

REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE NDLAMBE MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Ndlambe Municipality which comprise the balance sheet as at 30 June 2009, income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages [xx] to [xx].

The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation of these financial statements in accordance with the entity-specific basis of accounting, as set out in accounting policy note 1 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA), and for include 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.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 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 the International Standards on Auditing and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on 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

Provisions

7. The municipality, which operates landfill sites, has an obligation in terms of section 28 of the National Environment Management Act, 1998 (Act No. 107 of 1998) to restore such sites. The municipality did not assess the remaining useful life of landfill sites. Detailed records of the capacity of landfill sites were not maintained by the municipality's engineers.
8. Consequently, a provision for the rehabilitation of landfill sites was not raised in the financial statements. Due to the specialist nature of such a provision and lack of appropriate records, I was unable to determine the extent of the misstatement.

Debtors

9. In terms of the entity-specific basis of accounting the municipality is required to provide for amounts included in debtors which are considered to be irrecoverable and to adjust such provision annually. The municipality did not have a doubtful debt provision policy which enabled it to identify all such potential doubtful debts. In addition, no evidence could be provided in support of the quantification or adequacy of the doubtful debt provision amounting to R25.9 million as reported in note 10 to the financial statements.
10. An analysis of the debtors ageing revealed debtors totalling R38.8 million as outstanding for a period exceeding 90 days. Debtors are therefore considered to be overstated by an estimated amount of R12.9 million.

Qualified opinion

11. In my opinion, except for the possible effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements of the Ndlambe Municipality have been prepared, in all material respects, in accordance with the basis of accounting as set out in accounting policy note 1 to the financial statements and in the manner required by the MFMA.

Emphasis of matters

I draw attention to the following matters on which I do not express a qualified opinion:

Highlighting critically important matters presented or disclosed in the financial statements

Basis of accounting

12. The municipality's policy is to prepare financial statements on the entity-specific basis of accounting, as set out in accounting policy note 1 to the financial statements.

Funds and reserves

13. Approximately R8.3 million of the underlying investments for the funds and reserves balances reported in note 1 to the financial statements was borrowed to fund the

operations of the municipality. Should these amounts not be repaid timeously, the completion of capital projects may be delayed.

OTHER MATTERS

I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Non-compliance with applicable legislation

Environment Conservation Act, 1989 (Act No. 73 of 1989),

14. The municipality does not have permits for all landfill sites. As required by section 20(1)(a) of the Environment Conservation Act, which requires that no person shall establish, provide or operate any disposal site without a permit issued by the Minister of Water Affairs.

Municipal Finance Management Act

15. An adequate and complete register of assets was not maintained by the municipality as required by section 63(2)(c).

16. Not all payments to suppliers were made within thirty (30) days as required by section 65(2)(e).

Governance framework

17. The governance principles that impact the auditor’s opinion on the financial statements are related to the responsibilities and practices exercised by the accounting and executive management and are reflected in the internal control deficiencies and in the key governance responsibilities addressed below:

Internal controls

18. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the inefficiencies in the system of internal control, which led to the qualified opinion. The root causes are categorised according to the five components of an effective system of internal control. In some instances deficiencies exist in more than one internal control component.

Par. no.	Basis for qualified opinion	CE	RA	CA	IC	M
Par 8	Provision: No provision for landfill sites			6		
Par 10	Receivables: Provision for bad debts inadequate			4		

Control activities

Policy and procedure frameworks have not been developed and implemented for all major account balance's, to ensure fair presentation of the annual financial statements. The appropriate management attention and actions was therefore not given to the above balance's for the year under review.

Legend	
CA = Control activities	
There is inadequate segregation of duties to prevent fraudulent data and asset misappropriation.	1
General information technology controls have not been designed to maintain the integrity of the information system and the security of the data.	2
Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.	3
Actions are not taken to address risks to the achievement of financial reporting objectives.	4
Control activities are not selected and developed to mitigate risks over financial reporting.	5
Policies and procedures related to financial reporting are not established and communicated.	6
Realistic targets are not set for financial performance measures, which are in turn not linked to an effective reward system.	7

Key governance responsibilities

19. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

No.	MATTER	Yes	No
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	✓	
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material amendments resulting from the audit.		✓
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	✓	
Timeliness of financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines section 126 of the MFMA.	✓	
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.	✓	
Development and compliance with risk management, effective internal control and governance practices			
6.	Audit committee		
	<ul style="list-style-type: none"> The Ndlambe Municipality had an audit committee in operation throughout the financial year. 	✓	

No.	MATTER	Yes	No
	• The audit committee operates in accordance with approved, written terms of reference.	✓	
	• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.		✓
7.	Internal audit		
	• The Ndlambe Municipality had an internal audit function in operation throughout the financial year.	✓	
	• The internal audit function operates in terms of an approved internal audit plan.	✓	
	• The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.		✓
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		✓
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		✓
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	✓	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 95(c)(i) of the MFMA.		✓
12.	Delegations of responsibility are in place, as set out in section 106 of the MFMA.	✓	
Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.		✓
14.	Oversight resolutions have been substantially implemented.	N/a	
Issues relating to the reporting of performance information			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.		✓
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		✓
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Ndlambe Municipality against its mandate, predetermined objectives, outputs, indicators and targets section 68 of the MFMA.		✓
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.		✓

20. Key governance responsibilities, including the development of and compliance with risk management, effective internal control and governance practices, have not been fully implemented as reflected in the table above, as the post of municipal manager at the municipality had been vacant for a substantial portion of the year

under review. This position has been filled subsequent to the year-end, to implement these structures and control systems.

21. The finance section has adequate skills and competencies but monitoring controls are not always adequate to ensure that the information disclosed in the financial statements is accurate and complete, as material adjustments relating to creditors, inventory and internal loans were effected after submission of the financial statements for auditing.
22. My ability to assess the effectiveness of the audit committee and internal audit was hampered due to internal audit reports not having been submitted for audit purposes. In addition, internal audit also failed to attend to all the matters on the approved internal audit plan for the year under review.

INVESTIGATIONS

23. An investigation is being conducted into alleged irregular payments in the supply chain management section which is a continuation of audit findings from the previous year. The investigation was still ongoing at the reporting date.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

24. I was engaged to review the performance information.

The accounting officer's responsibility for the performance information

25. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

The Auditor-General's responsibility

26. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.
27. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
28. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit findings (performance information)

Non-compliance with regulatory requirements

No reporting of performance information

29. The annual report of the Ndlambe Municipality did not include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the MSA as required by section 121(3)(c) of the MFMA.

Existence and functioning of a performance audit committee

30. The audit committee functioning as the performance audit committee did not:

- meet at least twice during the year
- review the quarterly reports of the internal auditors on their audits of the performance measurements of the municipality
- review the municipality's performance management systems and make recommendations in this regard to the council of the Ndlambe Municipality.

Internal auditing of performance measurements

31. The municipality did not develop and implement mechanisms, systems and processes for auditing results of performance measurement as part of internal audit processes, as required in terms of section 45 of the MSA.

Lack of implementation of a performance management system

32. The municipality did not implement a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players, as required in terms of regulations 7 and 8 of the Municipal Planning and Performance Management Regulations.

OTHER REPORTS

Performance audits

33. No performance audit was conducted for the year under review

APPRECIATION

34. The assistance rendered by the staff of the Ndlambe Municipality during the audit is sincerely appreciated.

Auditor-General

East London

10 December 2009



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence