

# **Emalahleni Municipality**

## **Audit Report**

For the year ended 30 June 2016

# Report of the auditor-general to the Eastern Cape Provincial Legislature and the council of Emalahleni Municipality

## Report on the financial statements

### Introduction

1. I have audited the financial statements of the Emalahleni Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow and the 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 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, 2014 (Act No. 1 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 the 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 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 Emalahleni Municipality as at 30 June 2016 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 32 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of errors discovered by management during the 2015/16 financial year in the financial statements of the Emalahleni Municipality at, and for the year ended, 30 June 2015.

### Unauthorised expenditures

9. As disclosed in note 37.1 to the financial statements, unauthorised expenditure of R21,6 million was incurred by the municipality during the year ended 30 June 2016. This was a result of depreciation and debt impairments that had not been adequately budgeted for.

### Irregular expenditure

10. As disclosed in note 37.3 to the financial statements, irregular expenditure of R 7,2 million was incurred by the municipality during the year ended 30 June 2016. This was as a result of non-compliance with procurement requirements in the prior financial year.

### Material losses and impairments

11. As disclosed in note 37.4 to the financial statements, material electricity distribution losses of 5.6 million kilowatt units (42,75% of units purchased) (2015: 5,6 million units – 38,57% of units purchased) were incurred.
12. As disclosed in the statement of financial performance and note 25 to the financial statements, debt impairments of R8,5 million (2015: R13,6 million) were incurred.

## Additional matters

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

### Unaudited disclosure notes

14. 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

15. 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 of 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.

### Predetermined objectives

16. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2016:

- Infrastructure development and service delivery, on pages x to x

17. 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).

18. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

19. The material findings in respect of the selected development priority are as follows:

### **Infrastructure development and service delivery**

#### Usefulness of reported performance information

20. I did not raise any material findings on the usefulness of the reported performance information for the infrastructure development and service delivery development objective.

#### Reliability of reported performance information

21. The FMPPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. The reported achievements against planned targets of 24% of the selected indicators were not reliable when compared to the source information or evidence provided.

### **Additional matters**

22. I draw attention to the following matters. My conclusion is not modified in respect of these matters:

## Achievement of planned targets

23. 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 reliability of the reported performance information in paragraph 21.

## Adjustment of material misstatements

24. We identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of the infrastructure development and service delivery development objective. As management subsequently corrected the misstatements on usefulness, I did not raise any material findings on the usefulness of the reported performance information.

## Compliance with legislation

25. 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 findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows.

## Expenditure management

26. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA.

## Strategic and performance management

27. The adopted integrated development plan did not reflect and identify a financial plan, as required by sections 26 and 41 of the Municipal Systems Act, as well as municipal planning and performance management regulation 2(1)(c).

## Internal control

28. 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 basis for the findings on the annual performance report and the findings on compliance with legislation.

## Leadership

29. The leadership tone that promotes accountability was evident; however, it was not embedded in the performance reporting discipline at the municipality. There was still a lack of oversight to ensure consistent implementation and monitoring of controls over performance information and compliance with legislation. This was mainly due to insufficient guidance on the retention of sufficient appropriate audit evidence.

## Financial and performance management

30. The maintenance of supporting information was deficient for performance reporting. This was due to the municipality not having approved standard operating procedures to ensure that all documentation is properly maintained for performance management. Therefore, the municipality did not identify errors timeously, resulting in material findings being raised.

## Governance

31. Although the audit committee and internal audit carried out their mandate during the financial year under review, the municipality still had compliance findings and material findings on predetermined objectives. This was because management did not adequately implement all recommendations of the internal audit unit and the audit committee.

AUDITOR - GENERAL

East London

30 November 2016



AUDITOR - GENERAL  
SOUTH AFRICA

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