



REPORT OF THE AUDITOR-GENERAL TO THE NORTH WEST PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE NGAKA MODIRI MOLEMA DISTRICT MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the Ngaka Modiri Molema District Municipality, which comprise the statement of financial position as at 30 June 2011, the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory information and the accounting officer's report 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 by the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa 2010 (Act No. 1 of 2010) (DoRA) 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) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) my responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the International Standards on Auditing and *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Property, plant and equipment

4. I was unable to obtain sufficient appropriate audit evidence for other assets of R39 999 307 included in property, plant and equipment disclosed in note 5 to the financial statements. This was due to assets of R7 164 054 that could not be traced to the asset register, assets of R9 155 351 that could not be found at the premises and a difference of R3 849 475 between the financial statements and the asset register. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, completeness, valuation and allocation and rights of these other assets.
5. The municipality did not review the residual values and useful lives of other assets at each reporting date in accordance with Standard of Generally Recognised Accounting Practice, GRAP 17, *Property, plant and equipment*. The municipality's records did not permit the performance of alternative audit procedures. Consequently, I was unable to practicably determine the misstatement in the depreciation and amortisation expense of R5 285 603 disclosed in the statement of financial performance or the valuation of other assets of R39 999 307 included in property, plant and equipment disclosed in note 5 to the financial statements.

6. I was unable to obtain sufficient appropriate audit evidence regarding the allocation of powers and functions relating to water and sanitation between the district and local municipalities due to inconsistencies in the government notices issued by the minister and the MEC during the establishment of the municipalities and the interpretation of the requirements of the Water Services Act of South Africa, 1998 (Act No. 108 of 1998). As a result of these inconsistencies, I was unable to quantify the possible misstatement in the related infrastructure assets, revenue, receivables and cost of provision of water and sanitation in the financial statements.

Cash and cash equivalents

7. I was unable to obtain sufficient appropriate audit evidence for a difference of R2 614 147 between the cash at bank balance of R23 993 118 disclosed in the financial statements and the cash at bank balance of R26 607 265 in the year-end bank reconciliation. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, completeness, valuation and allocation and rights of the cash at bank balance of R23 993 118 disclosed in note 1 to the financial statements.

Inventory

8. I was unable to obtain sufficient appropriate audit evidence for inventory of R6 184 462 disclosed in note 3 to the financial statements, as there was no system of control over inventory. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that inventory was properly recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the existence, completeness, valuation and allocation of inventory of R6 184 462 disclosed in the statement of financial position.

Trade and other payables from exchange transactions

9. I was unable to obtain sufficient appropriate audit evidence for trade creditors of R16 777 662 included in trade creditors of R87 032 722 disclosed in note 6 to the financial statements. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, completeness, valuation and allocation and rights of trade creditors disclosed in the financial statements.
10. I was unable to obtain sufficient appropriate audit evidence for accrual for leave pay of R2 992 111 disclosed in note 6 to the financial statements. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the valuation of accrual for leave pay disclosed in the financial statements.

Expenditure

11. I was unable to obtain sufficient appropriate audit evidence for expenditure of R 49 396 198 included in contracted services, grants and subsidies paid, repairs and maintenance and general expenses in the statement of financial performance. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness, occurrence, accuracy, cut-off and classification of these expenditure items.
12. I was unable to obtain sufficient appropriate audit evidence to support journal entries of R8 419 521 included in grants and subsidies paid of R97 628 109 disclosed in the statement of financial performance. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness, occurrence, accuracy, cut-off and classification of grants and subsidies expenses disclosed in the financial statements. I could also not practicably determine the effect on the other account balances or classes of transactions contained in the financial statements.

Irregular expenditure

13. I was unable to obtain sufficient appropriate audit evidence that contracts and quotations of R179 111 964 was procured in accordance with supply chain management regulations and policy. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of irregular expenditure disclosed in note 23.2 to the financial statements.

Commitments

14. I was unable to obtain sufficient appropriate audit evidence for capital commitments of R121 262 168 disclosed in note 25 to the financial statements. No contract management system was in place for the identification and recognition of contracts and there were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that commitments were properly recorded. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness and accuracy of commitments.

Events after reporting date

15. I was unable to obtain sufficient appropriate audit evidence for contracts of R3 475 587 entered into with two entities disclosed in note 30 to the financial statements. The municipality's records did not permit the application of alternative audit procedures regarding these contracts. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, completeness and valuation of the disclosure on events after reporting date in note 30 to the financial statements.

Disclaimer of opinion

16. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matters

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

Unauthorised, irregular and fruitless and wasteful expenditure

18. As disclosed in note 23.1 to the financial statements, unauthorised expenditure of R77 006 914 incurred in the current year and R580 969 incurred in previous years was still awaiting condonation.
19. As disclosed in note 23.2 to the financial statements, irregular expenditure of R16 405 184 from prior years and R149 254 243 incurred during the current year, was still to be investigated.
20. As disclosed in note 23.2 to the financial statements, fruitless and wasteful expenditure of R423 027 incurred in the current year is still to be investigated.

Additional matter

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

Unaudited supplementary schedules

22. The supplementary information set out on pages **XX** to **XX** 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

23. In accordance with the PAA and in terms of *General Notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual

performance report as set out on pages **XX** to **XX** and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

Presentation of information

24. The reported performance against predetermined objectives was deficient in respect of the following criteria:

- Performance against predetermined objectives is reported using the National Treasury guidelines.

The following audit findings relate to the above criteria:

Measures taken to improve performance were not explained in the report on predetermined objectives

25. Adequate explanations of measures taken to improve performance were not provided for 46% of the reported targets for the basic service delivery and infrastructure development objectives in the performance report, as required by section 46(1)(c) of the Municipal Systems Act of South Africa 2000 (Act No. 32 of 2000) (MSA).

Usefulness of information

26. The following criteria was used to assess the usefulness of the planned and reported performance:

- Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable and are targets specific, measurable and time bound?

The following audit findings relate to the above criteria:

Planned and reported indicators are not well defined

27. For the basic service delivery and infrastructure development objectives, 58% of the planned and reported indicators were not clear, as unambiguous data definitions were not available to allow for data to be collected consistently.

Planned and reported targets are not time bound

28. For the basic service delivery and infrastructure development objectives, 94% of the planned and reported targets were not time bound in specifying the time period or deadline for delivery.

Reported targets are not measurable

29. For the basic service delivery and infrastructure development objectives, 63% of the reported targets were not measurable in identifying the required performance.

Reported targets are not specific

30. For the basic service delivery and infrastructure development objectives, 39% of the reported targets were not specific in clearly identifying the nature and the required level of performance.

Reliability of information

31. The following criteria were used to assess the reliability of the planned and reported performance:

- Validity: Actual reported performance has occurred and pertains to the entity.
- Accuracy: Amounts, numbers and other data relating to reported actual performance have been recorded and reported appropriately.
- Completeness: All actual results and events that should have been recorded have been included in the annual performance report.

The following audit findings relate to the above criteria

The content of the integrated development plan is incomplete

32. The integrated development plan did not include the key performance indicators and performance targets determined by the performance management system, as required by sections 26(i) and 41(1)(b) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.

The validity, accuracy and completeness of reported performance against indicators could not be confirmed as no supporting source information was provided.

33. For the basic service delivery and infrastructure development objectives the validity, accuracy and completeness of 100% of the reported indicators could not be established as sufficient appropriate audit evidence could not be provided.

Compliance with laws and regulations

Strategic planning and performance management

34. The municipal council did not, within the prescribed period after the start of its elected term, adopt a process set out in writing to guide the planning, drafting, adoption and review of its integrated development plan as required by section 28(1) of the MSA.
35. The municipality did not implement a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players as required by sections 38, 39, 40 and 41 of the MSA and regulations 7 and 8 of the Municipal Planning and Performance Management Regulations.
36. The accounting officer of the municipality did not by 25 January assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan as required by section 72(1)(a)(ii) of the MFMA.
37. The accounting officer of the municipality did not submit the results of the assessment on the performance of the municipality during the first half of the financial year to the mayor of the municipality, the National Treasury and the provincial treasury as required by section 72(1)(b) of the MFMA.

Budget

38. The council did not approve the annual budget of the municipality for the 2011-12 financial year before the start of the financial year, as required by section 16(1) of the MFMA.
39. The municipality incurred expenditure that was not budgeted for, in contravention of section 15 of the MFMA.
40. The mayor did not submit all quarterly reports on the implementation of the budget and the financial state of affairs of the municipality to council within 30 days after the end of each quarter, as required by section 52(d) of the MFMA.
41. The accounting officer did not always submit the monthly budget statements to the mayor and the relevant provincial treasury, as required by section 71(1) of the MFMA.

Annual financial statements, performance and annual report

42. The accounting officer did not submit the annual financial statements of the municipality for auditing, within two months after the end of the financial year as required by section 126(1)(a) of the MFMA.
43. The mayor did not table the 2009-10 annual report of the municipality in the council within seven months after the end of the financial year as required by section 127(2) of the MFMA.

44. 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 current liabilities and disclosure items for commitments, revenue, expenditure, unauthorised expenditure and contingent liability identified by the auditors were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a disclaimer audit opinion.

Procurement and contract management

45. 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).
46. Quotations were accepted quotations from prospective providers who are not on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy in contravention of SCM regulation 16(b) and 17(b).
47. 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).
48. Sufficient appropriate audit evidence could not be obtained that construction contracts were awarded to contractors that were registered and qualified for the contract in accordance with the prescripts of the Construction Industry Development Board.
49. The municipality did not implement a SCM policy as required by section 111 of the MFMA.
50. The prospective providers list for procuring goods and services through quotations was not updated at least quarterly to include new suppliers that qualify for listing and prospective providers were not invited to apply for such listing at least once a year as per the requirements of SCM regulation 14(1)(a)(ii) and 14(2).
51. Councillors of the municipality participated in committees evaluating tenders in contravention of section 117 of the MFMA.
52. Awards were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer as required by SCM regulation 29(5)(b).
53. The accounting officer failed to implement measures for combating the abuse of the SCM system as per the requirements of SCM regulation 38(1) because awards were made to providers who abused the SCM system of the municipality.
54. Contracts were extended or modified to the extent that competitive bidding processes were being circumvented contrary to the requirement of a fair supply chain management system in sec 112 of the MFMA.
55. Contracts were extended without tabling the reasons for the proposed amendment in the council of the municipality as required by section 116(3) of the MFMA.
56. The accounting officer failed to implement measures for combating the abuse of the SCM system as per the requirements of SCM regulation 38(1) because awards were made to providers who during the last five years, failed to perform satisfactorily on a previous contract with the municipality or municipal entity or other organ of state.

Transfer of funds and conditional grants

57. The municipality did not always submit monthly reports to the transferring national officer, the National Treasury and the Provincial Treasury on spending and financial performance in respect of the allocations received as required by section 11(2)(b) of the DoRA and section 71(5) of the MFMA.
58. The municipality did not always submit quarterly reports to the transferring national officer on non-financial performance in respect of the allocation received as required by section 11(2)(c) of the DoRA.
59. The accounting officer did not evaluate the performance of the municipality in respect of programmes funded or partially funded by a schedule 4 allocation within two months after the end of the financial year as required by section 11(6) of the DoRA.

Expenditure management

60. The accounting officer did not take reasonable steps to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
61. 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.
62. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, as required by section 65(2)(a) of the MFMA.

Revenue management

63. A credit control and debt collection policy was not implemented as required by section 96(b) of the MSA.

Asset management

64. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which accounts for the assets of the municipality as required by section 63(2)(a) of the MFMA.
65. 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 (including an asset register) as required by section 63(2)(c) of the MFMA.

Human resource management

66. Senior managers directly accountable to the municipal manager did not sign annual performance agreements for the year under review, as required by sections 57(1)(b) and 57(2)(a) of the MSA.

Internal audit

67. The internal audit unit did not function as required by section 165(2) of the MFMA, in that:
 - Internal audit did not prepare a risk-based audit plan and an internal audit programme for the financial year under review;
 - Internal audit did not advise the accounting officer on matters relating to internal audit, accounting procedures and practices, risk and risk management and loss control

Audit committees

68. No audit committee was in place as required by section 166(1) of the MFMA.
69. The municipality did not appoint and budget for a performance audit committee, nor was another audit committee utilised as the performance audit committee as required by Municipal Planning and Performance Management Regulation 14.

INTERNAL CONTROL

70. In accordance with the PAA and in terms of *General Notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

71. The leadership of the municipality did not exercise oversight responsibility over financial and performance reporting and compliance with applicable laws and regulations. An effective

organisational structure that places people with appropriate skills is not established.

Financial and performance management

72. The finance and supply chain management departments are not staffed with competent personnel; this resulted in material amendments to the financial statements submitted for audit and non compliance to supply chain management regulations. Furthermore inadequate record keeping and record management resulted in requested information not always being available within agreed timeframes.

Governance

73. Proper governance structures are not in place and are not functioning effectively as ongoing monitoring and supervision by internal audit is not undertaken to enable an assessment of the effectiveness of internal control over financial and performance reporting. A fraud prevention plan is not documented and used as per the requirements of applicable legislation. The audit committee did not fulfil its responsibilities as required by legislation and in accordance with accepted best practice. Furthermore, the annual financial statements and performance report was not reviewed prior to submission for audit.

Auditor-General.

Rustenburg

27 August 2012



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence