AUDITOR-GENERAL
SOUTH AFRICA

Municipal Manager
Pixley Ka Seme District Municipality
Private Bag x 1012
De Aar
7000

Date: 30 November 2012

Reference: 21362REG11/12

Dear Mr. Jack

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Pixley Ka seme District Municipality for the year ended 30 June 2012

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA)
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) (municipality); you are required to include the audit report in the municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA (Pixley Ka Seme district municipality the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
    - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
    - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format

6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed

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Senior Manager: NCBU

Enquiries: Victor Bakali
Telephone: (053) 831 1016
Fax: (053) 833 3231

REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON PIXLEY KA SEME DISTRICT MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Pixley Ka Seme 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 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 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 qualified audit opinion.

Basis for qualified opinion

Property, plant and equipment (PPE)

6. The municipality did not review the useful lives and residual values of property, plant and equipment at the reporting date in accordance with Standards of Generally Recognised Accounting Practice, GRAP 17, *Property, plant and equipment*. Consequently, I was unable to determine the effect on the surplus for the period, PPE and accumulated surpluses in the financial statements.

7. My audit revealed a number of immovable properties that are not in the name of the municipality that were recorded in the accounting records of the municipality. *Furthermore*, the municipality did not revalue the land and building as required by the Standards of Generally Recognised Accounting Practice, GRAP 17, *Property, plant and equipment*. Because of the nature of these properties, it was impracticable to confirm or verify by alternative means the correct value of the immovable properties. Consequently, I was unable to determine whether any adjustment relating to immovable properties balance of R12 287 455 as disclosed in note 7 to the financial statements was necessary.

Unspent conditional grant

8. I was unable to obtain sufficient appropriate audit evidence for the Ouboks Housing Project payments amounting to R1 939 405. I was unable to confirm the payments by alternative means. Consequently I was unable to determine whether any adjustments to other receivable or unspent conditional grant figures were necessary.

Other receivables

9. International Accounting Standard, IAS 39, *Financial instruments: recognition and measurement* requires an entity to assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets are impaired. The provision for doubtful debts consist debts owed by municipalities amounting to R524 992. The municipality did not assess whether there was objective evidence that receivables are impaired. Consequently, the other receivables and accumulated surpluses are understated by R524 992.

Leases

10. In calculating the lease liability amounting to R796 961 (2011: R1 197 832) as disclosed in note 1, the municipality used a rate of 4.2% for all their lease agreements instead of calculating the effective interest rate in terms of the Standards of Generally Recognised Accounting Practice, GRAP 13, *Leases*. *Furthermore*, the agreements made a provision for 15% escalation fees yearly and this was not incorporated in calculation of the lease liability. Consequently, the total lease payments as disclosed in note 1 are understated by R649 166

Revenue

11. Revenue from grants per note 5 to the financial statements of R32 072 707, does not agree to the revenue from grant as per statement of financial performance of R36 210 014. The municipality did not reconcile the differences between the financial statements and the underlying accounting records. Consequently, I was unable to determine whether any adjustment relating to revenue in the financial statements was necessary.

12. Included in revenue in note 14 to the financial statements are funds transferred from unspent conditional grants amounting to R1 110 402. I could not obtain sufficient appropriate audit evidence to support that the conditions attached to the grants were met. Consequently, I was unable to determine whether any adjustment relating to revenue in the financial statements was necessary.

13. Included in revenue in note 13 to the financial statements is grants and subsidies amounting to R 4 682 097. I could not obtain sufficient appropriate evidence to support that the conditions attached to the grants were met. Consequently, I was unable to determine

whether any adjustment relating to revenue in the financial statements was necessary.

Correction of prior year errors

14. The entity did not disclose prior year errors as required by Standard of Generally Recognised Accounting Practice, GRAP 3, *Accounting policies, changes in accounting estimates and errors*. The statement of changes in net assets reflect prior period errors that was corrected, resulting in an adjustment in accumulated surpluses amounting to R 2 033 681 and no disclosure was made in the notes to the financial statements to provide more information on the nature and the impact of the errors on prior years.

Irregular expenditure

15. The municipality did not implement and maintain an appropriate procurement and provisioning system as required by SCM regulation 17(a) & (c). The municipality made payments in contravention of the supply chain management requirements which were not included in irregular expenditure, resulting in irregular expenditure being understated by R1 762 721.

Qualified opinion

16. In my opinion, except for the possible effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Pixley Ka Seme District Municipality as at 30 June 2012 and its financial performance and cash flows for the year then ended, in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the MFMA and DoRA.

Additional matters

17. 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

18. The annual report has not been received at the date of this report; as a result, a conclusion could not be drawn on the consistency between the financial statements and the audit report with other information included in the annual report.

Unaudited supplementary schedules

19. 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 this schedule and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

20. 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

21. The annual performance report was not presented for audit and consequently our findings

below are limited to the procedures performed on the strategic planning and performance management documents.

22. The information was assessed to determine whether performance 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.*

23. The material findings are as follows:

Usefulness of information

Measurability

24. The *Framework for managing programme performance information*, chapter 3.3 states: "Performance targets express a specific level of performance that the institution, programme or individual is aiming to achieve within a given time period." Further it states that "A useful set of criteria for selecting performance targets is the "SMART" criteria (Specific, Measurable, Achievable, Reliable and Time-bound).

    - None of the targets included in the IDP were specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was not aware of the requirements of the *Framework for managing programme performance information.*
    - None of the indicators included in the IDP were time bound in specifying a time period or deadline for delivery. This was due to the fact that management was not aware of the requirements of the *Framework for managing programme performance information.*

25. The *Framework for managing programme performance information* requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use.

    - None of the indicators included in the IDP were well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was not aware of the requirements of the *Framework for managing programme performance information.*

Compliance with laws and regulations

26. 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, performance and annual report

27. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act. Material misstatements of non-current assets, current assets, revenue, expenditure, and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the

uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Audit Committee

28. The audit committee did not adequately advise the accounting officer on matters relating to internal financial control, risk management, accounting policies, performance management and performance evaluation as required by section 166(2)(a) of the Municipal Finance and Management Act.

29. The audit committee did not adequately advise the accounting officer on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the Municipal Finance and Management Act.

30. The audit committee did not adequately advise the accounting officer on matters relating to compliance with the MFMA, DoRA and other applicable legislation, as required by section 166(2)(a)(vii) of the Municipal Finance and Management Act.

31. The audit committee did not adequately review the annual financial statements to provide the council with an authoritative and credible view of the financial position of the entity, its efficiency and effectiveness and its overall level of compliance with the MFMA, DoRA and other applicable legislation, as required by section 166(2)(b) of the Municipal Finance and Management Act.

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

Internal Audit

33. The internal audit unit did not function as required by section 165(2) of the Municipal Finance Management Act, in that it did not advise the accounting officer on matters relating to accounting procedures and practices and risk management.

34. The internal audit unit did not report to the audit committee on matters relating to compliance with the Municipal Finance Management Act, the Division of Revenue Act and other applicable legislation, as required by section 165(2)(b) of the Municipal Finance Management Act.

35. The internal audit did not audit the results of performance measurements, as required by section 45(1)(a) of the Municipal Systems Act and Municipal Planning and Performance Management Regulation 14(1)(a).

36. The internal audit unit did not assess the extent to which the performance measurements were reliable in measuring the performance of the municipality on key and general performance indicators, as required by Municipal Planning and Performance Management Regulation 14(1)(b) (ii) and (iii).

37. The internal audit unit did not audit the performance measurements on a continuous basis and submitted quarterly reports on their audits to the municipal manager and the performance audit committee, as required by Municipal Planning and Performance Management Regulation 14(1)(c).

Procurement and contract management

38. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by Supply Chain Management (SCM) regulation 17(a) & (c).

39. 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 SCM regulation 13(c).

Expenditure management

40. 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 Municipal Finance Management Act.

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

Conditional grants received

42. Sufficient appropriate audit evidence could not be obtained that the municipality evaluated its performance in respect of programmes funded by the allocation and submit the evaluation to the transferring national officer within two months after the end of the financial year, as required by section 12(6) of the Division of Revenue Act.

43. Sufficient appropriate audit evidence could not be obtained that the municipality complied with the preparations for next financial year and 2013/14 financial year as required by section 26 of the Division of Revenue Act.

Internal control

27. 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

44. The accounting officer does not exercise oversight responsibility over reporting and compliance by management with laws, regulations and internally designed policies and procedures. As a result, non-compliance issues were noted.

Financial and performance management

45. The financial statements and other information to be included in the annual report are not reviewed for completeness and accuracy prior to submission for audit by the chief financial officer.

46. Management did not document and approve internal policies and procedures to address the process of collection, recording, processing, monitoring and reporting on performance information.

47. Adequate systems, manual or automated controls are not designed or implemented to ensure that the transactions have occurred, are authorised, and are completely and

accurately processed pertaining to the accounting system. Documentation supporting amounts disclosed in the financial statements was not always available.

Governance

48. Internal controls are not selected and developed to prevent, detect and correct material misstatements in financial reporting and reporting on predetermined objectives.

49. The financial statements were subject to material corrections resulting from the audit, which are attributable to the lack of risk assessment performed, weaknesses in the design and implementation of internal control in respect of financial management, and financial reporting and weaknesses in the information systems.

50. The accounting officer did not prioritise the establishment of a fully functioning performance audit committee and therefore the functions were not established and functional during the financial year.

Auditor-General

Kimberley

30 November 2012

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence