 17 and 25(7A).
58. Bid documentation for procurement of commodities designated for local content and production did not stipulate the minimum threshold for local production and content, as required by preferential procurement regulation 9(1).
59. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5.
60. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
61. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e) and the code of conduct for staff members issued in terms of the Municipal Systems Act.
62. 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, in contravention of SCM regulation 46(2)(e) the code of conduct for staff members issued in terms of the Municipal Systems Act.
63. Awards were made to providers who were in the service of other state institutions or whose directors were in the service of other state institutions, in contravention of the MFMA 112(j) and SCM regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).
64. Awards were made to providers who were in the service of the municipality and whose directors were 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).

Expenditure management

65. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R221 880, as disclosed in note 47 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

Budgets

66. Reasonable steps were not taken to prevent unauthorised expenditure of R97,6 million, as disclosed in note 42 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending on the individual vote.

Conditional grants

67. The municipality did not evaluate its performance in respect of programmes or functions funded by the municipal infrastructure grant and the integrated national electrification grant, as required by section 12(5) of the DoRA.

Other information

68. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in the auditor's report.
69. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
70. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
71. I have not yet received the annual report. When I do receive this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected I may have to re-issue my auditor's report amended as appropriate.

Internal control deficiencies

72. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
73. The leadership did not adequately oversee the implementation and monitoring of internal controls to ensure sound financial and performance management and compliance with legislation. This resulted in inaccurate, incomplete and inadequate financial and performance reporting. The leadership developed a plan to address external audit findings, but it did not sufficiently address all the external audit findings raised in the previous years.

74. The leadership did not implement an effective performance management system that holds staff accountable and enables the leadership to instil the principle of consequence management. As a result, the municipality did not comply with much of the relevant legislation.
75. The municipality had an inadequate control environment with ineffective daily and monthly processing and reconciliation of transactions. The lack of a proper functioning control environment resulted in deficiencies in the record management system and underlying records. Furthermore, compliance with legislation was not monitored adequately, resulting in findings on compliance in the year under review.
76. Information provided was either incomplete or did not support the financial statements and the performance report. For some areas under both financial and performance management the regular processes of collecting, collating and reporting on credible information were not implemented, which resulted in material findings being raised on the reported financial and performance information.
77. The implementation of the risk management strategy was not monitored. Although a risk assessment was performed, it was inadequate and not formally adopted.
78. The internal audit unit and audit committee did review the adequacy, reliability and accuracy of the financial statements and performance information. However, the review of the financial statements, performance information and compliance with legislation was not adequate as evidenced by material misstatements identified in all these three areas.

AUDITOR GENERAL

East London

30 November 2017



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected development priorities and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in the auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit 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 municipality’s internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Ndlambe Municipality’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor’s report. However, future events or conditions may cause a municipality to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other

matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.



