



REPORT OF THE AUDITOR-GENERAL TO THE NORTH WEST PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE GREATER TAUNG LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the financial statements of the Greater Taung Local Municipality, which comprise the statement of financial position as at 30 June 2012, and the statement of financial performance, statement of changes in net assets and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, as set out on pages [XX] to [XX].

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required 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. 5 of 2012) (DoRA) and for such internal control as management determines is necessary to enable the preparation of the 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

Trade and other receivables

4. SA Standard of GRAP, IAS 39, *Financial Instruments: Recognition and Measurement*, paragraph 58 requires that an entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. The municipality did not assess consumer debtors, individually or by category, for any indication that these assets may be impaired. The municipality's system did not allow the performance of alternative audit procedures to practicably determine the extent of the misstatement in debtors and the impairment expense. Consequently I am unable to satisfy myself as to the valuation and allocation of consumer debtors of R2 160 349 (2011: R2 051 466) as disclosed in note 2 to the financial statements.

Inventories

5. I was unable to obtain sufficient appropriate audit evidence to determine the completeness, valuation and allocation, existence, rights and the presentation and disclosure for PPE cost of

WIP: Land and buildings of R68 777 900 included in inventories of R69 040 075 disclosed in note 3 to the financial statements. The municipality's system did not allow for the performance of alternative audit procedures. Consequently I was unable to determine whether any adjustment relating to inventories in the financial statements was necessary.

Property, plant and equipment

6. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment of R1 154 792 881 (2011: R147 537 735) disclosed in note 5 to the financial statements. The municipality's system did not permit the application of alternative audit procedures. Consequently, I was unable to satisfy myself as to the completeness, valuation and allocation, existence, rights and presentation and disclosure of property, plant and equipment.

Investment property

7. During 2011 I was unable to obtain sufficient appropriate audit evidence about investment property reflected as R3 315 000. I was unable to confirm investment property by alternative means. Consequently I was unable to determine whether any adjustments to this amount and property, plant and equipment were necessary. My audit opinion on the financial statements for the period ended 30 June 2011 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

Trade and other payables from exchange transactions

8. Retention creditors of R8 368 091 (2011: R6 184 406) as disclosed in note 7 to the financial statements is understated by R870 905 (2011: R2 419 866) as a result of the retention being incorrectly calculated.

Provisions

9. The SA Standard of GRAP, GRAP 19, *Provisions, contingent liabilities and contingent assets* require that provisions be recognised when an entity has a present obligation that will result in an outflow of economic resources that can be reliably estimated. The municipality failed to recognise provisions for the restoration of the landfill sites in the prior year and the current year provision of R2 500 000 as disclosed in note 10 to the financial statements could not be supported with sufficient appropriate audit evidence. I am unable to determine the extent of these provisions due to limitations placed on the scope of my work by the municipality. The municipality's system did not permit the application of alternative audit procedures. Consequently, I did not obtain all the information and explanations I considered necessary to satisfy myself as to the completeness, existence, valuation and allocation, obligations and presentation and disclosure of this provision. I was unable to determine the effect of this limitation on the other account balances and classes of transactions contained in the financial statements.
10. Provisions disclosed in note 10 is overstated by R4 398 194 (2011: understated by R3 768 272) as the post retirement medical aid liability was incorrectly recognised as a provision instead of a post retirement medical aid liability in accordance with paragraph 54 of the International Accounting Standards, IAS 19, *Employee Benefits*.

Accumulated surplus

11. I was unable to obtain sufficient appropriate audit evidence for transfers to accumulated surplus of R973 274 837 included in the accumulated surplus of R1 221 205 357 (2011: R183 266 567). The municipality's system did not allow the performance of alternative audit procedures. Consequently, I am unable to satisfy myself as to the completeness,

valuation and allocation, obligations and existence of the accumulated surplus disclosed in the statement of changes in net assets.

Expenditure

12. SA Standards of GRAP, GRAP 13, *Leases* requires a lease to be classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. The municipality is party to a number of lease agreements that constitute finance leases, but which have been accounted for as operating leases. Operating leases expenditure is accordingly overstated by R925 178 (2011: R788 948). If these leases had been accounted for as finance leases, finance charges would have been R127 162 (2011: R304 625), property, plant and equipment would have increased by R2 537 225 (2011: R2 412 101), long-term liabilities would have increased by R1 579 208 (2011: R2 955 085) and the current portion of long-term liabilities would have increased by R601 988 (2011:R1 168 397). Additionally, the surplus for the period and accumulated surplus would have increased by R798 016 (2011: R484 323).

Unauthorised, irregular and fruitless and wasteful

13. I was unable to obtain sufficient appropriate audit evidence for unauthorised expenditure of R3 840 120 (2011: R6 407 482) and fruitless and wasteful expenditure of R0 (2011:R977 556) disclosed in note 31 to the financial statements. The municipality's system did not permit the application of alternative audit procedures. Consequently, I was unable to satisfy myself as to the completeness, occurrence, accuracy and valuation, classification and understandability and compliance of unauthorised and fruitless and wasteful expenditure.
14. Section 125(2)(d)(ii) of the MFMA requires disclosure of all material irregular expenditure. I was unable to obtain sufficient appropriate audit evidence for awards of R11 645 294 (2011: R15 254 639) made in terms of the municipality's supply chain management policy. In addition to this payments of R36 856 058 (2011: R9 198 650) were made in contravention of the supply chain management requirements. The municipality's system did not permit the application of alternative procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself that all material irregular expenditure has been disclosed in the notes to the financial statements.

Revenue

15. I was unable to obtain sufficient appropriate audit evidence for property rates of R5 159 519 (2011: R4 872 149) disclosed in note 12 to the financial statements. Alternative procedures indicated various differences between the property register and valuation roll. Consequently, I did not obtain all the information and explanations I considered necessary to satisfy myself as to the completeness, occurrence, accuracy, classification and cut off of property rates included in revenue of R214 521 149 (2011: R126 050 510) as per the statement of financial performance.
16. I was unable to obtain sufficient appropriate audit evidence for assets at fair value of R74 200 987 included in other income, public contributions and donations of R75 138 731 disclosed in note 18 to the financial statements. The municipality's system did not permit the application of alternative procedures. Consequently, I did not obtain all the information and explanations I considered necessary to satisfy myself as to the completeness, occurrence, accuracy, classification, cut off and the compliance of other income, public contribution and donations included in revenue of R214 521 149 as per the statement of financial performance.

Cash flow statement

17. Taking into account the misstatements identified in the financial statements and set out in this report, I was unable to practicably quantify the misstatements in the cash flow statement and notes thereto. Consequently, I was unable to determine the accuracy, completeness and presentation and disclosure of the cash flow statement and notes thereto.



Correction of prior period errors, change in accounting estimates and change in accounting policies

18. I was unable to obtain sufficient appropriate audit evidence to determine that all requirements of SA Standards of GRAP, GRAP 3, *Accounting policies, changes in accounting estimates and errors* was adhered in note 39 to the financial statements. The municipality's system did not allow the performance of alternative audit procedures. Consequently, I did not obtain all the information and explanations I considered necessary to satisfy myself as to the presentation and disclosure of the prior year errors, change in accounting estimates and change in accounting policies. I was unable to determine the effect of this limitation on the other account balances and classes of transactions contained in the financial statements.

GRAP disclosures

19. The municipality did not disclose in the financial statements new SA Standards of GRAP that have been issued, that are not yet effective and that were not applied as required by SA Standards of GRAP, GRAP 3, *Accounting Policies, Changes in Accounting Estimates and Errors*. This fact and the known or reasonably estimable information relevant to assessing the possible impact that application of the new standard will have on the entity's financial statements in the period of initial application, was not disclosed in the financial statements.

Disclaimer of opinion

20. 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 these financial statements.

Emphasis of matters

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

Restatement of corresponding figures

22. As disclosed in note 39 to the financial statements, the corresponding figures for property plant and equipment have been restated as a result of errors discovered during the 2011 year in the financial statements of the Greater Taung Local Municipality at, and for the year ended, 30 June 2011.

Material under spending of the conditional grant

23. As disclosed in note 11 to the financial statements, the municipality has materially under spent on conditional grants to the amount of R22 570 094 (2011: R20 961 357). The material under spending occurred mainly on the Municipal Infrastructure and National Development Priority grants.

Material losses and impairments

24. As disclosed in note 2 to the financial statements, material losses of R3 575 885 (2011: R3 549 715) were incurred as a result of significant impairments of receivables.

Additional matter

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



Unaudited supplementary schedules

26. The municipality provided supplementary information in the financial statements. The supplementary information set out on pages [XX] to [XX] does not form part of the financial statements and is presented as additional information. Accordingly I do not express and opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

27. 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

28. 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.
29. 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 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).
30. The reliability of the information in respect of the selected development priorities or objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
31. The material findings are as follows:

Usefulness of information

32. No matters to report.

Compliance with laws and regulations

33. 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:

Annual financial statements and annual report

34. 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 identified by the auditors were not corrected, the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion

Procurement and contract management

35. Goods and services with a transaction value 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) and (c).
36. 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).

37. The preferential point system was not 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)

Expenditure management

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

Asset management

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

Waste management

40. The municipality operated their waste disposal sites without a waste management license or permit, in contravention with the requirements of section 20(b) of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008) (NEMWA), section 20(1) of the Environmental Conservation Act, 1989 (Act No. 73 of 1989), or section 22 of the National Water Act (36 of 1998) (NWA).
41. The municipality's waste management and disposal activities contravened or failed to comply with the requirements of section 28(1) of the National Environmental Management Act, 1998 (Act No. 107 of 1998), Section 19 of the NWA, and sections 16(1)(c) and (d) and 26(1)(b) of the NEMWA.

Internal control

42. 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 disclaimer of opinion], the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

43. Management failed to timely appoint sufficient appropriately skilled staff in key positions within the finance unit and the training and development initiatives failed to address the underlying deficiencies that caused matters to be repeatedly reported on in the audit report. Policies and procedures did not adequately guide financial and performance activities. Action plans designed to address prior year audit findings as discussed and agreed with municipal public accounts committee and council were not implemented and reflects negatively on management's ability to address recurring audit findings.
44. Council did not effectively execute its oversight responsibility concerning the establishment and communication of policies and procedures to enable and support the understanding and execution of internal control objectives, processes, and responsibilities in terms of financial reporting and compliance with laws and regulations.

Financial and performance management

45. Management failed to implement effective controls to ensure that information in the financial statements were reliable before submission for audit. This was mainly due to the inability of management to address the prior years' audit findings and staff in the finance section not understanding the requirements of the financial reporting framework. The ignorance of management to address the repetitive findings relating to supply chain management regulations is indicative of financial misconduct.
46. The accounting officer does not exercise effective oversight over reporting and compliance with laws and regulations and internal control.

47. Controls are not adequately monitored to ensure that information in the financial statements is reliable. This includes key reconciliations to ensure that all disclosures made are supported by reliable information.

Governance

48. The risks identified during the risk assessment process relating to financial and compliance with laws and regulations were not adequately addressed in the risk management strategy adopted by the municipality. Though the audit committee fulfilled its function, the municipality did not adequately respond to the concerns raised by the audit committee, resulting in the internal control environment over financial and compliance with laws and regulations being ineffective.
49. The council failed to implement good governance principles within the municipality as the formal risk assessment was inadequate and the internal audit unit and audit committee was not effective.

OTHER REPORTS

Investigations

50. An investigation is being conducted by the Special Investigation Unit (SIU) and the South African Police Services (SAPS) to probe the manner in which contracts were awarded to contractors. The investigation emanates from the previous financial year and was still ongoing at the date of this report.

Auditor General

Potchefstroom

30 November 2012



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence