

Report of the auditor-general to the Eastern Cape provincial legislature and the council on 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 2015, 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, 2014 (Act No. 10 of 2014) (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 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 municipality'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 municipality'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 municipality as at 30 June 2015 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 matter

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

Material impairments

8. As disclosed in note 3 to the financial statements, material impairments of R3 million for receivables from exchange transactions were incurred as a result of inadequate implementation of the debt collection policy.
9. As disclosed in note 4 to the financial statements, material impairments of R18, 3 million were incurred for receivables from non-exchange transactions as a result of inadequate implementation of the debt collection policy.

Additional matters

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 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 Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, compliance with legislation and 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.

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 2015:
- 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 development priorities. 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 (FMPPPI)*.
17. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
18. I did not identify material findings on the usefulness and reliability of the reported performance information for the selected development priorities:

Additional matter

19. I draw attention to the following

Achievement of planned targets

20. Refer to the annual performance report on page(s) x to x for information on the achievement of planned targets for the year.

Compliance with legislation

21. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material finding on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, is as follows:

Procurement and contract management

22. Bids were not always evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services and at least one SCM practitioner of the municipality as required by SCM regulation 28(2).

Internal control

23. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are

limited to the significant internal control deficiencies that resulted in the finding on compliance with legislation.

Leadership

24. Senior management did not adequately exercise oversight responsibility regarding compliance with laws and regulations and related internal controls. This resulted in non-compliance matter as raised in this report.

Financial and performance management

25. There were inadequate controls over monitoring and implementation of laws and regulations over procurement processes, which resulted in the non-compliance finding.

Governance

26. The audit committee and internal audit reviewed the municipality's adherence to laws and regulations. However, the review on the compliance with laws and regulations was not adequate as evidenced by material finding of non-compliance identified.

Auditor - General

East London

30 November 2015



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence