

# **Umzinvubu Municipality**

## **Audit Report**

For the year ended 30 June 2014

**REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL  
LEGISLATURE AND THE COUNCIL ON THE UMZIMVUBU LOCAL MUNICIPALITY  
REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the financial statements of the Umzimvubu Local Municipality set out on pages ...to ..., which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

**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 (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (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.

**Auditor-general's responsibility**

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. 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.
4. 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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Umzimvubu Local Municipality as at 30 June 2014 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

**Emphasis of matters**

7. 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 44 to the financial statements, the corresponding figures for 2013 have been restated as a result of errors discovered during 2014 in the financial statements of the municipality at, and for the year ended, 30 June 2013.

**Material impairments**

9. As disclosed in notes 4 and 5 to the financial statements, material impairments of R30,8 million were incurred as a result of the inadequate implementation of the debt-collection policy.

**Additional matters**

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

**Unaudited supplementary schedules**

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

**Unaudited disclosure notes**

12. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

13. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

**Predetermined objectives**

14. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2014:
  - Infrastructure and planning on pages x to x
  - Citizens and community services on pages x to x

15. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
16. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned programmes. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information (FMPP)*.
17. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
18. The material findings in respect of the selected development priorities are as follows:

### ***Infrastructure and Planning***

#### **Usefulness of reported performance information**

##### **Consistency of objectives and indicators and targets**

19. Section 41(c) of the Municipal Systems Act requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 25% of the reported objectives, 41% of the reported indicators and 33% of the reported targets were not consistent with those in the approved integrated development plan. This was due to lack of proper reviews of documents prepared.

##### **Measurability of indicators and targets**

20. The FMPP requires the following:

- Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 20% of the indicators were not well defined.
- Performance indicator must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 38% of the indicators were not verifiable.
- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 24% of the targets were not specific.
- Performance targets must be measurable. We could not measure the required performance for 33% of the targets.

This was because management did not adhere to the requirements of the FMPP due to a lack of proper systems and processes and technical indicator descriptions.

#### **Reliability of reported performance information**

21. I did not raise any material findings on the reliability of the reported performance information for the selected programmes.

### **Additional matters**

22. I draw attention to the following matters:

### **Unaudited supplementary schedules**

23. The supplementary information set out on pages xx to xx does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.

### **Achievement of planned targets**

24. Refer to the annual performance report on pages xx to xx for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness of the reported performance information for the selected development priorities reported in paragraphs xx to xx of this report.

### **Compliance with legislation**

25. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

### **Annual report and annual financial statements**

26. 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 non-current assets and provisions identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records provided, resulting in the financial statements receiving an unqualified audit opinion.

### **Asset management**

27. An adequate management, accounting and information system was not in place to account for assets, as required by section 63(2)(a) of the MFMA.
28. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

### **Predetermined objectives**

29. Measurable performance targets for the financial year with regard to each of the objectives and key performance indicators were not set in the IDP, as required by section 41(1)(b) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) and the Municipal planning and performance management regulations, 2001 (Government Gazette 22605 of 2001) (MPPMR) 12(1) and 12(2)(e).
30. The performance management system and its related controls were inadequate as it did not describe and represent the processes of performance (planning, monitoring, measurement, review, reporting and improvement) and how it is conducted, organised and managed, as required by sections 38 of the MSA and regulation 7 of the MPPMR.

### **Internal control**

31. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

### **Leadership**

32. The accounting officer did not adequately exercise oversight responsibility regarding financial and performance reporting, compliance with laws and regulations, and related internal controls. This resulted in various misstatements in the submitted financial statements and non-compliance matters as raised in this report. Senior management did not adequately respond to our recommendations, as they only focused on the findings relating to the prior year and not on the entire control environment, resulting in internal controls relating to other areas regressing.

### **Financial and performance management**

33. Management did not in all instances review the financial statements and annual performance report prior to their submission for auditing, resulting in material findings. Management did not prepare credible quarterly financial statements to ensure that material misstatements were not identified only at year-end.

### **Governance**

34. The audit committee and internal audit unit reviewed the financial statements for adequacy, reliability and accuracy. However, the review of the financial statements and compliance with laws and regulations was not adequate, as evidenced by material findings and instances of non-compliance identified.

*Auditor - General*

East London

29 November 2014



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*