



ANNEXURE C

Auditor General's Report

REPORT OF THE AUDITOR-GENERAL TO THE EASTER CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON SENQU MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Senqu Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year ended, a summary of significant accounting policies and other explanatory information, as set out on pages 157 to 233.

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 Standard of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 2003 (Act No 56 of 2003) (MFMA) and the Division of Revenue Act (Act No. 1 of 2010) 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. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004)(PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with international Standards on Auditing and *General notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. Those standards required that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence for 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.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Senqu Municipality as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with GRAP and the requirements of the MFMA.

Emphasis of matters

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

Restatement of corresponding figures

8. As disclosed in note 37 to the financial statements, the corresponding amounts included in the financial statements for the financial year ended 30 June 2011 have been restated for the purposes of corrections of errors in the prior year. These corrections were mainly due as a result of Directive no longer being applicable.

Material losses

9. As disclosed in note 43.4 to the financial statements, the municipality suffered an electricity loss of 5.6 million kilowatts in the current year (2010: 9.5 million kilowatts) amounting to R3 million (2010: R4.1 million), respectively

Unauthorised expenditure

10. Disclosed in notes 42.2 and 43.1 to the financial statements is unauthorised expenditure of R358 350 incurred during the current year as a result of overspending on waste management. The expenditure of R2 million incurred in the previous years was condoned by the council during the year, as set out in note 43.1 to the financial statements.

Additional matter

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

Unaudited supplementary schedules

11. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. In accordance with the PPA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives**Presentation of information**

13. The following criteria are relevant to the findings below:

- Performance against predetermined objective is to be reported using the National Treasury guideline.
- Audit finding

14. Sufficient appropriate evidence in relation to the selected objectives for presentation could not be obtained from the municipality as the annual performance report was not aligned to SDBIP and IDP. There were no satisfactory audit procedures that we could perform to obtain the required assurance as to the validity, accuracy and completeness of the reported performance against the predetermined objectives.

Usefulness of information

15. The following criteria are relevant to the findings below:

- Consistency: Objectives, indicators and targets are not consistent between planning and reporting documents.
- Measurability: Indicators are not well defined and/or verifiable and targets are not specific and/or time bound.

Audit findings**Reported indicators are not consistent when compared with the planned indicators (Consistency)**

16. Reported performance against predetermined indicators is not consistent with the approved IDP.

Planned and reported indicators are not verifiable (Measurability)

17. For the selected programmes/objectives valid performance management processes and systems that produce actual performance against the planned indicators do not exist for 88% of the indicators, as indicators are shown as percentages without a base being given.

Reliability

18. The following criteria are relevant to the findings below:

- Validity: The validity of performance information could not be tested as actual outputs were not reported in the annual performance report.

- Accuracy: The accuracy of amounts, numbers and other data relating to actual performance could not be determined due to the fact that actual outputs have not been reported in the annual report.
- Completeness: We could not confirm if all actual results and events that should have been recorded have been included in the annual performance report as actual outputs were not reported.
-

Audit finding

19. Validity, accuracy and completeness of the performance information could not be audited as actual outputs were not available for inspection.

Compliance with laws and regulations

Included below are findings related to material non-compliance with the acts as indicated.

Strategic and performance management

20. The accounting officer of the municipality did not submit the results of the assessment on the performance of the municipality during the first half of the financial year to the mayor of the municipality, the National Treasury, and the provincial treasury as required by section 72(1)(b) of the MFMA.

Budget

21. The municipality incurred expenditure that was not budgeted for and incurred expenditure in excess of the limit of the amount provided for in the vote in the approved budget, in contravention of section 15 of the MFMA.

Annual financial statements, performance and annual report

22. 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 expenditure and disclosure items identified by the auditors were subsequently corrected resulting in the financial statements receiving an unqualified audit opinion.
23. The mayor did not table, in council, the 2009-10 annual report of the municipality within seven months after the end of the financial year as required by section 127(2) of the MFMA.
24. The mayor did not submit a written explanation to the council setting out the reasons for the delay in the tabling of the 2009-10 annual report in council as required by section 127(3) of the MFMA.
25. The annual performance report did not contain a comparison of the performance of the municipality and of each external service provider with development priorities, objectives and performance indicators set out in its IDP as required by section 46 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

Audit committees

26. The performance audit committee or another committee functioning as the performance audit committee did not review the municipality's performance management system and make recommendations in this regard to the council as required by Municipal Planning and Performance Management Regulation 14.

Procurement and contract management

27. Invitations for competitive bidding were not always advertised for a required minimum period of days as per the requirements of supply chain management (SCM) regulations 22(1) and 22(2).
28. Awards were made to providers who are persons in service of other state institutions or whose directors/principal shareholders are persons in service of other state institutions in contravention of the requirements of the SCM regulation 44. Furthermore, the provider failed to declare that he/she is in the service of the state as required by SCM regulation 13(c).

Expenditure management

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

Revenue management

30. Revenue received by the municipality was not always reconciled at least on a weekly basis, as required by section 64(2)(h) of the MFMA.

Asset management

31. The council did not approve the disposal of capital assets as required by municipal asset transfer regulation 5(b)(ii)/ 8(b)(ii) (GNR 878 of 22 August 2008) with a carrying value of R277 632. Furthermore, the asset management policy was not adhered to as it stipulates that every head of department shall ensure that any incident of loss, theft, destruction, or material impairment of any fixed asset controlled or used by the department in question is promptly reported in writing to the municipal manager, chief financial officer, to the internal auditor, and – in cases of suspected theft or malicious damage – also to the South African Police Service (SAPS).

INTERNAL CONTROL

32. In accordance with the PAA and in terms of *General notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the findings on compliance with laws and regulations included in the report.

Leadership

33. the accounting officer did not monitor the implementation of action plans to address internal control deficiencies in ensuring that a proper control system exists for assets in order to eliminate losses.

Financial and performance management

34. The accounting officer did not implement controls over daily and monthly processing and reconciling of transactions as interdepartmental expenses incurred were not eliminated. The framework for managing performance information has not been fully understood. There were inconsistencies between the planned and reported indicators (inconsistency between the IDP, SDBIP and annual report).

Governance

35. The audit committee did not effectively exercise oversight by reviewing annual performance reports to confirm accuracy, completeness and validity of the information relating to predetermined objectives before submission for audit purposes.

Auditor General

East London

30 November 2011



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence