

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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of Nyandeni Local 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 ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Nyandeni Local Municipality as at 30 June 2017, and its financial performance and cash flows for the year ended in accordance with South African Standards of Generally Recognised Accounting Practise (GRAP) and the requirements of the Municipal Finance Act of South Africa (MFMA) and Division of Revenue Act of South Africa, 2014 (Act No. 1 of 2015) (DoRA).

Basis for the opinion

3. 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 my report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with 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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matter

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

Irregular expenditure

7. As disclosed in note 42 to the financial statements, the municipality incurred irregular expenditure of R 314, 5 million during the year ended 30 June 2017. The irregular expenditure disclosed was as a result of non-compliance with procurement requirements in current year and previous financial years. Irregular expenditure amounting to R2, 5 million was investigated and written off by council in the current year.

Other matter

Unaudited disclosure notes

8. 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's for financial statements

9. The accounting office is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practise and the requirements of the Municipal Finance Act of South Africa ,2003 (Act No. 56 of 2003)(MFMA) and the 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.
10. In preparing the financial statements, the accounting officer is responsible for assessing the 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 accounting officer either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

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

11. 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 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of financial statements.
12. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

Report on the audit of the annual performance report

Introduction and scope

13. 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.
14. 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.

15. 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
Development Priority 1 – Basic service delivery	xx – xx
Development Priority 2 – Local Economic Development	xx – xx

16. I performed procedures to determine whether the reported performance information was properly presented and whether performance 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.

17. I did not identify any material findings on the usefulness and reliability of the reported performance information for the following development priorities:

- Basic service delivery
- Local Economic Development.

Other matters

18. I draw attention to the matters below:

Achievement of planned targets

19. Refer to the annual performance report on pages xx to xx; xx to xx 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 unqualified opinion on the usefulness and reliability of the reported performance information in paragraph 16 of this report.

Adjustment of material misstatements

20. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of basic service delivery. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information

Report on audit of compliance with legislation

Introduction and scope

21. 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.
22. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements and annual report

23. 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 in the cash flow statement 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

24. Competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2).

Expenditure management

25. Effective steps were not taken to prevent irregular expenditure amounting to R 314,5 million as disclosed in note 42 to the annual financial statements, as required by section 95(d) of the MFMA. The majority of the irregular expenditure was caused by a bid adjudication committee that was not composed in accordance with the Supply Chain Management (SCM) Policy of the municipality and with the SCM regulations 29(2).

Other information

26. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the audit committee's report, mayor's foreword and executive summary, municipal manager overview. The other information does not include the financial statements, the auditor's report thereon and those selected programmes presented in the annual performance report that have been specifically reported on in the auditor's report.
27. 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.

28. 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 programmes presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

29. No material inconsistencies were identified.

Internal control deficiencies

30. 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 matter reported below is limited to the significant internal control deficiencies that resulted in the finding on compliance with legislation included in this report.

31. Management did not implement adequate controls around the preparation and reviewing of the annual financial statements which has led to the material misstatement identified during the audit.

32. Management did not ensure that there are adequate controls in procurement and contract management to ensure compliance with key SCM regulations.

Other reports

33. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

34. An independent consultant investigated an allegation of possible misappropriation of the municipality's assets at the request of the municipality, which covered the period 01 July 2016 to 30 June 2017. The investigation concluded on 31 July 2017 and resulted in criminal proceedings against three employees. These proceedings are currently in progress with the South African Police Services.

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 programmes 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 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 to continue 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 here applicable, related safeguards.