



AUDITOR - GENERAL  
SOUTH AFRICA

The Municipal Manager  
Umzimvubu Local Municipality  
Private Bag X9020  
Mt Frere  
5090

Date: 29 November 2012

Reference: 60083REG11-12

Dear Mr. Nota

**Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Umzimvubu Local Municipality for the year ended 30 June 2012**

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 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 Umzimvubu Local 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 Senior Manager 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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Senior Manager: ECBU

Enquiries: Mhlambi Angel  
Telephone: 043 -709 7200  
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**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 XXX to XXX, which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, the notes, comprising a summary of significant accounting policies and other explanatory information, and the accounting officer's report.

**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 the 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, 2011 (Act No. 6 of 2011) (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 2012, and its financial performance and cash flows for the year then ended in accordance with the 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 34 to the financial statements, the corresponding figures for the prior year have been restated as a result of an error discovered during the current year in the financial statements of the municipality at, and for the year ended, 30 June 2012.

### **Material impairments**

9. As disclosed in notes 4 and 5 to the financial statements, material losses of R35,5 million were incurred as a result of poor debt collection, due to the municipality being in a rural area.

### **Additional matter**

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

### **Unaudited supplementary schedules**

11. The supplementary annexures set out on pages XX to XX do not form part of the financial statements and are 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 PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

### **Predetermined objectives**

13. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report of the municipality as set out on pages XXX to XXX of the annual report.
14. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives or development priorities. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
15. The reliability of the information in respect of the selected programmes is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
16. The material findings are as follows:

## **Usefulness of information**

### **Reported targets not consistent with planned targets**

17. Section 41(c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) requires that the integrated service delivery and budget implementation plan forms the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. A total of 62% of the reported targets were not consistent with the planned targets as per the approved integrated development plan. This was due to a lack of proper review of the annual performance report by the management.

## **Reliability of information**

### **Reported performance not valid, accurate and complete**

18. The FMPPI requires that the indicator be accurate enough for its intended use and respond to changes in the level of performance. A total of 41% of the actual reported indicators relevant to programme 6: citizens and community services were not accurate when compared to source information. Due to the lack of a proper system of record keeping, the institution's records did not permit the application of alternative audit procedures regarding the validity, accuracy and completeness of reported performance for programme 6: citizens and community services.

## **Compliance with laws and regulations**

19. 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 financial statements, performance report and annual report**

20. 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 capital assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

## **Internal audit**

21. The internal audit unit did not report to the audit committee on matters relating to compliance with the MFMA, DoRA and other applicable legislation, as required by sections 165(2)(b) and 96(2)(b) of the MFMA.

## **Procurement and contract management**

22. Awards were made to providers who are persons in the service of other state institutions or whose directors are persons in the service of other state institutions, in contravention of Supply Chain Management (SCM) Regulations 1 and 44.

### **Human resource management and compensation**

23. Funded vacant posts were not advertised within six months after becoming vacant and were not filled within 12 months after becoming vacant, as per the requirements of Public Service Regulation 1/VII/C.1A.2. An acting senior manager was appointed for a period of 17 months, in contravention of section 54(A)(2A)(a) of the MSA.

### **Expenditure management**

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

### **Asset management**

25. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system that accounted for the assets of the municipality, as required by sections 63(2)(a)(b) and (c) and 96(2)(b) of the MFMA.

### **Internal control**

26. I considered internal control relevant to my audit of the financial statements, 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 performance report and the findings on compliance with laws and regulations included in this report.

### **Leadership**

27. The municipality did not have sufficient monitoring controls to ensure adherence to the internal policies and procedures at a programme level and for purposes of taking corrective action. This is evident by the significant deficiencies identified in the financial statements that were subsequently corrected by management; the significant deficiencies identified in the report on predetermined objectives submitted for audit purposes; and instances of non-compliance with relevant laws and regulations identified during the audit process.

### **Financial and performance management**

28. The annual performance report contained numerous misstatements. This was due to the fact that the municipality did not have an effective system to verify the accuracy, validity and completeness of performance information submitted by different programmes as well as non-compliance with laws and regulations. Furthermore, the municipality did not perform adequate monitoring or monthly reviews on its accounts, as evidenced by the number of adjustments identified in the financial statements submitted for audit purposes that were subsequently corrected by management.

### **Governance**

29. The internal audit unit did not effectively review compliance with all laws and regulations and the accuracy and validity of the information presented in the performance reports prior to its submission by management for audit purposes. This is evident by the significant internal control deficiencies picked up during the audit in the report on predetermined objectives and the instances of non-compliance with laws and regulations.

30. The audit committee did meet prior to the submission of the financial statements and report on predetermined objectives, to review the adequacy, reliability and accuracy of the financial statements and annual performance report. However, this review of the report on the financial statements, predetermined objectives and compliance with laws and regulations was not adequate, as evidenced by the significant misstatements identified during the audit.

Auditor - General

East London

29 November 2012



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SOUTH AFRICA

*Auditing to build public confidence*