

## **AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE CAPRICORN DISTRICT MUNICIPALITY**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Introduction**

1. I have audited the accompanying financial statements of the Capricorn District municipality, which comprise the statement of financial position as at 30 June 2011, and 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 information, 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 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 for such internal control as management determines 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. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996) , section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. 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.
5. 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.

6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

### **Basis for qualified opinion**

#### **Revenue**

7. Included in revenue of R513 331 817, in the financial statements, is service charges and interest earned amounting to R 34 365 393 and R 3 884 657 respectively. The collection of revenue from service charge and the resulting interest from the debtors has been outsourced to selected local municipalities within the district. The entity could not provide appropriate supporting documentation for the aforementioned amounts. The municipality's records did not permit the application alternative procedures regarding the amount. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the occurrence, completeness, accuracy, cut off and classification pertaining to the revenue.

#### **Expenditure**

8. Included in expenditure of R462 899 580, in the financial statements, is an amount of R37 780 702 for commission expenses incurred for which no sufficient appropriate audit evidence could be provided by the municipality. The municipality's records did not permit the application of alternative procedures regarding this amount. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the occurrence, completeness, accuracy, cut off and classification pertaining to commission expense.
9. Included in the corresponding figure for the commission expense, is an amount of R 2 581 714 for which the entity could not provide appropriate supporting documentation. The municipality's records did not permit the application alternative procedures regarding the amount. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the occurrence, completeness, accuracy, cut off and classification pertaining to the expenditure.

#### **Trade and other receivables**

10. With reference to paragraph 7 above, I was also unable to determine the effect on trade and other receivables from service charges. The municipality's records did not permit the application alternative procedures regarding the amount. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the existence, completeness, valuation and allocation of and rights pertaining to the accounts receivable figure of R65 790 985.
11. Included in the trade and other receivable balance of R65 790 985 is an amount of R21 737 666 provided as doubtful debts. The entity could not provide appropriate supporting documentation for the amount. The municipality's records did not permit the application alternative procedures regarding the amount. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the existence, completeness, valuation and allocation pertaining to the doubtful debt estimate.

### **Value Added Tax (VAT)**

12. Disclosed in note no 8, to the annual financial statements, is a VAT payable balance of R9 647 565. The balance reflects the amount of VAT payable on the revenue from service charges. The entity could not provide appropriate supporting documentation for the amount. The municipality's records did not permit the application alternative procedures regarding the amount. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the existence, completeness, valuation and allocation and obligation pertaining to the said balance.

### **Trade and other payables**

13. With reference to paragraphs 8 to 9 above, I was also unable to determine the effect on trade and other payables arising from the commission expense. The municipality's records did not permit the application alternative procedures regarding the amount. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the existence, completeness, valuation and allocation of and obligations pertaining to the trade and other payables figure of R55 901 188.

### **Irregular expenditure**

14. Due to inadequate implementation of an appropriate procurement and provisioning system which is fair, equitable and transparent, I was unable to obtain sufficient appropriate evidence that the irregular expenditure of R42 504 682 as disclosed in note no 36.2 to the financial statements is complete.

### **Qualified opinion**

15. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Capricorn District municipality for the year ended 30 June 2011 financial performance and its cash flows for the year then ended are prepared, in all material respects, in accordance with the South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and in the manner required by the MFMA.

### **Emphasis of matter**

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

### **Restatement of corresponding figures**

16. As disclosed in note 35 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of errors discovered during 2011 in the financial statements of the municipality at, and for the year ended, 30 June 2010

### **Unauthorised and fruitless and wasteful expenditure**

17. With reference to note 36.1 to the financial statements, the municipality incurred unauthorised expenditure of R1 082 756 as a result of payments exceeding the budget within the vote.

18. With reference to note 36.3 to the financial statements, the municipality incurred fruitless and wasteful expenditure of R76 329 as a result of a duplication in forensic audits.

**Additional matter**

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

**Unaudited supplementary schedules**

19. The supplementary information set out on pages X to X does not form part of the financial statements and is 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**

20. In terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, we include below our findings on the annual performance report as set out on pages ... to ... and material non-compliance with laws and regulations applicable to the municipality.

**Predetermined objectives**

**Presentation of information**

21. The reported performance information was deficient in respect of the following criteria:

- Performance against predetermined objectives was not reported using the National Treasury guidelines.

22. The following audit finding relates to the above criteria:

- The reported performance information did not contain any indicators, targets relating to the indicators and the actual performance achieved in relation to the targets.

**Usefulness of information**

23. The reported performance information was deficient in respect of the following criteria:

- Consistency: The reported objectives, indicators and targets are not consistent with the approved integrated development plan.
- Relevance: There is no clear and logical link between the objectives, outcomes, outputs, indicators and performance targets.
- Measurability: The indicators are not verifiable and targets are not specific and measurable.

24. The following audit findings relate to the above criteria:

- The reported performance information did not contain any indicators, targets relating to the indicators and the actual performance achieved in relation to the targets. Consequently the consistency, relevance and measurability of the indicators and targets could not be determined.

#### **Reliability of information**

25. The reported performance information was deficient in respect of the following criteria:

- **Validity:** The reported performance did not occur and does not pertain to the entity.
- **Accuracy:** The amounts, numbers and other data relating to reported actual performance have not been recorded and reported appropriately.
- **Completeness:** All actual results and events that should have been recorded have not been included in the reported performance information.

26. The following audit findings relate to the above criteria:

- The reported performance information did not contain any indicators, targets relating to the indicators and the actual performance achieved in relation to the targets. Consequently the validity, accuracy and completeness of the actual performance could not be determined.

#### **Compliance with laws and regulations**

##### **Budgets**

27. The municipality incurred expenditure in excess of the limits of the amounts provided for in the votes in the approved budget in contravention of section 15 of the Municipal Finance Management Act.

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

28. 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 identified by the auditors were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

29. The performance report for the financial year under review was not prepared as required by section 46 of the Municipal Systems Act and section 121(3)(c) of the Municipal Finance Management Act.

30. The annual performance report did not contain a comparison of the performance of the municipality and of each external service provider with development priorities, objectives and performance indicators set out in its integrated development plan as required by section 46 of the Municipal Systems Act

### **Audit committees**

31. The audit committee did not function as required by section 166 of the MFMA, in that:

- The audit committee did not advise the council, the accounting officer and the management staff of the municipality on matters relating to internal audit and effective governance..

### **Procurement and contract management**

32. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulation 17(a) & (c).
33. Awards were made to suppliers based on preference points that were not allocated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
34. Sufficient appropriate audit evidence could not be obtained that contracts to the value of R15 988 476 was procured in accordance with legislative requirements and the SCM policy.
35. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids as per the requirements of SCM regulation 19(a) and 36(1)

### **Expenditure management**

36. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.
37. The accounting officer did not take reasonable steps to prevent unauthorised, irregular expenditure and/or fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

### **Asset management**

38. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of internal control for assets as required by section 63(2)(c) of the MFMA.

## **INTERNAL CONTROL**

### **Leadership**

- Oversight responsibility was not exercised regarding financial and performance reporting and compliance and related internal controls.
- An IT governance framework supporting the business was not established.

### **Financial and performance management**

- The municipality did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information
- Lack in the implementation of proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

### **Governance**

- The audit committee did not promote accountability through oversight over the effectiveness of the internal control environment and performance reporting.

## **OTHER REPORTS**

### **Investigations**

39. Investigations were conducted by independent consulting firms on request of the entity. The investigations were initiated based on allegations of possible supply chain irregularities. The investigation resulted in disciplinary proceedings being instituted against three employees.

*Auditor-General*

Polokwane

30 November 2011



**AUDITOR - GENERAL  
SOUTH AFRICA**

*Auditing to build public confidence*