

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Molemole Local Municipality set out on pages XX to XX, 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 the 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, 2012 (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 for qualified opinion

Property, plant and equipment

6. SA Standards of GRAP 17, *Property, plant and equipment*, requires that the municipality revalue its assets with sufficient regularity to ensure that the carrying amount does not differ materially from fair value at reporting date. I have noted that the land and buildings of the municipality were last valued in the 2008-09 financial year. The municipality's records did not permit the application of alternative audit procedures. Consequently, I was unable to determine whether any adjustments to

property, plant and equipment stated at R164 830 532 in the financial statements were necessary.

7. The municipality did not review the useful lives and residual values of its items of property, plant and equipment in accordance with SA Standards of GRAP 17, *Property, plant and equipment*. The municipality's records did not permit the application of alternative audit procedures. I was not able to determine the correct net carrying amount of property, plant and equipment as it was impracticable to do so.
8. Standards of GRAP 3, *Accounting policies, change in accounting estimates and errors* requires material prior period errors to be corrected retrospectively by restating the comparative amounts for the prior periods in which the error occurred. I have noted that the statement of financial position, the statement of financial performance, the statement of change in net assets and the cash flow statement were not adjusted retrospectively for the unbundling of infrastructure assets. The municipality's records did not permit the application of alternative audit procedures. Consequently, I was unable to determine whether any adjustments to the comparative amounts of property, plant and equipment stated at R138 609 712 in the financial statements were necessary.

Other current liabilities

9. Supporting documentation for other current liabilities amounting to R740 949 was not available for audit purposes. I was unable to confirm the other current liabilities by alternative means. Consequently, I was unable to determine whether any adjustments to the other current liabilities as disclosed in note 10 to the financial statements amounting to R1 290 832 were necessary.

Receivables from exchange and non-exchange transactions

10. The International Financial Reporting Standard, IFRS 7, *Financial Instruments: Disclosures*, requires the municipality to develop an appropriate accounting policy which highlights the methods and assumptions used to determine the fair value of each class of financial assets or financial liabilities. The municipality has not developed accounting policies, methods and assumptions for the calculation of the trade receivable impairment provisions amounting to R42 578 296 as disclosed in notes 15 and 16 to the financial statements. Consequently, the impairment provision is understated by R1 550 938.

Other current financial assets

11. Supporting documentation for items included as part of other current financial assets amounting to R812 902 could not be submitted for audit purposes. I was unable to confirm these items by alternative means. Consequently I was unable to determine whether any adjustments to the other financial assets as disclosed in note 17 to the financial statements amounting to R812 902 were necessary.

Irregular expenditure

12. I was unable to obtain sufficient appropriate evidence that the irregular expenditure identified and disclosed in note 42.3 to the financial statements of R3 465 406 represents all the irregular expenditure incurred during the financial year under review due to the inadequate implementation of an appropriate procurement and provisioning system. Consequently, I was unable to obtain appropriate audit evidence to satisfy myself as to the completeness of fruitless and wasteful expenditure.

Contingent liabilities

13. 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 am unable to determine whether any adjustments to the contingent liability disclosed as R4 903 062 (2012: R445 000) in note 51 to the financial statements was necessary.

Budget information

14. SA Standards of GRAP 24, *Presentation of budget information in the financial statements*, requires entities to disclose a comparison of the budget, for which the municipality is held publicly accountable and the actual amounts, either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with SA Standards of GRAP. In contravention with GRAP 24, the municipality has not disclosed its budget either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with SA Standards of GRAP.

Opinion

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

Emphasis of matters

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

Restatement of corresponding figures

17. As disclosed in note 37 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of errors discovered during 2013 in the financial statements of the municipality at, and for the year ended, 30 June 2012.

Material underspending of the budget and conditional grants

18. With reference to note 8 to the financial statements, the municipality materially underspent on its conditional grants for the year under review by R7 570 477. This was mainly due to the late appointment of contractors.

Unauthorised expenditure

19. As disclosed in note 42.1 to the financial statements, the municipality incurred unauthorised expenditure of R6 997 256 as a result of the overspending of the total amount appropriated in the municipality's approved budget.

Fruitless and wasteful expenditure

20. As disclosed in note 42.2 to the financial statements, the municipality incurred fruitless and wasteful expenditure of R186 140 as a result of expenses incurred for services not received.

Additional matters

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

Unaudited supplementary schedules

22. 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 these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

23. 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

24. 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.
25. 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 development objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information (FMPPi)*.

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

The material findings are as follows:

Usefulness of information

Measurability

Performance targets not time bound

26. The National Treasury *FMPPi* requires that the time period or deadline for delivery be specified. A total of 32% of the targets were not 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 *FMPPi*.

Additional matter

27. 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

28. Of the total number of 49 targets planned for the year, 23 of the targets were not achieved during the year under review. This represents 47% of total planned targets that were not achieved during the year under review. This was due to under spending of the budget and conditional grants.

Compliance with laws and regulations

29. 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:

Budgets

30. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

Annual financial statements, performance and annual report

31. 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 in the submitted financial statements were not adequately corrected, which resulted in the financial statements receiving a qualified audit opinion.
32. The 2011-12 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.
33. The 2011-12 annual report was not made public immediately after the annual report was tabled to council, as required by section 127(5)(a) of the MFMA.
34. The council's oversight report on the 2011-12 annual report was not made public within seven days of its adoption, as required by section 129(3) of the MFMA.
35. The annual performance report for the year under review does not include the performance of each external service provider as required by section 46 (1)(a) of the Municipal Systems Act, 2000 (Act No. 32 of 2000)(MSA).

Audit committees

36. The audit committee did not advise the council on matters relating to compliance with legislation, as required by section 166(2)(a)(vii) of the MFMA.
37. The audit committee did not review the annual financial statements to provide the council with an authoritative and credible view of the financial position of the municipality, its efficiency and effectiveness and its overall level of compliance with legislation, as required by section 166(2)(b) of the MFMA.

Asset management

38. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

Procurement and contract management

39. Awards were made to providers who are in the service of other state institutions or whose directors are in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulations 44.
40. 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) and (c).
41. 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).
42. The competencies of financial and supply chain management officials were not assessed in a timely manner in order to identify and address gaps in competency levels as required by the Municipal Regulations on Minimum Competency Levels regulation 13.

Expenditure management

43. Money owing by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the MFMA.

44. An adequate management, accounting and information system was not in place which the recognised expenditure when it was incurred, as required by section 65(2)(b) of the MFMA.
45. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Human resources

46. An acting CFO was appointed for a period of more than six months, in contravention of section 56(1)(c) of the MSA.

Consequence management

47. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.
48. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.
49. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.

Internal control

50. 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 and the findings on compliance with laws and regulations included in this report.

Leadership

51. Management does not always provide the required supervision and review over the operations of the municipality to ensure compliance with all laws and regulations and appoint the necessary skilled staff members. Action plans were developed but not fully implemented, hence the recurrence of findings identified in the prior year with regard to property, plant and equipment and irregular expenditure.

Financial and performance management

52. A lack of adequate technical knowledge within management and a lack of adherence to laws and regulations resulted in the qualified audit opinion on the financial statements.
53. A lack of adequate technical knowledge in the finance section with regard to accounting standards and legislation applicable to the municipality to adequately perform their functions relating to adherence to laws and regulations and reporting against predetermined objectives.
54. Lack of adequate monitoring of, and controls within the performance management process to ensure performance against predetermined objectives are useful and reliable.

Governance

55. Management's ineffectiveness with the implementation of recommendations from internal and external audit prevented the audit committee from promoting accountability and service delivery through evaluating and monitoring responses to

risks and providing oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.

Auditor - General
Polokwane

23 June 2014



AUDITOR - GENERAL
SOUTH AFRICA

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