

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO EASTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL OF NDLAMBE MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Ndlambe Municipality, which comprise the statement of financial position as at 30 June 2010, the statement of financial performance, statement of changes in net assets and statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory information as set out on pages 2 to 52.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (GRAP), and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution 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) and section 126(3) of the MFMA, 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 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. 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.
5. 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.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for qualified opinion

Property, plant and equipment



7. The municipality does not have policies and procedures in place which are aligned with the recognition requirements of GRAP 17 – *Property, Plant and Equipment*. Consequently, capital assets purchased during the year were incorrectly allocated to operating expenditure. I was not able to determine the full extent of this error, even through the performance of alternative procedures.
8. In addition the municipality has not identified all infrastructure assets and updated these to the asset register. As a result, the accounting for the recognition of these assets is incomplete and not within the transitional provisions of *Directive 4*, which requires that municipality has at least recognised all assets by the 30 June 2010.
9. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of property, plant and equipment amounting to R65,87 million as disclosed in note 6 the financial statements.

Irregular expenditure

10. Irregular expenditure of R25,4 million was incurred as a result of the municipality not adhering to its Supply Chain Management policy. The municipality has disclosed Irregular expenditure of R19,9 million in note 40. As a result Irregular expenditure as disclosed is understated by R5,5 million.

Commitments

11. The municipality does not maintain a register of commitments as part of its contract management processes and discrepancies were found between the amounts recorded as payments against the disclosed commitments and the payments recorded in the accounting records. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness and valuation of commitments of R1,2 million as stated in note 35 to the financial statements.

Unspent government grants

12. Included in the corresponding figure for unspent conditional grants and receipts of R19,4 million is an unreconciled amount of R2,96 million for which the municipality was unable to provide supporting evidence. Whilst the municipality reconciled all current year unspent grants, we are unable to satisfy ourselves as to the existence and valuation of the unreconciled difference in the corresponding figure of R2,96 million.

Opinion

13. In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Ndlambe Municipality for the year ended 30 June 2010 and its financial performance and its cash flows for the year then ended, in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA).

Emphasis of matter

Material losses/impairments



14. Impairment of consumer debtors of R22,3 million was recognised in the current year and a further R12,9 million was recognised against accumulated surplus in respect of the prior year.

Material under spending of the budget

15. The following instances of material under spending were noted during the audit, and will be presented to council for approval in January 2010.

- Community services – R2,02 million
- Housing services – R12,6 million

Additional matters

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

Unaudited supplementary schedules

17. The detailed income statement presented on page 53f the statements was not audited and no opinion is expressed on the fair presentation thereof.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

18. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with laws and regulations and financial management (internal control).

Predetermined objectives

19. The municipality did not prepare the annual performance report in terms of section 46 of the MSA, and section 121(3) (c) of the MFMA:

Non-compliance with regulatory and reporting requirements

No mid-year budget and performance assessments

20. The Municipal Manager did not assess the performance of the municipality, by the 25th of January 2010 as required by section 72 of the MFMA.

Usefulness of information

21. The following criteria were used to assess the usefulness of the planned and reported performance:

- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
- Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit finding relates to the above criteria:



22. The Ndlambe Municipality did not prepare the annual performance report in terms of section 46 of the MSA, and section 121(3)(c) of the MFMA.

Reliability of information

23. The following criteria were used to assess the reliability of the planned and reported performance:

- Validity: Has the actual reported performance occurred and does it pertain to the entity i.e. can the reported performance information be traced back to the source data or documentation?
- Accuracy: Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
- Completeness: All actual results and events that should have been recorded have been included in the reported performance information.

The following audit finding relates to the above criteria

24. The Ndlambe Municipality did not prepare the annual performance report in terms of section 46 of the MSA, and section 121(3)(c) of the MFMA.

Compliance with laws and regulations

Municipal Finance Management Act of South Africa, No 56 of 2003 (MFMA)

Expenditure was not paid within the parameters set by applicable legislation

25. Creditors were not settled within 30 days as required by section 65(2)(e) of the act.

Responsibilities of the accounting officer

26. The Annual Report did not include an assessment of the municipal accounting office's of the municipality's performance against the measurable performance objectives for revenue collection from each revenue source and for each vote in the municipality's approved budget for the relevant financial year as required by section 121 (3) of the act.

27. Section 71 reports prepared were not submitted within 10 working days working days after the end of that month, as required by section 71(5) of the act.

28. Quarterly reports on the implementation of the budget and the financial state of affairs of the municipality were not tabled to Council within 30 days as required by section 52 (1)(d) of the act.

29. In contravention of section 62(1)(a) of the MFMA, the municipality has not quantified or investigated water losses incurred during the period under review.

30. The financial statements submitted for audit did not comply with section 122(1) of MFMA. Material misstatements were identified during the audit, certain of these were corrected by management and those that were not are included in the basis for qualified opinion paragraphs.

Division of Revenue Act of South Africa, 2009 (Act No.12 of 2009)

Responsibilities of the accounting officer



31. The municipality did not evaluate the performance of the programs/functions funded or partially funded by the schedule 6 allocations, as required by section 12(6) of the act.

Municipal Systems Act of South Africa,2000 (Act No.32 of 2000)

Responsibilities of the accounting officer

32. The respective roles and areas of responsibility of each political structure and political office bearer and of the municipal manager were not defined as required by section 53(2) (a) of the act.

Environmental Conservation Act, 1998

Responsibilities of the accounting officer

33. Ndlambe municipality operated its landfill sites without the permit issued by the Minister, as required by section 20 of the act.

INTERNAL CONTROL

34. I considered internal control relevant to my audit of the financial statements as well as compliance with the Municipal Finance Management Act, No 56 of 2003 (MFMA), but not for the purpose of expressing an opinion on the effectiveness of internal control.

35. The matters reported below are limited to the significant deficiencies regarding the basis for qualified opinion paragraph, the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

- **Leadership**

The recent events within the Municipal area where ratepayers are withholding rates payments due to a lack of service delivery is of concern and cannot be overlooked in terms of its link to the leadership within the entity. Furthermore, whilst at an operational level each directorate may have demonstrated effectiveness in terms of leadership, there is a concern that the respective directors are not providing the necessary support to finance which will enable the finance department to provide meaningful and accurate financial information timeously, specifically in light of the onerous requirements of the new reporting framework.

- **Financial and performance management**

With the implementation of the new reporting framework, the municipality has attempted and to a reasonable extent succeeded in delivering financial information in line with framework. However the municipality still did not have adequate systems for the recording, monitoring and reporting of property, plant and equipment, commitments and irregular expenditure.

- **Governance**

The Municipality has not implemented an approved fraud prevention plan and whilst the risk management policy has been drafted for approval by council, it was not in place during the reporting period. Furthermore, the municipality does not have a proper operational internal audit function in place.

East London

30 November 2010



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence