

REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE MARULENG LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of Maruleng Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act (Act No. 5 of 2012) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis of qualification

Property, plant and equipment

6. Section 84(1)(f) of the Municipal Structures Act states that the district municipality has the powers and function with regards to municipal roads which form an integral part of a road transport system for the area of the district municipality as a whole. I was unable to obtain sufficient appropriate audit evidence that management has properly accounted for all roads as the municipality did not have systems and procedures in place. I was unable to confirm the roads infrastructure by alternative means. Consequently, I was unable to determine whether any adjustment to infrastructure assets stated at R163 761 324 (2012: R152 975 051) financial

statements was necessary.

7. The accounting records of the municipality did not in all instances contain adequate information to enable me to perform a physical verification of land and buildings amounting to R15 514 914. I was unable to confirm these assets by alternative means. Consequently, I was unable to determine whether any adjustment relating the land and buildings stated at R190 091 256 in note 8 in the financial statements was necessary.
8. I identified a significant number of assets that were not recorded in the accounting records of the municipality. The value of these assets could not be determined. I was unable to determine the effect on property, plant and equipment of R359 795 268 disclosed in note 8 to the financial statements.
9. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for property, plant and equipment. As described in note 29 to the financial statements, the restatement 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 adjustment to the property, plant and equipment corresponding figure stated at R359 795 268 in the financial statements was necessary.

Investment Property

10. Standard of Generally Recognised Accounting Practice, GRAP 16, *Investment property*, states that the municipality that chooses fair value model shall measure all its investment property at fair value at reporting date. The municipality did not fair value Investment property amounting to R3 254 850 as disclosed in note 10 of the annual financial statements in terms of Standard of Generally Recognised Accounting practice, (GRAP 16), *Investment Property*. The municipality's accounting records did not permit application of alternative audit procedures. Consequently, I was unable to determine the fair value of investment property as it was impracticable to do so.

Value-added-tax (VAT) receivable

11. VAT receivable as disclosed in note 6 to the financial statements amounting to R3 887 985 does not reconcile to balance of as vat accounts per the underlying accounting records of the municipality. Sufficient appropriate audit evidence or explanations could not be provided for this difference. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for VAT receivable.

Receivables

12. The municipality did not assess whether objective evidence of impairment exists individually for receivables that are individually significant, as required by Standard of Generally Recognised Accounting Practice, GRAP 104, *Financial Instruments*. I have not determined the correct amount of the impairment as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to trade and other receivables from exchange transactions and other receivables from non-exchange transactions stated at R1 723 338 and R1 903 951, respectively, in the financial statements were necessary. Additionally, there is a consequential impact on the surplus for the period.

Provisions

13. Section 84(1)(e) of the Municipal Structures Act states that the district municipality has the powers and function with regards to solid waste disposal sites serving the area of the district municipality as a whole. Included in the provisions balance of R12 172 857 in note 13 to the financial statements, is a provision for environmental rehabilitation to the value of R6 489 083 for which no sufficient and appropriate audit evidence could be provided that the functions for the solid waste disposal site was delegated to the municipality in terms of the act. Consequently, provisions are overstated by R6 489 083. .

Commitments

14. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure of R26 282 278 as disclosed in note 33 to the financial statements. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment to the commitments corresponding figure stated at R26 282 278 in the financial statements was necessary.
15. No contract management system was in place for the identification and recognition of contracts and there were no satisfactory alternative procedures that I could perform to obtain reasonable assurance that all commitments were properly recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself that commitments of R41 426 652 (2012 : R 26 282 278) as stated in note 33 to the financial statements are complete

Contingent liabilities

16. The municipality has not disclosed a contingent liability in respect of the uncertainties arising from the dispute declared by the unions and the pending litigation regarding the wage curve agreement. I was unable to confirm the contingent liabilities by alternative means. Consequently, I was unable to determine whether any adjustment in the financial statements was necessary.

General expenses

17. With reference to paragraph 13 above, I was also unable to determine the validity of the provision for the environmental rehabilitation as disclosed in 27 to the financial statement amounting to R2 000 983(2012: R6 290 561).

Aggregation of immaterial uncorrected misstatements

18. The financial statements as a whole are materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following elements making up the statement of financial performance:
- Government grants and subsidies received Capital reflected as R27 885 010 is understated by R 3 060 937.

Qualified opinion

19. 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 Maruleng Local Municipality as at 30 June 2013 its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and the DoRA.

Emphasis of matters

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

Irregular expenditure

20. As disclosed in note 36 to the financial statements, the municipality incurred irregular expenditure amount to R6 485 210 in the current year. The municipality did not have systems in place for the identification and recognition of irregular expenditure and there were no satisfactory alternative procedures that I could perform to obtain reasonable assurance that all irregular expenditure were properly disclosed. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself that irregular expenditure of R34 900 908 as stated in note 36 to the financial statements is complete

Restatement statement of corresponding figures

21. As disclosed in note 29 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of an error discovered during the year ended 30 June 2013 in the financial statements of the municipality at, and for the year ended, 30 June 2012.

Significant uncertainties

22. With reference to note 35 to the financial statements, the municipality is the defendant in a various claims. The municipality is opposing the claim as it believes the claim to be fraudulent. 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.

Additional matter

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

Unaudited supplementary schedules

23. The supplementary information set out on pages ... to ... do 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

24. 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

25. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.
26. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

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

28. The material findings are as follows:

Usefulness of information

Presentation

Measures taken to improve performance not disclosed

29. Section 46 of the Municipal Systems Act requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved.

Measures to improve performance for a total of 31% of the planned targets not achieved were not reflected in the annual performance report. This was due to the lack of ongoing monitoring by internal audit and the audit committee.

Measures taken to improve performance not supported by sufficient appropriate evidence

30. Section 46 of the Municipal Systems Act requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved.

Adequate and reliable corroborating evidence could not be provided for 94% measures taken to improve performance as disclosed in the annual performance report. The municipality's records did not permit the application of alternative audit procedures

Measurability

Indicators not verifiable

31. The National Treasury *Framework for managing programme performance information (FMPPi)* requires that it must be possible to validate the processes and systems that produce the indicator. A total of 21% of the indicators in relation to Improve community well-being through accelerated service delivery objective were not verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to the lack of key controls in the relevant systems of collection and verification of actual performance information.

Reliability of information

Reported information not reliable

32. The National Treasury *Framework for managing programme performance information (FMPPi)* requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

33. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of information presented with respect to Improve community well-being through accelerated service delivery objective. The municipality's records did not permit the application of alternative audit procedures.

Additional matter

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

Achievement of planned targets

35. Of the total number of 113 targets planned for the year, 44 of targets were not achieved during the year under review. This represents 39% of total planned targets that were not achieved during the year under review.
36. This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process

Compliance with laws and regulations

37. 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

38. The performance management system of the municipality did not clarify the roles and responsibilities of each role-player in the functioning of the system and , as required by section 38(a) of the Municipal Systems Act and Municipal planning and performance management regulation 7(2)(c).
39. The performance management system of the municipality did not provide for the monitoring of performance and for the measuring and review of performance at least once per year, with regard to each of those development priorities and objectives and against the key performance indicators and targets set, as required by section 41 of the Municipal Systems Act.
40. The municipality did not establish mechanisms to monitor and review its performance management system, as required by section 40 of the Municipal Systems Act.
41. The audit committee did not review all the quarterly internal audit reports on performance measurement, as required by Municipal Planning and performance management regulation 14(4)((a)(i)
42. 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).
43. The internal audit unit did not assess the functionality of the performance management system, as required by Municipal planning and performance management regulation 14(1)(b)(i).
44. 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)(iii).
45. 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).
46. The municipality did not have and maintain effective, efficient and transparent systems of financial and risk management and internal controls as required by section 62(1)(c)(i) of the Municipal Finance Management Act.

Budgets

47. Projects funded by the Integrated National electrification Programme grant were not implemented in line with the details contained in the Integrated Development Plan, as required by the Division of Revenue Grant Framework, Gazette No.35399.

Annual financial statements

48. 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.
49. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected, which resulted in the financial statements receiving a qualified audit opinion.

Internal Audit

50. The internal audit unit did not advise the accounting officer and/or 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)(vii) of the Municipal Finance Management Act.

Expenditure management

51. Reasonable steps were not taken to prevent irregular, fruitless and wasteful expenditure as required by section 62(1)(d) of the Municipal Finance Management Act.

Procurement and contract management

52. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) and (c).
53. Awards were made to providers who are in the service of other state institutions or whose principal shareholders are in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulations 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).
54. Contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding, in contravention of SCM Regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations.
55. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements and a procurement process which is fair, equitable, transparent and competitive.

Internal control

56. 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

57. The accounting officer did not review the financial statements and the annual performance report prior to their submission for audit and thus the above matters were not identified and corrected.
58. Non-compliance with laws and regulations could have been prevented had compliance been properly reviewed and monitored.
59. The institution did not have sufficient monitoring controls to ensure the proper implementation of the overall performance process of planning/ budgeting/ implementation/ reporting.
60. The institution did not properly plan and provide necessary training on performance information planning, management and reporting.

Financial and performance management

61. The accounting officer did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.
62. Compliance with laws and regulations was not reviewed and monitored by the accounting officer.
63. The institution does not have a proper system of record management that provides for the maintenance of information that supports the reported performance.

Governance

64. The audit committee did not adequately review the financial statements and annual performance report for adequacy, reliability and accuracy prior to submission for audit.
65. Internal audit did not review the financial and performance reports prior to its submission to the audit committee or external auditors.
66. A risk assessment relating to performance information and management systems and processes was not conducted.
67. The risk management process/strategy did not include risk identification, risk analysis and management of risk to ensure that performance is measured and achieved.

Polokwane

09 December 2013

