

REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL OF SIYATHEMBA LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Siyathemba Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2012, the statements of financial performance, changes in net assets and the cash flows 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 Practise (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No 56 of 2003) (MFMA) and 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 the financial statements based on conducting the 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. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was unable 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 regarding property, plant and equipment to the amount of R260 499 399 (2011: R254 382 255), as disclosed in note 10 to the financial statements due to the following:
 - (a) A fixed asset register was not maintained and did not indicate the different classes of assets as disclosed in note 10 to the financial statements. No register was maintained for land and buildings valued at R32 689 905 (2011: R32 902 620) and other assets valued at R9 297 797 (2011: R2 330 648).
 - (b) Sufficient appropriate audit evidence could not be submitted for the deemed cost allocated to property, plant and equipment to the carrying value of R254 382 255 in the prior year.
 - (c) The value of assets as per the fixed asset register and the value of assets disclosed in the financial statements differs with an amount of R278 256 358, the fixed asset register amounted to R496 768 056.
 - (d) Assets to the amount of R23 338 032 were included in the fixed asset register. These assets could however not be located as they were not assigned unique asset numbers or GPS locations.
 - (e) For assets to the amount of R33 716 604 the descriptions, serial numbers and locations as indicated in the fixed asset register were inadequate for identification purposes.

- (f) I were unable to verify assets since debit journal entries to the amount of R11 053 625 were passed to record adjustments to assets for which sufficient appropriate audit evidence for the journal entries were not submitted.
- (g) Sufficient appropriate audit evidence to support additions to property, plant and equipment to the amount of R15 306 821 (2011: R378 834) were not submitted for audit purposes.

Alternative procedures could not be performed. Consequently, I was unable to determine whether any adjustments relating to property, plant and equipment in the financial statements was necessary.

- 5. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item was not depreciated separately as required by SA Standards of GRAP, GRAP 17, *Property, plant and equipment*. Depreciation was not calculated for all assets included in the asset register, however an amount of R9 181 751 were disclosed in note 10.1 for the current year's depreciation and an amount of R36 859 891 disclosed for the opening balance of accumulated surplus. Sufficient appropriate audit evidence was not submitted for the calculation of depreciation on an individual or class of asset basis to the amount of R9 181 751 (2011:R9 305 120).
- 6. Management did not assess whether there were impairment indications on property, plant and equipment during the financial year under review as required by SA Standards of GRAP, GRAP 26, *Impairment of cash-generating assets*.
- 7. Assets amounting to R3 700 111 were incorrectly expensed during the year contrary to the requirements of SA Standards of GRAP, GRAP 1, *Presentation of financial statements*.

Intangible assets

- 8. The municipality did not have adequate systems in place to identify and maintain records of intangible assets, which resulted in intangible assets not being disclosed in the financial statements. I have not determined the correct carrying amount of intangible assets, as in the absence of sufficient appropriate audit evidence it was impracticable to do so. Consequently, I was unable to determine the extent of the adjustment necessary to disclose intangible assets.

Investment Property

- 9. The municipality did not have adequate systems in place to identify and maintain records of investment property, which resulted in investment property not being disclosed in the financial statements. I have not determined the correct carrying amount of investment property, as in the absence of sufficient appropriate audit evidence it was impracticable to do so. Consequently, I was unable to determine the extent of the adjustment necessary to disclose investment property.

Revenue from non-exchange transactions

- 10. I was unable to obtain sufficient appropriate audit evidence regarding revenue from non-exchange transactions of R43 255 119 (2011: R37 324 734) as disclosed in the statement of financial performance due to the following:
 - (a) The reconciliation between the rateable valuation as per the valuation roll and the rates levied was not performed during the current or prior financial years. Certain properties could not be traced to the valuation roll to confirm whether rates and taxes were indeed charged on these properties. Differences were identified between the valuation roll and the values loaded on the system with an amount of R755 184 765. Property transfers and improvements were also not updated on the valuation roll.

- (b) There was no reconciliation performed between the amount received for fines and licenses as per the e-Natis system to the actual amounts recorded in the general ledger to the amount of R39 470.
- (c) Sufficient appropriate audit evidence was not submitted for journal entries to a credit amount of R16 102 694 and a debit amount of R256 649 (2011: R280 605) recorded against revenue from government grants and subsidies.
- (d) Sufficient appropriate audit evidence to substantiate property rates to the amount of R4 687 033 were not submitted for audit purposes.

Alternative procedures could not be performed. Consequently, I was unable to determine whether any adjustment relating to revenue from non-exchange transactions in the financial statements was necessary.

11. In addition, property rates were charged to clients at incorrect rates resulting in the understatement of property rate income and receivables from non-exchange transactions to the amount of R235 859.

Revenue from exchange transactions

12. I was unable to obtain sufficient appropriate audit evidence regarding revenue from exchange transactions disclosed as R19 530 382 (2011: R19 374 755) in the statement of financial performance due to:

- (a) A direct income register is not kept by the municipality; I am therefore unable to confirm whether all direct income was recorded.
- (b) Sufficient appropriate audit evidence (meter reading books for both water and electricity services as well as the billing history for sewage and refuse removal) were not submitted for audit purposes to substantiate service charges to the amount of R15 861 856.
- (c) No connection register was kept in order to ensure that all revenue received for new and re-connections to the amount of R115 922 were recorded.
- (d) The service level agreement between the municipality and the Department of Safety and Liaison for the recovery of licenses and permits managed on behalf of the department could not be obtained. I am therefore unable to confirm the completeness and accuracy of agency fees to the amount of R1 126 540 (2011:R296 131).
- (e) Registers, reconciliations and renewals were not submitted to confirm that all revenue for leases was recorded in the general ledger.
- (f) Sufficient appropriate audit evidence was not submitted for journals to a credit value of R13 700 091 and a debit value of R608 827.

Alternative procedures could not be performed. Consequently, I was unable to determine whether any adjustments relating to revenue from exchange transactions in the financial statements was necessary.

13. In addition, revenue received from prepaid electricity sales was not deferred and recognised as revenue on the consumption basis, commencing on the date of purchase as required by SA Standards of GRAP, GRAP 9, *Revenue from exchange transactions*. The amount of prepaid electricity sold could not be determined.
14. Lease revenue was not straight-lined as required by SA Standards of GRAP, GRAP 13, *Leases*. This resulted in the understatement of lease revenue and operating lease assets to the amount of R87 977.

Employee related cost

15. I was unable to obtain sufficient appropriate audit evidence regarding employee cost including councillors remuneration amounting to R26 274 950 (2011: R22 867 055) disclosed in note 22 and 23 to the financial statements due to:

- (a) A difference amounting to R902 970 (2011: R725 692) was identified between the general ledger and the salary system as reconciliations were not performed. This difference could not be explained or re-calculated due to a lack of supporting documentation.
- (b) Employment contracts, payslips, appointment letters, timesheets, approved deductions, clock cards or attendance registers were not submitted for salaries and wages amounting to R2 491 746 (2011: R2 557 192).
- (c) 11 Employees could not be physically verified during the audit. I could not confirm the occurrence of employee cost to the extrapolated amount of R2 146 733 and not all requested employee contracts were submitted for audit purposes. Four waged employees could not be physically verified during the prior year.
- (d) Sufficient appropriate audit evidence authorising travel allowances to management and councilors amounting to R410 926 were not submitted for audit purposes. The authorisation for the increase in the salary paid to the Municipal Manager was not obtained to confirm if the increase was authorised. Travel claims paid to the management to the amount of R36 736 were not approved.
- (e) Sufficient appropriate audit evidence authorising certain allowances of the 2010/2011 financial year amounting to R601 893 paid to employees and councilor for travel allowances that exceeded the authorised amounts according to the *Government Gazette* could not be obtained.
- (f) Sufficient appropriate audit evidence could not be submitted for the salary suspense account amounting to R1 338 342.
- (g) Sufficient appropriate audit evidence could not be submitted for credit journal entries recorded against employee cost to the amount of R69 808.

Alternative procedures could not be performed. Consequently, I was unable to determine whether any adjustments relating to employee related cost in the financial statements was necessary.

- 16. In addition, the accrual for leave pay was incorrectly calculated due to the incorrect leave days being used in the calculation. This resulted in the overstatement of employee cost and leave accrual to an amount of R334 348.
- 17. The remuneration of the key management personnel was not accurately disclosed in the annual financial statement as required by Section 124 of the MFMA. Allowances and benefits of political office-bearers and councillors of the municipality differ with an amount of R152 491 to the statement of financial performance.
- 18. Municipal employees are not remunerated at the payment scales according to their signed employment contracts. This result in the overstatement of employee cost and the understatement of receivables to the amount of R1 461 791.
- 19. Councillors' remuneration exceeded the upper limits as set per the Remuneration of Public Office Bearers' Act, Act no. 20 of 1998. This result in the overstatement of employee cost and the understatement of receivables to the amount of R6 697 (2011:R46 225).

Operating Expenditure

- 20. I was unable to obtain sufficient appropriate audit evidence regarding operating expenditure disclosed as R25 344 978 (2011: R20 688 096) in the statement of financial performance due to:
 - (a) Sufficient appropriate audit evidence for expenditure transactions to an amount of R23 576 824 (2011: R6 909 672) was not submitted for audit purposes.
 - (b) Sufficient appropriate audit evidence for credit notes recorded against expenditure to the amount of R2 916 761 was not submitted for audit purposes.

- (c) Sufficient appropriate audit evidence for debit journal entries to an amount of R13 656 818 and credit journal entries to the amount of R11 956 176 (2011: R8 683 573) was not submitted for audit purposes.

Alternative procedures could not be performed. Consequently, I was unable to determine whether any adjustments relating to operating expenditure in the financial statements was necessary.

- 21. In addition, input VAT was not claimed on all qualifying expenditure in certain instances and on non qualifying expenditure in other instances. This resulted in operating expenditure being overstated and the VAT receivable understated by R435 528 (2011: R7 197).

Employee benefits

- 22. I was unable to obtain sufficient appropriate audit evidence regarding employee benefits amounting to R13 089 725 (2011: R11 325 371) as disclosed in note 2 to the financial statements due to the following:

- (a) The municipality could not provide the number of employees which are entitled to post employee benefits.
- (b) Not all leave forms were submitted for audit purposes; therefore I could not confirm the leave accrual to the amount of R1 821 316 (2011: R844 001).
- (c) Sufficient appropriate audit evidence was not submitted for the non-current employee benefits disclosed to the amount of R19 520 in the prior year.
- (d) Sufficient appropriate audit evidence was not submitted for credit journals to an amount of R389 228 recorded against employee benefits.
- (e) The manual list of leave balances as at year-end was not reconciled to the general ledger for the calculation of the leave accrual.

Alternative procedures could not be performed. Consequently, I was unable to determine whether any adjustments relating to employee benefits in the financial statements were necessary.

- 23. In addition, comprehensive disclosure was not made in the notes to the financial statements for the expenses incurred and assumptions made for the calculation of employee benefits as required by SA Standards of GRAP, GRAP 25, *Employee benefits*.
- 24. The accrual for leave payout was not calculated as required by SA Standards of GRAP, GRAP 1, *Presentation of financial statements*. Incorrect leave balances were used for certain employees. Consequently, the leave accrual and employee cost are overstated by R322 771 (2011: R147 887). Furthermore the back pay provision was incorrectly calculated using incorrect hourly rates. Employee cost and the back pay provision are further overstated by an amount of R227 394 respectively.

Payables from exchange transactions

- 25. I was unable to obtain sufficient appropriate audit evidence regarding payables from exchange transactions amounting to R14 992 756 (2011: R8 272 280), as disclosed in note 7 to the financial statements due to:
 - (a) Sufficient appropriate audit evidence was not obtained for payables amounting to R1 805 493 (2011: R6 028 621).
 - (b) Sufficient appropriate audit evidence was not obtained for the cash suspense account classified as payables to the amount of R1 452 692.
 - (c) The service level agreement between the municipality and the Department of Safety and Liaison was not submitted for audit purposes.

- (d) Sufficient appropriate audit evidence for payments made after year-end to confirm if these transactions were recorded in the correct financial year to an amount of R306 066 for the prior year was not submitted for audit purposes.
- (e) Sufficient appropriate audit evidence was not obtained for debit journal entries to the amount of R19 713 620 (2011:R1 827 390) and credit journal entries to the amount of R1 793 347 passed in trade payables.
- (f) Sufficient appropriate audit evidence was not submitted for debit transactions amounting to R1 990 069 (2011: R1 455 813) recorded for payables.
- (g) Sufficient appropriate audit evidence was not submitted for suspense accounts amounting to R1 392 458 (2011: R1 113 206).
- (h) A difference of R1 228 700 between the balance as per creditors listing and the balance disclosed in the annual financial statements were identified. Monthly creditor reconciliations from the general ledger to the supplier statements and invoices were not performed during the year.

Alternative procedures could not be performed. Consequently, I was unable to determine whether any adjustments relating to payables from exchange transactions in the financial statements were necessary.

- 26. In addition, the nature of the reclassification error disclosed in note 33.3 to the financial statements was not disclosed for adjustments made to the third party payment balance of R380 948 and the reclassification of R909 053 thereto as required by SA Standards of GRAP, GRAP 3, *Accounting policies, changes in accounting estimates and errors*.
- 27. Transactions are in certain instances not recorded as they occur as required by SA Standards of GRAP, GRAP 1, *Presentation of financial statements*. A payment was identified on the bank reconciliation as a reconciling item which was already cancelled in the general ledger. This resulted in the understatement of payables and cash and cash equivalents to the amount of R195 009.

Receivables from exchange transactions

- 28. I was unable to obtain sufficient appropriate audit evidence regarding receivables from exchange transactions amounting to R4 314 481 (2011: R2 386 429) as disclosed in note 13 to the financial statements due to:
 - (a) Sufficient appropriate audit evidence for debit journals to the amount of R2 494 950 and credit journals to the amount of R227 916 were not submitted for audit purposes.
 - (b) Sufficient appropriate audit evidence for receivables to the amount of R22 708 953 (2011: R 1 294 591) was not obtained.
 - (c) Sufficient appropriate audit evidence was not submitted to substantiate the impairment calculations of receivables to the amount of R17 641 456.
 - (d) Sufficient appropriate audit evidence for indigent debtor application forms was not submitted.
 - (e) Signed leased contracts for rentals to the amount of R47 906 were not submitted for audit purposes.
 - (f) Sufficient appropriate audit evidence was not submitted for a prior period error recorded in the 2010/2011 financial year amounting to R191 734.
 - (g) The service level agreement between the municipality and the Department of Safety and Liaison for the recovery of licenses and permits managed on behalf of the municipality was not obtained.

Alternative procedures could not be performed. Consequently, I was unable to determine whether any adjustments relating to receivables from exchange transactions in the financial statements were necessary.

29. A difference of R1 264 355 exists between the debtors listing and the amount disclosed on the financial statements for which no supporting documentation was provided by management.
30. The impairment of debtors was not performed on an individual basis as required by SA Standards of GRAP, GRAP 104, *Financial instruments*. This resulted in receivables being understated and the impairment of receivables overstated by an unknown amount.
31. Payables with debit balances amounting to R1 990 069 were not reclassified as receivables as required by SA Standards of GRAP, GRAP 1, *Presentation of financial statements*. This result in the understatement of both receivables and payables by this amount.

Receivables from non-exchange transactions

32. I was unable to obtain sufficient appropriate audit evidence regarding receivables from non-exchange transactions amounting to R2 032 396 (2011: R1 224 955) as disclosed in note 14 to the financial statements due to:
 - (a) Sufficient appropriate audit evidence was not submitted for the difference between the debtors listing and the amount disclosed in note 14 to the financial statements amounting to R1 014 452.
 - (b) Sufficient appropriate audit evidence was not submitted for non-exchange receivables to the amount of R11 849 728 and the impairment thereof to the amount of R9 817 332.
 - (c) Sufficient appropriate audit evidence was not submitted for a suspense account in the prior year amounting to R11 948.
 - (d) Reconciliations between the grants allocated according to the Government Gazette, the amount received and the amount recorded in the financial system were not performed.
 - (e) Sufficient appropriate audit evidence was not submitted for a prior period error recorded in the 2010/2011 financial year amounting to R199 407.

Alternative procedures could not be performed. Consequently, I was unable to determine whether any adjustments relating to receivables from non-exchange transactions in the financial statements were necessary.

33. Property rates were not charged to consumers at correct rates. This resulted in the understatement of property rates and receivables to the amount of R235 859.

Value-added tax

34. I was unable to obtain sufficient appropriate audit evidence regarding value added tax as disclosed in note 9 to the financial statements amounting to R2 497 806 (2011: R1 789 217) due to:
 - (a) Sufficient appropriate audit evidence was not submitted for transactions for output VAT (credit transactions) to the amount of R491 228 and input VAT (debit transactions) to the amount of R2 601 397 (2011: R521 584). The VAT calculations and VAT201 returns were not submitted for all the periods in the 2011/2012 financial year.
 - (b) Sufficient appropriate audit evidence was not submitted for the difference of R454 050 (2011: R504 264) between the output VAT as per VAT201 returns and the recalculation of VAT output according to the financial records.
 - (c) No reconciliation was performed between the balance as per the VAT201 return payable at the end of the financial year and the VAT receivable as per the financial statements. Sufficient appropriate audit evidence was not submitted for the difference of R688 884 between the amount disclosed in the financial statements and the amount as per the VAT201 return.

Alternative procedures could not be performed. Consequently, I was unable to determine whether any adjustments relating to value added tax in the financial statements was necessary.

35. Input VAT was not claimed on all qualifying expenditure. This resulted in operating expenditure being overstated and the VAT receivable understated by R549 445 (2011: R7 197).

Provisions

36. The provision for landfill site was incorrectly disclosed as a current provision instead of a non-current provision and the provision was incorrectly debited to the accumulated surplus account instead of capitalising it against property plant and equipment as required by SA Standards of GRAP, GRAP 1, *Presentation of Financial Statements*. Current provisions and accumulated surplus are thus overstated by R2 760 233 and non-current provisions and property, plant and equipment understated by the same amount.

Unspent conditional government grants and receipts

37. I was unable to obtain sufficient appropriate audit evidence regarding unspent conditional government grants and receipts amounting to R2 053 144 (2011: R1 655 323), as disclosed in note 8 to the financial statements due to:
- (a) Sufficient appropriate supporting documentation was not submitted for debit journal entries recorded against unspent conditional grants amounting to R16 102 694.
 - (b) There was no reconciliation performed between the amount allocated for government grants to the municipality as per the Government gazette and the actual amounts received. I could therefore not verify the completeness of unspent grants.
 - (c) A grant register that reconciles to the amounts as disclosed in note 8 for unspent grants were not submitted for audit purposes.

Alternative procedures could not be performed. Consequently, I was unable to determine whether any adjustments relating to unspent conditional government grants and receipts in the financial statements were necessary.

Cash and cash equivalents

38. I was unable to obtain sufficient appropriate audit evidence regarding cash and cash equivalents amounting to R2 050 482 (2011: R755 750) disclosed in note 16 to the financial statements due to:
- (a) The cash suspense account with a balance of R1 452 692 (2011: R11 947) was not properly reconciled nor could sufficient appropriate audit evidence be submitted for the balance.
 - (b) The bank reconciliation submitted for audit purposes did not reconcile to the bank balance disclosed in the financial statements to an amount of R195 009.
 - (c) Sufficient appropriate audit evidence was not submitted for prior year debit journals to the amount of R21 525 and credit journals to the amount of R18 696 recorded against cash and cash equivalents.

Alternative procedures could not be performed. Consequently, I was unable to determine whether any adjustments relating to cash and cash equivalents in the financial statements were necessary.

39. Note 16 to the financial statements states that: "The Municipality does not have a bank overdraft facility with ABSA as at 30 June 2012". However note 16 also indicate that the balance of the primary bank account is a liability of R328 404. Therefore the disclosure is contradicting.

Contingent liabilities

40. I was unable to obtain sufficient appropriate audit evidence regarding contingent liabilities for the amount of R675 000. Furthermore, the disclosure of contingent liabilities in note 46 to the financial statements is overstated by an amount of R1 495 000. The amount was double counted in the disclosure note. Alternative procedures could not be performed. Consequently, I was unable to determine whether any adjustment relating to contingent liabilities in the financial statements was necessary.

Irregular expenditure

41. I was unable to obtain sufficient appropriate audit evidence regarding irregular expenditure amounting to R28 879 596 (2011: R15 501 699) as disclosed in note 39.3 to the financial statements. The limitation imposed by the lack of supporting documentation for the procurement of assets and expenditure did not enable me to determine whether all irregular expenditure was identified for the current or the prior year, nor could I determine the value thereof. Alternative procedures could not be performed. Consequently, I was unable to determine whether any adjustment relating to irregular expenditure in the financial statements was necessary.

Unauthorised Expenditure

42. I was unable to obtain sufficient appropriate audit evidence regarding unauthorised expenditure amounting to R53 520 421 (2011: R33 511 219) as disclosed in note 39.1 to the financial statements due to:

- (a) The limitations identified in the expenditure and budget paragraphs did not enable me to confirm that all unauthorised expenditure was disclosed in the financial statements.
- (b) Sufficient appropriate audit evidence was not submitted for an adjustment made to the 2011 opening balance amounting to R1 703 049. (Prior year AR)

Alternative procedures could not be performed. Consequently, I was unable to determine whether any adjustments relating to unauthorised expenditure in the financial statements were necessary.

43. Management did not monitor and efficiently manage the budget allocations and the adjustment budget process, the unauthorised expenditure as disclosed in note 39.1 was understated by R657 706.
44. Individual votes as disclosed in note 38.1 were overspent with an amount of R20 009 023.

Fruitless and Wasteful expenditure

45. I was unable to obtain sufficient appropriate audit evidence regarding fruitless and wasteful expenditure amounting to R925 423 (2011: 922 400) as disclosed in note 39.2 to the financial statements due to:

- (a) A system to identify and account for fruitless and wasteful expenditure is not in place.
- (b) The limitations identified in the expenditure and budget paragraphs did not enable me to confirm that all fruitless and wasteful expenditure was disclosed in the financial statements.

Alternative procedures could not be performed. Consequently, I was unable to determine whether any adjustments relating to fruitless and wasteful expenditure in the financial statements was necessary.

46. Interest and penalties incurred during the year to the amount of R486 614 (2011: R81 236) was not disclosed as fruitless and wasteful expenditure in the notes to the financial statements as required by Section 125 (2) (d) of the MFMA.

47. A misstatement in the disclosure of fruitless and wasteful expenditure was identified. The disclosure in note 39.2 to the financial statements is incorrect due to the opening balance of R420 582 being included twice in the closing balance.

Operating lease asset

48. I was unable to obtain sufficient appropriate audit evidence for the restatement in the corresponding figure of operating lease assets. As described in note 33 to the financial statements, the restatement of R3 140 was made in order to rectify a prior year misstatement. I was unable to confirm the restatement by alternative means. Consequently I was unable to determine whether any adjustments to the operating lease asset corresponding figure were necessary.

Inventory

49. I was unable to obtain sufficient appropriate audit evidence regarding inventory of R318 771 (2011: R219 100), as disclosed in note 12 to the financial statements due to:
- (a) A proper system together with supporting documentation to record the receipt and issue of inventory was not maintained during the current or prior year.
 - (b) A proper system together with supporting documentation to record and identify slow moving or obsolete stock is not maintained during the current or prior year.
 - (c) An inventory listing supporting the amount of R318 771 (2011: R219 100) as disclosed in note 12 to the financial statements was not submitted.
 - (d) Differences identified during the stock take and corrections made by the municipality in the accounting records were not submitted for audit purposes.
 - (e) Sufficient appropriate audit evidence was not submitted for unsold erven held by the municipality, the amount of the unsold erven was not determined.
 - (f) Sufficient appropriate audit evidence was not obtained to ensure that inventory was measured in accordance with the accounting policy as set out in the accounting policy notes.

Alternative procedures could not be performed. Consequently, I was unable to determine whether any adjustments relating to inventory in the financial statements was necessary.

50. The description included for inventory in the notes to the financial statements for both the current and prior year reflects that inventory consists only of pre-paid electricity meters. Other inventory items were identified during the inventory count of the 2010/2011 and 2011/2012 financial years that were not only limited to pre-paid electricity meters and that should have been included in inventory as required by SA Standards of GRAP, GRAP 1, *Presentation of financial statements*. Inventory identified during the prior year amounting to R528 584 were not recognised in the inventory listing or in the financial statements.

Consumer deposits

51. The completeness of consumer deposits as disclosed in note 4 to the financial statements amounting to R483 058 (2011: R450 198), could not be confirmed as consumers were identified for which no deposit was included in the consumer deposit listing nor were any explanations obtained. The municipality's records did not permit the application of alternative procedures or enable me to determine the total extent of the error.

Budget disclosures

52. I was unable to obtain sufficient appropriate audit evidence regarding the budget disclosures, as disclosed in note 38 to the financial statements, as the final council-approved budget did not agree to the budgeted figures included in the financial statements. Due to the limitations indicated in this report, the extent of the error could

not be determined. The municipality's records did not permit the application of alternative procedures.

Commitments

53. The completeness of commitments was not confirmed as a contract and tender register was not submitted for audit purposes. The municipality's records did not permit the application of alternative procedures.

Cash flow statement

54. The accuracy of the cash flow statement for the current and prior year as required by SA Standards of GRAP, GRAP 2, *Cash flow statements* was not confirmed due to the limitations imposed by the lack of sufficient appropriate audit evidence as included in this report.

Material losses

55. No material losses were included in the financial statements for the current or prior year as required by section 125(2)(d) of the MFMA. The completeness of material losses was not confirmed as water consumption from reservoirs and electricity units sold and purchased during the year were not available. Due to the limitation imposed by the system and the lack of supporting documentation, the total extent of the error could not be determined and alternative procedures could not be performed. Consequently, I was unable to determine whether any adjustments to the material losses figure were necessary.

Long-term receivables

56. I was unable to obtain sufficient appropriate audit evidence regarding long-term receivables amounting to R105 814 in the prior year as disclosed in note 11 to the financial statements. Sufficient appropriate audit evidence was not submitted for the debtor's loan agreements to the amount of R372 464 in the prior year. The lack of documentation did not enable me to determine the extent of the error or to perform alternative procedures.

Accumulated surplus

57. I was unable to obtain sufficient appropriate audit evidence regarding the accumulated surplus amounting to R231 927 051 (2011: R233 018 386) as disclosed in the statement of financial performance due to:
- (a) Sufficient appropriate audit evidence was not submitted for transactions to the amount of R178 883 processed to accumulated surplus during the year under review.
 - (b) Sufficient appropriate audit evidence was not submitted for debit journals entries amounting to R218 103 and credit journal entries amounting to R191 734 in the prior period.

Alternative procedures could not be performed. Consequently, I was unable to determine whether any adjustments relating to accumulated surplus in the financial statements was necessary.

Disclaimer of opinion

60. 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

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

Significant uncertainties

62. With reference to note 46 to the financial statements, the municipality is the defendant in two separate lawsuits. The municipality is opposing the claims as it believes the claims are not valid. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

63. As disclosed in note 33 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of errors discovered during the financial year ended 30 June 2012 in the financial statements of Siyathemba Local Municipality at, and for the year ended, 30 June 2012.

Financial sustainability

64. Note 48 to the financial statements indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern. The following conditions, along with other matters as set forth indicate the existence of a material uncertainty:
- (a) The municipality experienced serious difficulties with regard to debt collection. Debtors amounting to R26 706 202 (85%) (2011: R23 842 920) (89%) had been outstanding for more than 90 days.
 - (b) The municipality did not settle all trade creditors within 30 days as required by section 65(2) (e) of the MFMA.
 - (c) The Statement of Financial Performance indicates that the Siyathemba Local Municipality incurred a net deficit of R1 091 335 (2011:R1 628 555)
65. Owing to management not implementing sufficient controls as well as the extent of differences and uncertainties identified during the audit, material irregularities might exist at Siyathemba Local Municipality that will not be prevented or identified by the system of internal control and that would not have been identified during the audit due to the material limitations placed on the scope of the audit.

Material impairments

66. As disclosed in note 13 and 14 to the financial statements, material impairments to the amount of R27 458 788 (2011: R25 108 251) were made as a result of possible irrecoverable trade receivables.

Material underspending of budget

67. As disclosed in note 38 to the financial statements, the municipality has materially underspent the budget to an amount of R6 142 688. The community and social services vote was underspent by R636 361, the electricity vote by R2 702 630, the planning and development vote by R11 561 879 and the water vote by R358 911.

Additional matters

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

Unaudited supplementary schedules

69. The supplementary information set out on pages 68 to 72 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.

Material inconsistencies in other information included in the annual report

70. The annual report had not been received at the date of this report; as a result, a conclusion was not drawn on the consistency of the financial statements and the audit report with other information included in the annual report.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

71. 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

72. I am unable to report findings on the usefulness and reliability of the annual performance report of Siyathemba Local Municipality as it was not prepared as required by section 46 of the Municipal Systems Act, 2000 (Act No 32 of 2000) (MSA) and the MFMA section 121(3)(c).

Compliance with laws and regulations

73. I performed procedures to obtain evidence that the entity 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

74. The municipality did not give effect or conduct affairs consistently with the adopted integrated development plan as no performance management system was implemented as required by the MSA section 36.
75. The municipality did not establish mechanisms to monitor and review its performance management system, as required by the MSA section 40.
76. The municipality does not have a performance management system in place and does not have mechanisms in place to monitor and review the system as required by the MSA section 38 and 40.
77. 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 as required by the MSA section 41 of.

Budgets

78. Expenditure was incurred that was not budgeted for and in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of the MFMA section 15.

79. Quarterly reports were not submitted to the council on the implementation of the budget and financial state of affairs of the municipality within 30 days after the end of each quarter, as required by the MFMA section 52(d).

Annual financial statements, performance and annual report

80. The 2010/11 annual report of the municipality was not tabled in the municipal council within seven months after the end of the financial year as required by the MFMA section 127.
81. The municipal council did not adopt an oversight report, containing comments on the 2010/11 annual report, within two months from the date on which the 2011/06 annual report was tabled, as required by the MFMA section 129(1).
82. The accounting officer did not make public the council's oversight report on the 2010/11 annual report within seven days of its adoption, as required by the MFMA section 129(3).
83. The annual performance report for the year under review does not include the performance of the municipality as required by the MSA section 46 (1)(a).

Audit Committee

84. An audit committee was not in place, as required by the MFMA section 166(1).
85. A performance audit committee was not in place and the audit committee established in terms of the MFMA section 166(1) was not used for this function, as required by Municipal Planning and Performance Management Regulation 14(2)(a).

Internal Audit

86. Internal audit did not audit the performance measurements on a continuous basis and did not submit quarterly reports on their audits to the municipal manager and the performance audit committee as required by the Municipal Planning and Performance Management Regulation 14.

Procurement and Contract Management:

87. Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value of below R200 000 were procured by means of obtaining the required price quotations, as required by SCM regulation 17(a) & (c).
88. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R200 000 were procured by means of inviting competitive bids, as required by SCM regulation 19(a).
89. Sufficient appropriate audit evidence could not be obtained that bid specifications for procurement of goods and services through competitive bids were drafted in an unbiased manner that allowed all potential suppliers to offer their goods or services, as per required by SCM regulation 27(2)(a).
90. Sufficient appropriate audit evidence could not be obtained that bid specifications were drafted by bid specification committees which were composed of one or more officials of the municipality as required by SCM regulation 27(3).
91. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period of days, as required by SCM regulation 22(1) & 22(2).
92. Sufficient appropriate audit evidence could not be obtained that bids were evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services and at least one SCM practitioner of the municipality as required by SCM regulation 28(2).

93. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding and quotations, as required by SCM Regulations 21(b) and 28(1)(a) and Preferential Procurement Regulations.
94. Sufficient appropriate audit evidence could not be obtained that bid adjudication was always done by committees which were composed in accordance with SCM regulation 29(2).
95. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).
96. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
97. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders that scored the highest points in the evaluation process, as required by of section 2(1)(f) of Preferential Procurement Policy Framework Act.
98. Sufficient appropriate audit evidence could not be obtained that construction contracts were awarded to contractors that were registered with the Construction Industry Development Board (CIDB) and qualified for the contract in accordance with section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A).
99. Sufficient appropriate audit evidence could not be obtained that contract and quotations were only awarded to providers whose tax matters have been declared by the South African Revenue Service to be in order as required by SCM regulation 43.
100. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded only to bidders who submitted a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).

Expenditure management

101. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, contrary to the requirements of the MFMA section 65(2)(e).
102. An effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, was not in place as required by the MFMA section 65(2)(a).
103. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, accounted for creditors or accounted for payments made, as required by the MFMA section 65(2)(b).
104. The accounting officer did not take reasonable steps to prevent unauthorised, irregular or fruitless and wasteful expenditure and other losses as required by the MFMA section 62.
105. The municipality did not perform any investigation or follow up on unauthorised, irregular and fruitless and wasteful expenditure. Unauthorised, irregular and fruitless and wasteful expenditure was therefore not recovered from the liable person, as required by the MFMA section 32(2).

Transfer of funds and conditional grants

106. Sufficient appropriate audit evidence could not be obtained that the allocations were utilised for purposes other than those stipulated in the grant framework in contravention of the DoRA section 15(1).

Revenue management

107. A tariff policy on the levying of fees for municipal services provided by the municipality was not adopted as required by the MSA section 74(1) and the MFMA section 62(1)(f)(i).
108. A credit control and debt collection policy was not adopted as required by the MSA section 96(b) of and the MFMA section 62(1)(f)(iii).
109. A policy on the levying of rates on rateable property within the municipality was not adopted as required by section 3(1) of the Property Rates Act and the MFMA section 62(1)(f)(ii) of.
110. An adequate management, accounting and information system was not in place which recognised revenue when it was earned, accounted for debtors, accounted for receipts of revenue as required by the MFMA section 64(2)(e).
111. Sufficient audit evidence could not be obtained that interest had been charged on all accounts in arrears, as required by the MFMA section 64(2)(g).
112. Sufficient audit evidence could not be obtained that revenue had been reconciled on a weekly basis, as required by the MFMA section 64(2)(h).

Asset and liability management

113. Immovable property was not sold at market related prices as required by the Municipal Asset Transfer Regulation section 12(1) (GNR.878 of 22 Aug 2008) and the Municipal Supply Chain Management Regulation section 40(2)(b) during the 2009 financial year.
114. An adequate management, accounting and information system which accounts for assets was not in place, as required by the MFMA section 63(2)(a).
115. An effective system of internal control for assets (including an asset register) was not in place, as required by the MFMA section 63(2)(c) and 96(2)(b).
116. Short-term debt was not repaid within the financial year, as required by the MFMA section 45(4)(a).

Human resource management

117. Sufficient appropriate audit evidence could not be obtained that appointments were only made in posts which were provided for in the approved staff establishment of the municipality, as required by the MSA section 66(3).
118. Sufficient appropriate audit evidence could not be obtained that job descriptions were established for all posts in which appointments were made in the current year, as required by the MSA section 66(1)(b).
119. Sufficient appropriate audit evidence could not be obtained that the municipality appointed managers directly accountable to the municipal manager who was not dismissed for financial misconduct after expiry of 10 years.
120. An approved staff establishment was not in place, as required by the MSA section 66(1)(a).
121. The municipal manager and senior managers directly accountable to the municipal manager did not sign performance agreements, as required by the MSA section 57(2)(a).

Internal control

I considered internal control relevant to my audit of the financial statements, 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 disclaimer of opinion.

Leadership

122. The following challenges were experienced that contributed to the weaknesses in the financial environment and the ultimate audit outcome:
- (a) Personnel had not been allocated specific duties and responsibilities to facilitate the continuous monitoring of internal controls.
 - (b) The leadership did not take appropriate action with regard to a lack of controls in the finance and supply chain management directorates, resulting in non-compliance with applicable legislation and inadequate budget control measures. This, in turn, resulted in irregular, fruitless and wasteful as well as unauthorised expenditure.
 - (c) Leadership did not regularly monitor management's compliance with laws, regulations and internally designed policies and procedures. As a result, significant non-compliance issues were noted.

Financial and performance management

123. The municipality did not have individuals who sufficiently understood the financial reporting framework and performance and financial management requirements with the result that the municipality engaged a consultant to assist in the compilation of the general ledger and financial statements. The underlying accounting records of the municipality did not facilitate the preparation of the financial statements to comply with the accounting framework.
124. Manual or automated controls were not designed to ensure that the transactions had occurred, were authorised, and were completely and accurately processed. Documentation supporting amounts disclosed in the financial statements was not always available.
125. Management did not document and approve internal policies and procedures to address the process of collection, recording, processing, monitoring and reporting on performance information. Consequently, performance systems, processes and procedures had not been designed and implemented.

Governance

126. The risk of material misstatement due to fraud was not considered. Sufficient controls and segregation of duties to prevent or detect fraudulent data and asset misappropriation were not implemented and maintained.
127. The municipality did not respond to the assessed risks by determining a risk strategy and action plan to manage identified risks. Consequently, internal controls were not selected and developed to prevent, detect and correct material misstatements in financial reporting and reporting on predetermined objectives.
128. The financial statements were subject to material misstatements resulting from the audit, which can be attributed to the lack of risk assessments, weaknesses in the design and implementation of internal control in respect of financial management and financial reporting, and weaknesses in the information systems.
129. The accounting officer did not prioritise the establishment of a fully functioning performance audit committee and audit committee and therefore the functions were

not established and functional during the financial year. This also resulted in the committees not being able to fulfil all their responsibilities.

OTHER REPORTS

Investigations

130. A fraud investigation was requested by external parties responsible for governance of the municipality. This report has not been submitted at the date of this audit and the outcome of the investigation is unknown.

Kimberley

30 November 2012



A U D I T O R - G E N E R A L
S O U T H A F R I C A

Auditing to build public confidence