

**REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL
LEGISLATURE AND THE COUNCIL ON RICHTERSVELD LOCAL MUNICIPALITY
REPORT ON THE FINANCIAL STATEMENTS**

Introduction

1. I have audited the financial statements of Richtersveld Local Municipality set out on pages to, 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 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 2001) (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 Richtersveld Local Municipality as at 30 June 2012 and its financial performance and cash flows for the year then ended, in accordance with 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:

Restatement of corresponding figures

8. During my audit, material misstatements were identified in the corresponding figures in the financial statements of Richtersveld Local Municipality. As disclosed in note 38 to the financial statements, the municipality restated these figures.

Additional matter

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

Material inconsistencies in other information included in the annual report

10. I did not receive the 2011/12 annual report at the date of this report. As a result, I could not draw a conclusion on the consistency between the financial statements, audit report and other information included in the annual report.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

11. 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

12. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.
13. 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's annual reporting principles and whether the reported performance is consistent with the planned objectives. 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)*.

The reliability of the information in respect of the selected programme is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

14. The material findings are as follows:

Usefulness of information

Presentation

15. The annual performance report does not reflect, as required by section 46 of the Municipal Systems Act, 2000 (Act No. 32 of 2000), the measures taken to improve performance. This was due to inadequate internal policies and procedures over the processes pertaining to the reporting of performance information.

Consistency

16. The Municipal Systems Act, section 41(c) requires that the integrated development plan (IDP) should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. A total of 36% of the reported targets are not consistent with the targets as per the approved IDP. This is due to the lack of monitoring controls in place to ensure consistency between planned and reported targets.

Reliability of information

Validity

17. The *Framework for managing programme performance information* requires that processes and systems which produce the indicator should be verifiable. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the validity, accuracy and completeness of the actual reported performance relevant to 68% of the indicators included in the Infrastructure Services programme. This was due to limitations placed on the scope of my work due to the absence of information and the municipality's records not permitting the application of alternative audit procedures.

Compliance with laws and regulations

18. 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:

Strategic planning and performance management

19. The municipality did not give effect to its integrated development plan (IDP) and conduct its affairs in a manner which was consistent with this plan, as required by section 36 of the Municipal Systems Act and municipal planning and performance management, regulation 6.
20. The municipality did not establish a performance management system, as required by section 38(a) of the Municipal Systems Act.

Budgets

21. The municipality incurred expenditure that was 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.
22. The mayor did not submit quarterly reports to the council on the implementation of the budget and the financial state of affairs of the municipality within 30 days after the end of each quarter, as required by section 52(d) of the MFMA.

Annual financial statements, performance and annual report

23. 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 property, plant and equipment, investment property, unspent conditional government grants, transfer revenue: government grants, depreciation and amortisation, correction of errors, irregular expenditure, unauthorised expenditure, and the cash flow statement, identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Audit committees

24. The council did not establish an audit committee, as required by section 166(1) of the MFMA.
25. The municipality did not appoint and budget for a performance audit committee, as required by municipal planning and performance management, regulation 14(2)(a).

Internal audit

26. The municipality did not establish an internal audit unit, as required by section 165(1) of the MFMA.

Procurement and contract management

27. 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 required by municipal supply chain management, regulation 17(a) and (c).
28. Goods and services with a transaction value above R200 000 were procured without inviting competitive bids, as per the requirements of SCM regulation 19(a) and 36(1).
29. Contracts and quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by municipal supply chain management, regulation 13(c).

Human resource management and compensation

30. The municipal manager did not provide job descriptions for each post in the staff establishment, as required by section 66(1)(b) of the Municipal Systems Act.
31. The municipal manager, acting municipal manager and senior managers directly accountable to the municipal manager did not have performance agreements, as required by section 57(2)(a) of the Municipal Systems Act.

Expenditure management

32. The accounting officer did not take reasonable steps to prevent unauthorised and irregular expenditure, as required by section 62(1)(d) of the MFMA.
33. 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.

Internal control

34. 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 basis for qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report:

Leadership

35. Management did not ensure that sufficient monitoring controls were in place for proper planning, budgeting, implementation and reporting.
36. Management did not create clear lines of reporting and responsibility and did not assess staff's performance.
37. Management did not develop documented and approved internal policies and procedures to enable reporting on performance information.
38. Management did not ensure that the information technology related policies were approved and implemented in good time.

Financial and performance management

39. Management did not ensure the systematic reconciliation between the results of fixed asset counts, the asset register and the financial accounting system.
40. Management appointed a service provider to compile the annual financial statements. However, they did not adequately review these statements, which required material

adjustments to ensure its fair presentation.

41. Management did not properly review and monitor compliance with applicable laws and regulations.

Governance

42. Management did not establish an internal audit unit.
43. The council did not establish an audit committee.

A handwritten signature in black ink that reads "Auditor-General". The signature is written in a cursive style with a large, sweeping flourish at the end of the word "General".

Kimberley

30 November 2012



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence