



REPORT OF THE AUDITOR-GENERAL TO THE NORTH WEST PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE BOJANALA PLATINUM DISTRICT MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Bojanala Platinum District Municipality set out on pages [XX] to [XX], which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended and 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, 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 Bojanala Platinum District Municipality as at 30 June 2012 and the financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and the DoRA.

Emphasis of matters

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

Unauthorised and irregular expenditure

8. As disclosed in note 22.1 to the financial statements, unauthorised expenditure of R8 423 805 was incurred in the current year.
9. As disclosed in note 22.3 to the financial statements, irregular expenditure of R3 050 094 incurred in the current year has not yet been dealt with in accordance with section 32 of the MFMA.

Restatement of corresponding figures

10. As disclosed in note 36 to the financial statements, the corresponding figures for have been restated as a result of an error discovered in the financial statements of the Bojanala Platinum District Municipality at, and for the year ended, 30 June 2012.

Going concern

11. As disclosed in note 37 to the financial statements, the municipality incurred a net loss of R113 507 601 for the year ended 30 June 2012 and, as of that date, the municipality's current liabilities exceeded its current assets by R286 757. Furthermore, the municipality's unspent conditional grants were not sufficiently covered by cash and cash equivalents as there was a shortfall of R7 296 592. These conditions, along with other matters as set forth in note 37, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

Material underspending of the budget

12. As disclosed in note 30 to the financial statements, the municipality materially underspent the budget on community services by R4 724 180, municipal council by R8 843 634 and technical services R7 081 255, which might have contributed to the municipality not achieving its service delivery objectives.

Additional matter

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

Unaudited supplementary schedules

14. 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 annexures and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

15. 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

16. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages [XX] to [XX] of the annual report.



17. 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 annual reporting principles and whether the reported performance is consistent with the planned 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 Framework for managing programme performance information (FMPPI).
18. The reliability of the information in respect of the selected development priorities is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
19. The material findings are as follows:

Usefulness of information

20. Section 46 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires disclosure of measure taken to improve performance for planned targets not achieved. Improvement measures in the annual performance report for a total of 100% of the planned targets were not disclosed. This was due to inadequate review of the reported performance achievement by senior management to ensure compliance with the requirements of section 46 of the MSA.
21. Section 41(c) of the MSA requires that the integrated development plan should form the basis for the annual report, therefore requiring the consistency of the indicators and targets between planning and reporting documents. A total of 74% of the reported indicators and a total of 78% of reported target are not consistent with the indicators and targets as per the approved integrated development plan. This is due to the lack of an adequate performance reporting and management system.
22. Section 34 (b) of the MSA and regulation 3 of the Municipal Planning and Performance Management Regulations (MPPMR) requires that prescribed process should be followed on amendment of the integrated development plan. A total of 100% of the changes made to the development priorities, performance indicators and targets were not approved. This is due to the lack of an adequate performance reporting and management system.
23. The FMPPI requires that performance indicators be well defined and verifiable and targets be specific, measureable and time bound:
 - A total of 71% of the indicators were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently.
 - A total of 71% of the indicators were not verifiable in that valid processes and systems that produce the information on actual performance did not exist.
 - A total of 90% of the targets were not specific in clearly identifying the nature and the required level of performance.
 - A total of 61% of the targets were not time bound in specifying a time period or deadline for delivery.

This was due to the lack of key controls in the relevant systems of collection, collation, verification and storage of actual performance information as well as the fact that management was not aware of the requirements of the FMPPI and did not receive the necessary training to enable application of the principles.



Reliability of information

24. The FMPPI requires that processes and systems which produce the indicator should be verifiable and that the indicator be accurate enough for its intended use and respond to changes in the level of performance. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the validity and accuracy of the actual reported performance relevant to 67% of the Basic Service Delivery and Infrastructure Investment, 100% of the Local Economic Development and Rural Development and 100% of the Good Governance and Community Participation development priorities. This was due to a lack of regular management verification of reported achievements against supporting documents. The limitations placed on the scope of my work were due to the municipality's records not permitting the application of alternative audit procedures.
25. The FMPPI requires that documentation addressing the systems and processes for identifying, collecting, collating, verifying and storing information be properly maintained. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the completeness of the actual reported performance relevant to 57% of the Basic Service Delivery and Infrastructure Investment, 100% of the Local Economic Development and Rural Development and 100% of the Good Governance and Community Participation development priorities. This was due to limitations placed on the scope of my work by the absence of information systems and the institution's records not permitting the application of alternative audit procedures.

Additional matter

26. I draw attention to the following matter below. This matter does not have an impact on the predetermined objectives audit findings reported above.

Achievement of planned targets

27. Of the total number of 94 targets planned for the year, 61 targets were not achieved during the year under review. This represents 65% of total planned targets that were not achieved during the year under review. This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process.

Compliance with laws and regulations

28. I performed procedures to obtain evidence that the municipality 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:

Budgets

29. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

Audit Committee

30. The audit committee did not advise the council on matters relating to compliance with the MFMA, Supply Chain Management Regulations and the Preferential Procurement Policy Framework Act, as required by section 166(2)(a)(vii) of the MFMA.

Expenditure management

31. The accounting officer did not take effective steps to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.



Strategic planning and performance management

32. The municipal council did not consult with the local community in the drafting and implementation of the municipality's integrated development plan, by means of a municipal wide structure for community participation, as required by section 28 of the MSA and regulation 15(1)(a)(i) of the MPPMR.
33. The municipal council did not consult with the local municipalities within its area on a framework for integrated development planning in the district, as required by section 27 of the MSA.
34. The municipality did not afford the local community at least 21 days to comment on the final draft of its integrated development plan before the plan was submitted to council for adoption, as required by regulation 15(3) of the MPPMR.
35. The performance management system was not in line with the priorities, objectives, indicators and targets contained in its integrated development plan, did not clarify the roles and responsibilities of each role-player in the functioning of the system, did not determine the frequency of reporting and the lines of accountability for performance, did not relate to the municipality's performance management processes and did not provide for procedures by which the system is linked to the municipality's integrated development planning processes, as required by section 38 (a) of the MSA and regulations 7(2)(c), (e), (f), and (g) of the MPPMR.
36. The municipality did not set appropriate key performance indicators as a yardstick for measuring performance, including outcomes and impact, with regard to the municipality's development priorities and objectives set out in its integrated development plan nor did it take steps to improve performance with regard to those development priorities and objectives where performance targets are not met as required by section 41 of the MSA.

Procurement and contract management

37. Awards were made to providers who are persons in the service of the municipality or whose directors or principal shareholders are persons in service of the municipality in contravention of Supply Chain Management Regulations 44.
38. Awards were made to providers who are persons in service of other state institutions or whose directors or principal shareholders are persons in service of other state institutions, in contravention of Supply Chain Management Regulations 44.

Annual financial statements, performance and annual report

39. 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 non-current assets, current liabilities, expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.
40. The annual performance report for the year under review does not include a comparison with the previous financial year and measures taken to improve performance, as required by section 46 (1)(b) and (c) of the MSA.

Internal control

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



Leadership

42. The leadership did not sufficiently exercise oversight over financial and performance reporting, monitoring of compliance with laws and regulations and related internal controls whilst policies and procedures did not adequately guide financial and performance activities and action plans to address prior year audit findings.

Financial and performance management

43. Despite management having implemented internal controls and processes over financial reporting and compliance with laws and regulations, these internal controls and processes were not sufficiently monitored to impact towards clean administration.
44. Management failed to implement effective controls and processes to ensure that information in the performance report were useful and reliable before submission for audit. This was mainly due to management not sufficiently addressing the prior years' audit findings and staff in the performance management section not understanding the requirements of the performance management reporting framework.

Governance

45. Despite the internal audit and the audit committee functioning during the year, these structures did not sufficiently impact upon the procedures and operations of the municipality to resolve matters raised in the previous audit report.

Auditor-General

Rustenburg

30 November 2012



AUDITOR - GENERAL
SOUTH AFRICA

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