



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

REPORT OF THE AUDITOR-GENERAL TO THE NORTH WEST PROVINCIAL LEGISLATURE AND THE COUNCIL OF THE MOSES KOTANE LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Moses Kotane 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 of 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), the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 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 audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Moses Kotane 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 and the DoRA.



Emphasis of matters

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

Unauthorised, irregular as well as fruitless and wasteful expenditure

8. As disclosed in note 34 to the financial statements, unauthorised expenditure in respect of prior years of R17 287 070 has not yet been dealt with in accordance with section 32 of the MFMA.
9. As disclosed in note 36 to the financial statements, irregular expenditure of R108 077 478 was incurred in the current year and irregular expenditure from prior years of R96 477 772 has not yet been dealt with in accordance with section 32 of the MFMA.
10. As disclosed in note 35 to the financial statements, fruitless and wasteful expenditure of R279 025 was incurred in the current year and fruitless and wasteful expenditure from prior years of R6 798 619 has not yet been dealt with in accordance with section 32 of the MFMA.

Restatement of corresponding figures

11. As disclosed in note 33 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of an error discovered during 2013 in the financial statements of the Moses Kotane Local Municipality at, and for the year ended, 30 June 2012.

Material losses/impairments

12. As disclosed in note 4 to the financial statements, material losses of R74 878 318 were incurred as a result of provision for doubtful debts.
13. As disclosed in note 39 to the financial statements, material losses of R7 354 606 were incurred as a result of water losses.

Additional matter

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

Unaudited supplementary schedules

15. 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 annexures and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

16. 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

17. 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.
18. 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 priorities or 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).
19. The reliability of the information in respect of the selected development priorities and objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is

valid, accurate and complete).

20. The material findings are as follows:

Usefulness of information

21. Section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires that the integrated development plan should form the basis for the annual report, therefore requiring the consistency of the indicators and targets between planning and reporting documents. A total of 100% of the reported indicators and reported target are not consistent with the indicators and targets as per the approved integrated development plan. This is due to the lack of adequate performance reporting and management system.
22. Section 25(2) of the MSA determines that an integrated development plan adopted by a municipal council may be amended in terms of section 34 and remains in force until an integrated development plan is adopted by the next elected council. Therefore, if the integrated development plan is changed in-year this process has to take place in accordance with the process as prescribed per section 34 of the MSA. A total of 100% of the indicators and targets reported in the annual performance report were changed in-year without following the process as prescribed in section 34 of the MSA. This is due to the lack of an adequate performance reporting and management system.
23. The FMPPI requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 21% of the targets were not specific in clearly identifying the nature and the required level of performance. Management was aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles.
24. The FMPPI requires that it must be possible to validate the processes and systems that produce the indicator. A total of 22% of the indicators 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, collation and verification of actual performance information.

Reliability of information

25. The 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. 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:

- Basic Service Delivery and Infrastructure Development – Roads, Storm water and Electricity.
- Basic Service Delivery and Infrastructure Development – Water and sanitation
- Basic Service Delivery and Infrastructure Development – Community facilities
- Basic Service Delivery and Infrastructure Development – Housing and building control

This was due to limitations placed on the scope of my work due to the fact that the institution could not provide sufficient appropriate evidence in support of the information presented with respect to targets set out under the development priorities.

Compliance with laws and regulations

26. I performed procedures to obtain evidence that the municipality 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

27. The integrated development plan adopted by the municipality does not reflect and identify the key performance indicators and targets, as required by sections 26 and 41 of the MSA.
28. The performance management system of the municipality did not provide for taking steps to improve performance with regard to those development priorities and objectives where performance targets are not met, as required by section 41 (1)(d) of the MSA.
29. Revisions to the service delivery and budget implementation plan were not approved by the council after the approval of the adjustments budget, as required by section 54(1)(c) of the MFMA.
30. The accounting officer of the municipality did not by 25 January assess the performance of the municipality during the first half of the financial year, as required by section 72(1)(a)(ii) 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 of current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statement were corrected, resulting in the financial statements receiving an unqualified audit opinion.

Audit committee

32. The audit committee did not 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 MFMA.
33. 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 entity, its efficiency and effectiveness and its overall level of compliance with legislation, as required by section 166(2)(b) of the MFMA.
34. The audit committee did not respond to the council on the issues raised in the audit reports of the Auditor-General, as required by section 166(2)(c) of the MFMA.
35. The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA.
36. The performance audit committee did not meet at least twice during the financial year, as required by Municipal planning and performance management regulation 14(3)(a).
37. 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).
38. The audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by Municipal planning and performance management regulation 14(4)(a)(iii).

Internal audit

39. 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

40. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).
41. Invitations for competitive bidding were not always advertised for a required minimum period of days, as required by SCM regulation 22(1) & 22(2).



42. Bids were not always evaluated by bid evaluation committees which were composed of at least one SCM practitioner of the municipality as required by SCM regulation 28(2).
43. Bid adjudication was not always done by committees which were composed in accordance with SCM regulation 29(2).
44. Awards were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b).
45. 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.
46. The preference 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).
47. Contracts were awarded to bidders based on preference points that were not allocated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
48. Construction projects were not always registered with the Construction Industry Development Board (CIDB), as required by section 22 of the CIDB Act and CIDB regulation 18.
49. Contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.
50. Contracts 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

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

Human resource management and compensation

52. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury as required by the Minimum Competency Levels Regulation 14(2)(a).
53. The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies as required by the Minimum Competency Levels Regulation 14(2)(b).

Consequences management

54. Irregular and 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.

Waste management

55. The municipality operated its waste disposal sites and wastewater treatment facilities without a license or permit in contravention of section 20(b) of the National Environmental Management Waste Act, 2008 (Act No. 59 of 2008) (NEMWA), section 24(2)(a) of the National Environmental Management Act, 1998 (Act No. 107 of 1998) (NEMA), section 20(1) of the Environmental Conservation Act, 1989 (Act No. 73 of 1989) (ECA) and section 22(1)(b) of the National Water Act, 1998 (Act No. 36 of 1998) (NWA).
56. The municipality's operational activities at its waste disposal sites and wastewater treatment facilities contravened or failed to comply with the regulatory provisions in terms of section 67(1)(f)&(h) of the NEMWA and section 29(4) of the ECA in instances where such were issued.
57. The municipality's waste management and disposal activities contravened or failed to comply with the requirements of section 28(1) of the NEMA, section 19 of the NWA and sections 16(1)(c)&(d) and 26(1)(b) of the NEMWA.

Internal control

58. 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 findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

59. The internal policies and procedures did not adequately address the processes pertaining to the planning, monitoring, managing and reporting of performance information. The numerous instances of non-compliance with the applicable legislation, as detailed under the 'reporting on compliance with laws and regulations section' of this report is as a result of a lack of adequate policies and procedures to guide the operations of the municipality.

Financial and performance management

60. There was a lack of oversight over financial and performance management reporting, compliance with laws and regulations and internal control as material adjustments needed to be made to the financial statements. Consequently, controls to ensure that information in the financial statements and the report on predetermined objectives are inadequate.

Governance

61. The council failed to implement good governance principles within the municipality. These include the development and implementation of a risk management policy, fraud prevention plan and an effective internal audit function and audit committee.

Auditor-General
Rustenburg

30 November 2013



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