



AUDITOR - GENERAL
SOUTH AFRICA

The Municipal Manager
Nxuba Municipality
1 Adelaide
Market Square
5670
8 April 2011

Reference: 21301REG09/10

Dear Sir

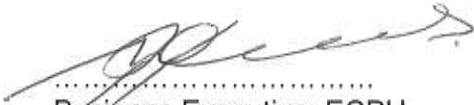
Report of the Auditor-General on the financial statements and performance information of Nxuba Municipality for the year ended 30 June 2010

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa and section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.

6. Please notify the undersigned Business Executive well in advance of the date on which the annual report containing this audit report will be tabled.
7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter

Yours sincerely



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Business Executive: ECBU

Enquiries: Daneal Hibbers
Telephone: (043) 709 7200
Fax: (043) 709 7300

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the Nxuba 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 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.

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 South African Standards of Generally Recognised Accounting Practice (GRAP) reporting framework and in the manner required by the Municipal Finance Management Act of South Africa, 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 misstatements, 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, Act No. 108 of 1996, section 4 of the Public Audit Act of South Africa, 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 conducting the audit in accordance with the International Standards on Auditing and General Notice 1570 of 2009 issued in Government Gazette 32758 of 27 November 2009. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Cash and Cash equivalents

4. A bank account in the name of the municipality with a balance of R479 170 was not recorded in the trial balance of the municipality and not disclosed in note 1 as required by section 125(2)(a) of the MFMA or included in the total balance of cash and cash equivalents of R699 205 as disclosed in the statement of financial position.
5. The municipality were unable to provide audit evidence or explanations to substantiate transactions to the value of R8 498 717 and journal entries to the value of R18 345 093. The municipality did not provide audit evidence or explanations to substantiate inter-bank transfers to the value of R8 359 720. The recording of direct deposits to the value of R117 195 could not be confirmed in the financial records of the municipality. The financial records did not allow for alternative procedures. I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the

completeness, accuracy, valuation, right and obligations of cash and cash equivalents.

6. The corresponding figures for bank overdraft of R2 538 061 included invalid reconciling items of R 1 600 000. The municipality could also not explain a difference of R2 500 000 as was reported in my audit report for the previous year. Consequently I was not able to obtain sufficient and appropriated audit evidence regarding the completeness, accuracy, valuation, right and obligations of the corresponding balance.

Revenue from non-exchange transactions

7. A subsidy of R1 014 997 paid by Department of Local Government for audit fees of the municipality was not recorded as revenue. Equitable share grant to the value of R13 246 875 was allocated per Government Gazette however, the municipality only recognised R13 192 543 in the financial records. Consequently Government Grants and subsidies is understated by R1 069 419, audit fees disclosed in note 35.2 is understated by R1 014 997 and unspent conditional grants by R54 422.
8. Property Rates disclosed as R2 579 359 is overstated by R844 482 and debtors are overstated by R844 482 as identified by the valuation roll reconciliation.

Revenue from exchange transactions

Services Charges

9. The municipality did not recognise revenue from the sale of prepaid electricity by third parties on behalf of the municipality. Reports from third parties indicates that a service charge amounting to R255 970 (2009: R96 750) was collected by third parties. Service charges disclosed in the statement of financial performance is understated by R255 970 (2009: R96 750) and receivables is understated by R352 720 (2009: 96 750) and accumulated surplus by R96 750 in the statement of financial position is understated by a similar amount.
10. Meter readings were not captured accurately resulting in an overstatement of service charges and an overstatement of receivables disclosed in the statement of financial position by R934 897. Reports from the prepaid electricity system compared to the prepaid electricity sales in the general ledger indicate that prepaid electricity is overstated by R837 595 and receivables by a similar amount. Consequently service charges is overstated by R1 772 492 and receivables from exchanges transactions is overstated by a similar amount.
11. Electricity consumption is invoiced and recognised in the financial records in the month after the month in which it was consumed. The practice is in contravention with GRAP1 requirements that revenue should be recognised when it occurs. The effect of this contravention is that revenue is not recognised in the correct financial period. Sales of electricity for July 2009 amounting to R747 529 should have been accounted during the 2008-09 financial year and sales of electricity of R857 446 in July 2010 should have been recorded in the 2009-10 financial year. The net effect is that revenue is understated by R109 917, receivables from exchange transactions is

understated by R857 446 and accumulated surplus opening balance is understated by R747 529.

Interest earned – outstanding receivables

12. Interest charged on outstanding debtors' balances has been charged at 13.05% throughout the year. In terms of section 97(1)(e) of the Municipal Systems Act (MSA), interest should be charged at prime plus 1% as per the credit policy of the municipality. The effect of this error is an overstatement of interest disclosed in the statement of financial performance of R483 996 and an overstatement of trade receivables by a similar amount.

Licences & permits

13. By comparing the monthly licensing system report to the general ledger we identified that an amount of R454 203 in the general ledger is not supported by the licensing system reports. The municipality did not provide appropriate audit evidence to explain the difference. The financial records does not allow for alternative procedures. Consequently I could not obtain appropriate audit evidence regarding the accuracy and occurrence of Licences & Permits amounting to R 1 331 332 as disclosed in the financial statements.

Other Income

14. The municipality was not able to provide audit evidence regarding credit journal entries amounting to R506 000 as recorded in the general ledger account of other revenue disclosed as R897 431 in the statement of financial performance. Consequently I could not obtain appropriate audit evidence regarding the occurrence, accuracy, completeness and cut off regarding Other Income.

Receivables

15. The municipality was unable to provide a detailed age analysis of receivables from exchange transactions amounting to R16 402 358 (2009: R12 108 701) and receivables from non-exchanges transactions R17 215 137 (2009: R17 419 292) and old housing debt of R7 097 214 as disclosed in note 2 to the financial statements. Using alternative computer assisted procedures we were able to extract an overall receivables list from the detailed debtors accounts at year end. The total of the extracted list did not agree with the control account in the general ledger. The difference of R1 596 206 between the extracted list and the debtors balance in the trial balance and general ledger could not be explained. The municipality was unable to provide explanations or sufficient audit evidence regarding the existence of 55 receivable accounts for the Eastern Cape Provincial Department of Public Works with a total value of R1 459 958.
16. According to the accounting policy note 1.25 to the financial statement on significant judgements and estimates, "The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors." Based on the fact that the municipality have impaired outstanding debts longer than 90 days, with the exception of government debtors, it appears that management have not used reasonable judgement in identifying

debtors who are impaired whilst calculating impairment of credit losses amounting to R30 889 369 (2009: R28 099 877). Due to a lack of detailed debtor's information, I could not perform alternative procedures. Consequently I am unable to obtain sufficient and appropriate audit evidence regarding the existence, valuation, accuracy and completeness of receivables from exchange and non-exchange transactions.

Inventory

17. Included in the total amount of R14 787 487 (2009: R14 787 487) disclosed as inventory in the statement of financial position are items to the value of R7 397 053 (2009: R7 397 053) that do not meet the definition of inventory as set out in the GRAP standard. These items should be classified as property plant and equipment. Inventory with a value of R7 390 434 (2009: R7 390 434) does not meet the definition of inventory assets as defined by GRAP. The Rural Development Project (RDP) houses are occupied by the beneficiaries and are no longer under the control of the municipality. Consequently, inventory is overstated by R14 787 487 (2009: R14 787 487), property plant and equipment is understated by R7 397 053 (2009: R7 397 053) and accumulated surplus is understated by R7 390 434 (2009: R7 390 434).

Property Plant and Equipment

18. The municipality did not recognise all property plant and equipment in the fixed asset register as required by Directive 4 of the transitional provisions for GRAP 17.
19. Purchases of property plant and equipment to the value of R119 995 were allocated to Grant Expenditure. The classification error resulted in an overstatement of Grant Expenditure disclosed in the statement of financial results and an understatement of property plant and equipment in the statement of financial position of R119 995.

Investment - securities

20. Investment – securities amounting to R47 498 are disclosed as non-current assets and consist of short-term bank investments and must be classified and disclosed as current assets in terms of GRAP1.

Trade and other payables

21. The municipality was unable to provide audit evidence or explanations to substantiate journal entries to the value of R6 795 898 and R4 746 593 respectively.
22. The municipality failed to reconcile the deductions made from salaries with the pay overs made to the relevant third parties. In comparing the pay overs per general ledger with the deductions made, we identified underpayments amounting to R276 078 to the South African Revenue Services (SARS), R750 744 to medical aid, R1 701 297 to pension and provident funds and R1 829 498 to other third parties. The municipality were unable to provide explanations or substantiate audit evidence regarding the recording of underpayments in the financial records.
23. Trade creditors were not initially recorded at fair value and subsequently carried at amortised cost as required by International Accounting Standard (IAS 39). As a result, trade and other payables are overstated by R561 172. Payables amounting to R102 161 (2009: 674 146) were not recorded in the financial year under review

resulting in an understatement of expenditure and trade payables. Consequently, I was not able to obtain sufficient and appropriate audit evidence on the completeness, existence, valuation and rights and obligations of trade and other payables disclosed in the statement of financial position amounting to R 8 446 884.

Consumer deposits

24. Detailed information to substantiate consumer deposits to the value of R347 083 (2009: R341 798) was not provided. The financial records did not allow for alternative procedures. Consequently I was unable to obtain sufficient and appropriate audit evidence regarding the valuation, existence, completeness, rights and obligations of consumer deposits.

Unspent conditional grants

25. The municipality was unable to explain or substantiate a difference of R766 598 between the balance of unspent conditional grants and conditional grants allocated less grant expenditure. I could therefore not obtain sufficient and appropriate audit evidence regarding the valuation of unspent conditional grants amounting to R2 960 950 as disclosed in the statement of financial position.

Leave accrual

26. Our audit procedures revealed calculation errors amounting to R315 453 in the leave accrual balance of R1 020 379 as disclosed in the statement of financial position, resulting in a potential understatement thereof.

VAT Payable

27. Comparing the Value-Added Tax (VAT) output tax per the general ledger with the output tax per VAT 201 returns for the financial year, I identified a difference of R923 097 (2009: R496 956). The municipality did not prepare any reconciliation and were unable to provide valid explanations for the difference. Consequently, I was unable to obtain sufficient and appropriate evidence regarding the valuation, accuracy, rights and obligation for the VAT payable of R294 295 as disclosed in the statement of financial position.

28. Input tax to the value of R503 824 on expenditure was not claimed, resulting in an overstatement of expenditure and an overstatement of the VAT payables.

Expenditure

Employee cost

29. The municipality did not reconcile the payroll system with the salary control accounts in the general ledger and could not provide explanations regarding the difference of R237 862 between the payroll system and the salary control account.

Remuneration of Councillors

30. Remuneration of Councillors is disclosed as R1 064 382 in note 24 to the financial statements while the payroll systems recorded allowances to Councillors of R1 431 007. The municipality was unable to provide substantiating audit evidence regarding the difference of R367 927.

General expenses

31. Payment vouchers to the value of R174 161 were not recorded in the financial records of the municipality which resulted in an understatement of expenditure. Insurance journals amounting to R423 277 were duplicated in the insurance expense account resulting in an overstatement. The net-overstatement of expenditure is R249 116.

Grant expenditure

32. Grant expenditure as disclosed in note 28 to the financial statements does not adhere to the requirements of paragraph 36 of GRAP 1, which requires that each material class of similar items shall be presented separately in the financial statements and that items of dissimilar nature shall be presented separately unless they are immaterial.

Bad debts

33. The municipality were unable to provide appropriate audit evidence to substantiate journal entries to the value of R3 443 037 passed in the bad debts general ledger account and receivables control accounts.

Fruitless and wasteful expenditure

34. Fruitless wasteful expenditure amounting to R99 494 (2009: R99 527) was not disclosed as required by section 125(2)(d)(i) of the MFMA. This arose as a result of interest and penalties incurred on late payments. Expenditure is understated by R99 494 (2009: R99 527) and payables is understated by the same amount.

Disclosure**GRAP Disclosures**

35. The municipality did not adhere to the requirements of the reporting framework set out in Directive 5 issued by the Accounting Standards Board in March 2009 as required by section 122(3) of the MFMA. The following serve as examples: the municipality failed to provide comparisons between actual and budget figures as required by paragraph 12 of GRAP 1; non-compliance with the disclosure requirements of GRAP 3 relating to the change in accounting policy and correction of prior period errors (refer to notes 32 and 33 to the financial statements); not fully disclosing the reason for the change in accounting policy or error; and not disclosing the previously reported account balance, the effect of the change and the new account balance as per the restated comparative figures. The municipality also failed to comply with the disclosure requirements of the International Financial Reporting Standard (IFRS) 7, by not fully disclosing all risks associated with the financial instruments disclosed and all significant judgements and estimates relating to financial instruments (refer to notes 41 and 42 to the financial statements).

MFMA Disclosures

36. The municipality did not calculate and monitor electricity distribution losses. The systems and processes of the municipality did not provide sufficient information in order to calculate these losses. Consequently I was unable to obtain sufficient and appropriate audit evidence regarding the completeness and accuracy of the disclosure of material losses as required by section 125(d) of the MFMA.

Financial sustainability

37. The financial statements did not disclose the significant uncertainty relating to the ability of the municipality to continue to provide uninterrupted services to its community without the support of Provincial and National Government.

Capital Commitments outstanding

38. The municipality did not provide sufficient and appropriate audit evidence for the amount of R1 419 682 as disclosed in note 36 to the financial statements. I was unable to obtain appropriate audit evidence regarding the accuracy and completeness of the amount disclosed.

Disclaimer of opinion

39. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

Emphasis of matters

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

Matters important to users of the financial statement

Arrears Councillors consumer accounts

41. Arrear consumer accounts for Councillors to the amount of R30 775 are disclosed in note 35.6 of the financial statements.

Unauthorised expenditure

42. As disclosed in note 34.1 to the financial statements unauthorised expenditure of R38 543 was incurred primarily as a result of overspending the budget for telephone expenditure.

Change in accounting framework

43. With reference to note 32, I draw your attention to the fact that the municipality has changed the accounting framework used as their basis of accounting as required by S122(3) of the Municipal Finance Management Act No. 56 of 2003.

Restatement of comparative figures

44. With reference to note 32, we draw your attention to the fact that the prior year comparative figures have been restated to comply with the implementation of GRAP.

45. With reference to note 33, we further draw your attention to the fact that certain prior year comparative figures have been restated to correct prior period errors identified in order to provide more reliable and relevant information.

REPORT ON OTHER LEGAL AND REGULATORY REPORTING REQUIREMENTS

46. As required by the Public Audit Act (PAA) and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include my findings on the report on predetermined objectives, compliance with the MFMA, Municipal Systems Act of South Africa, Act No. 32 of 2000 (MSA), Division of

Revenue Act of South Africa, Act No 12 of 2009 (DoRA) the Municipal Supply Chain Management Regulations of South Africa (GNR 868 of 30 May 2005) (SCM regulations), and financial management (internal control).

Predetermined objectives

Introduction

47. As required by section 13 of the PAA read with *General Notice* 1570 of 2009, issued in Government Gazette 32758 of 27 November 2009 and section 45 of the Municipal Systems Act, No. 32 of 2000 (MSA), I include my findings on the report on predetermined objectives, compliance with the following key laws and regulations, and financial management (internal control).

Non-compliance with regulatory and reporting requirements

48. Included below are findings related to material non-compliance with the regulatory and reporting requirements.

Municipal Systems Act of South Africa, No 32 of 2000

49. The municipality did not take steps to improve performance relating to those development priorities and objectives where performance targets have not been met as required by section 41(1)(d) of the MSA.

50. The reported performance information included in the annual report does not include comparisons between performance in the current year with targets set for the current and previous financial years, as required by section 46 of the MSA.

Municipal Planning and Performance Management Regulations, 2001

51. The municipality did not appoint internal auditors to audit the performance measurements of the municipality and submit quarterly reports on their audits to the municipal manager and the performance audit committee as required by 14(1) of the Municipal Planning and Performance Management Regulations, 2001.

52. The 2009-2010 Performance Management Framework does not describe the role and responsibilities of each role-player including the local community in the functioning of the system as required by paragraph 7(c) of the Municipal Planning and Performance Management Regulations, 2001.

Usefulness of reported performance information

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:

53. The municipality's planned and reported targets relating to the Financial Viability objective are not specific when clearly identifying the nature and the required level of performance and are not time bound in specifying the time period or deadline for delivery. The indicators do not have a logical link with the objective.

Compliance with laws and regulations

Internal audit function

54. The municipality did not have an internal audit function during the year as required by section 165 of the MFMA.

Expenditure was not paid within the parameters set by the applicable legislation

55. The municipality did not pay its creditors within 30 days after receiving invoices as required by section 65(2)(e) of the MFMA. Payments amounting to R5 003 915 were delayed.

Expenditure was incurred otherwise than in accordance with section 15 of the MFMA resulting in unauthorised expenditure

56. Contrary to section 15 of the MFMA the municipality incurred unauthorised expenditure due to overspending the budget for two votes.

Expenditure incurred was made in vain or could have been avoided resulting in fruitless and wasteful expenditure

57. Contrary to section 78(c) of the MFMA, the municipality incurred interest as a result of not paying their suppliers within 30 days of receipt of invoice.

Expenditure was incurred in contravention of or not in accordance with applicable legislation resulting in irregular expenditure

58. Contrary to section 78(c) of the MFMA the municipality incurred irregular expenditure due to non compliance with their supply chain management policy.

The accounting officer did not adhere to his statutory responsibilities

59. The municipality did not have and maintain effective, efficient and transparent systems of financial and risk management and internal control as required by section 62(1c) of the MFMA.
60. The municipality did not kept full and proper records in accordance with prescribed norms and standards regarding the financial affairs of the municipality as required by section 62 (1b) of the MFMA.
61. The accounting officer did not submit monthly reports to provincial treasury as required by section 71 of the MFMA.
62. The accounting officer did not place the performance agreements, service delivery agreements and quarterly reports on the municipality's website, as required by section 21A of the MSA as required by section 75 of MFMA.
63. The accounting officer did not take reasonable steps to ensure that all accounts of the municipality are reconciled every month as per section 98 of the MFMA.

64. The accounting officer did not implement a credit control and debt collection policy as required by section 100(a) of MSA.
65. The accounting officer did not submit the financial statements for auditing within two months after the financial year end as required by section 126 of the MFMA.

The financial statements were not prepared in accordance with applicable legislation

66. The financial statements submitted for audit did not comply with section 122(1) of the MFMA. Material misstatements were identified during the audit, which are included in the basis for disclaimer of opinion paragraphs.

INTERNAL CONTROL

67. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the Acts as indicated above, but not for the purpose of expressing an opinion on the effectiveness of internal control.
68. The matters reported below are limited to the significant deficiencies regarding the basis for disclaimer of opinion paragraph, the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

LEADERSHIP

Oversight responsibility over reporting

69. The accounting officer did not adequately review the financial statements and the report on predetermined objectives prior to their submission for audit and thus matters as detailed in the Basis for disclaimer of opinion paragraphs and findings relating to predetermined objectives reported above were not identified and corrected prior to submission of the annual financial statements.
70. The accounting officer did not exercise adequate oversight responsibility over reporting and compliance with laws and regulations and internal control. This was evident with regards to the following deviations noted during the execution of the audit:
- A complete, accurate and comprehensive asset register was not maintained.
 - The monthly bank reconciliations were not performed on all bank accounts, which resulted in a bank account with material balances being excluded from the financial statements.
 - The identification of non-compliance with the credit control policy.
 - The identification of material errors in the recording of trade receivables at year end.
 - Statutory payments payable to SARS were not paid over timeously resulting in additional penalties and interest being levied on outstanding amounts.

Adequacy and competence of personnel responsible for reporting

71. The municipality's personnel responsible for financial reporting demonstrated inadequate competency as there was extensive use of consultant support for the preparation of financial statements. Notwithstanding the financial statements were

still subject to material and significant errors, as detailed under the Basis for Disclaimer of opinion paragraph.

Integrity and ethical behaviour

72. The omission of a bank account with a balance of R479 170 from the accounting records coupled with the lack of sufficient information provided in relation to this account significantly increases the risk of fraud. This in turn casts doubt over the integrity and ethical behaviour of those members of management who were aware or should have been aware of the existence of this account.

Implementation of appropriate key controls (policies and procedures)

73. Although the municipality had adopted and implemented appropriate key controls in the form of policies and procedures, these have not yet been approved at the date of this report.

74. The audit recommendations relating to key internal controls from the prior year external audits have not been adequately addressed.

75. While appropriate key controls are in place, frequent monitoring and supervision has not taken place. In addition, many instances were identified during the audit where controls were not adhered to or no evidence of the control taking place was noted.

FINANCIAL AND PERFORMANCE MANAGEMENT

Adequacy of systems preparation of the financial statements and the report on predetermined objectives

76. The municipality has not established a performance management system that is commensurate with its resources, best suited to its circumstances and in line with the integrated development plan.

77. Sufficient appropriate audit evidence with regard to the preparation of financial information was either not available for audit purposes or did not exist.

78. Weaknesses within the preparation of the financial statement process were ascertained in that significant misstatements in the annual financial statements were identified during the audit.

Accounting discipline

79. Notwithstanding the extensive use of consultants to assist with the preparation of the financial statements, the municipality did not demonstrate accounting discipline during the year under review.

80. Control accounts are not reconciled in a timely manner and journal entries are regularly passed in the bank, trade receivables and trade payables control accounts.

Accounting policies, estimates and disclosures

81. Notwithstanding the extensive use of consultants to assist with the preparation of the financial statements, numerous disclosure issues were identified in the financial statements.

GOVERNANCE

Risk identification and management

82. Adequate policies and procedures were not adopted and implemented by management to identify and manage the municipality's financial and performance reporting objectives risks.

Fraud prevention, detection and response

83. No fraud prevention, detection and response plan or policy was effective during the year under review.

Internal audit

84. No internal audit function existed during the year under review.

Audit committee

85. While an audit committee was in existence during the year under review, the effectiveness of this committee was limited by the quality of information provided by management and the lack of internal audit capacity during the year under review.

Auditor-General

East London
8 April 2011



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence