

# REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL PARLIAMENT AND THE COUNCIL ON MATZIKAMA MUNICIPALITY

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I have audited the financial statements of the Matzikama Municipality set out on pages 3 to 68, which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets, the cash flow statement and the statement of comparison of budget and actual amounts 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 Local Government: 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 Matzikama Municipality as at 30 June 2013 and its financial performance and cash flows and comparison of budget and actual amounts for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

### Emphasis of matters

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

## Significant uncertainties

8. Enquiries of management and the attorneys revealed that the municipality is subject to the following significant uncertainties listed below as disclosed in note 50 to the financial statements. The outcome of these uncertainties cannot be determined at present and no provision has been made for any liability that may result.
- The municipality does not have a permit or license for any of the landfill sites currently in use and could be liable for a penalty in terms of section 24G of the Environmental Conservation Act, 2008 (Act no 59 of 2008).
  - Council currently has a dispute with the South African Local Government Bargaining Council with regards to the grading of the municipality. Tuned Assessment of Skills and Knowledge Job Evaluation System (TASK) was implemented on the current grading on condition that eligible employees will receive back-pay if the bargaining council approves the higher grading. An amount of R1 918 567 was determined, as possible back pay due in the 2013-14 financial year.
  - The trade union, IMATU, contested the implementation of a wage curve agreement in the Labour Court and the court ruled in favour of IMATU. The employer's organisation, the South African Local Government Association (SALGA), resolved to take the ruling of the Labour Court on review. The effect of the ruling is a general 2% increase in remuneration as from October 2009.

## Restatement of corresponding figures

9. 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 the current financial year in the financial statements of the Matzikama Municipality at, and for the year ended, 30 June 2012.

## Material losses

10. As disclosed in note 42.4 to the financial statements, the municipality suffered significant water losses of 1 583 850 kilolitres (34.75%) during the year under review.
11. As disclosed in note 42.4 to the financial statements, the municipality suffered significant electricity losses of 17 701 957 kWh (22.55%) during the year under review.
12. As disclosed in note 29 to the financial statements, material impairments to the amount of R3 612 340 were recognised as a result of impairment of trade receivables.

## Material underspending of the budget

13. As disclosed in note 42.1 to the financial statements, the Matzikama Municipality has materially under-spent its operational budget. At the date of this report, under-spending amounted to R8 176 260. As a consequence, the municipality has not achieved some of its basic service delivery objectives within the following service delivery areas:
- Corporate services
  - Executive and council
  - Technical services

### **Additional matters**

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

### **Material inconsistencies in other information included in the annual report**

15. No material inconsistencies between the draft annual report and financial statements were identified. The final printer's proof of the annual report will be reviewed and any material inconsistencies then identified will be communicated to management. Should inconsistencies not be corrected, this may result in the matter being included in the audit report.

### **Unaudited supplementary schedules**

16. The supplementary information set out on pages 69 to 70 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**

17. 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**

18. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages 52 to 123 of the annual report.
19. 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*.
20. 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).
21. The material findings are as follows:

### **Usefulness of information**

#### **Consistency**

Reported indicators and targets not consistent with planned indicators and targets

22. The Local Government: Municipal Systems Act, 2000, (Act No. 32 of 2000) (MSA), section 41(c) requires that the service delivery agreement (service delivery and budget implementation plan) should form the basis for the annual report, therefore, requiring consistency of objectives, indicators and targets between planning and reporting

documents. A total of 23% of the reported indicators and 26% of the reported targets are not consistent with the indicators and targets as per the approved service delivery and budget implementation plan. This was due to the following: Inadequate internal policies and procedures over the reporting processes of performance information; the municipality did not have action plans in place to address the shortcomings in the performance management and reporting process resulting in non-compliance with the MSA and the municipality did not have sufficient monitoring controls to ensure the proper implementation of the overall performance process of planning and implementation.

#### Changes to indicators and targets not approved

23. 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 indicators and targets reported in the annual performance report were changed in-year without adoption by the council of the municipality. This was due to the following: Inadequate internal policies and procedures over the planning processes for performance information; the municipality did not have action plans in place to address the shortcomings in the performance management and reporting process resulting in non-compliance with the Municipal Systems Act and the municipality did not have sufficient monitoring controls to ensure the proper implementation of the overall performance process of planning and implementation.

#### Measurability

##### Performance targets not time-bound

24. The National Treasury *Framework for managing programme performance information (FMPPi)* requires that the time period or deadline for delivery be specified. A total of 46% of the targets and significantly important targets in relation to the overall mandate of the municipality were not time bound in specifying a time period or deadline for delivery. This was due to the fact that management was aware of the requirements of the *FMPPi*, but did not receive adequate training to enable them to apply the principles correctly.

##### Performance indicators not well defined

25. The National Treasury *Framework for managing programme performance information (FMPPi)* requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 23% of the indicators were not 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 aware of the requirements of the *FMPPi* but did not receive adequate training to enable them to apply the principles correctly.

#### Reliability of information

26. 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. The material findings are as follows:

**To promote access to adequate, affordable and well maintained municipal basic services**

Significantly important targets with respect to “To promote access to adequate, affordable and well maintained municipal basic services” are materially misstated I

**To facilitate the development and growth of the local economy of the Matzikama municipal area with intent to reduce poverty and increase employment**

The information presented with respect to “To facilitate the development and growth of the local economy of the Matzikama municipal area with intent to reduce poverty and increase employment” was not reliable when compared to the source information and evidence provided. .

**Facilitate developing an environment that maximise the social well-being of the citizens of the Matzikama especially the poorest of the poor and other vulnerable groups**

The information presented with respect to “Facilitate developing an environment that maximise the social well-being of the citizens of the Matzikama especially the poorest of the poor and other vulnerable groups” was not reliable when compared to the source information and evidence provided.

This was due to the fact that actions are not taken to address risks relating to the achievement of complete and accurate performance reporting, lack of monitoring of the completeness of source documentation in support of actual achievements and the lack of frequent review by management to ensure that the reported performance is valid, accurate and complete as substantiated by supporting evidence..

**Additional matter**

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

**Material adjustments to the annual performance report**

28. Material audit adjustments in the annual performance report were identified during the audit, of which some were corrected by management and those that were not corrected have been reported on accordingly.

**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:

**Strategic planning and performance management**

30. The performance 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 Regulations, regulation 14(4)(a)(iii).

## **Budgets**

31. 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.
32. Quarterly reports were not submitted to the council on the implementation of the budget and financial state of affairs of the municipality within 30 days after the end of each quarter, as required by section 52(d) of the MFMA.

## **Annual financial statements, performance and annual reports**

33. The financial statements submitted for auditing were not prepared in all material aspects in accordance with the requirements of section 122 of the MFMA. Material misstatement of current assets and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

## **Audit committee**

34. The audit committee did not advise the council 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.
35. 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.

## **Expenditure management**

36. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA.

## **Conditional grants**

37. The municipality did not timeously submit project registration forms, for projects it intends implementing in the financial year 2013/14, to the department of local government, as required by the Division of Revenue Grant Framework, Gazette No.35399.
38. The allocation for the Public Transport Infrastructure and Systems Grant was utilised for purposes other than those stipulated in the grant framework, in contravention of section 16(1) of the Division of Revenue Act, 2012 (Act No.5 of 2012) (DoRA).
39. The municipality did not evaluate its performance in respect of programmes funded by the Public Transport Infrastructure and Systems Grant and did not submit the evaluation to the transferring national officer within two months after the end of the financial year, as required by section 12(5) of the DoRA.

## **Internal control**

40. 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 unqualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

## **Leadership**

41. The accounting officer did not exercise adequate oversight responsibility over performance reporting to ensure complete and accurate reporting against predetermined objectives and over compliance with the relevant laws and regulations relating to predetermined objectives and the annual performance report.
42. Management did not identify and mitigate the previously reported risk of unauthorised expenditure, as part of its budget and expenditure management.
43. Those responsible for overseeing financial reporting, and internal control did not exercise oversight responsibility over these processes and in addition did not perform a proper review of the financial statements and the annual performance report prior to submission for audit, resulting in errors not being identified and corrected in the financial statements disclosures.
44. The municipality did not have sufficient monitoring controls to ensure adherence to the internal policies and procedures at an objective level and for purposes of taking corrective action.

## **Financial and performance management**

45. The annual performance report was not reviewed for completeness and accuracy by management prior to submission for audit. A key contributing factor in this regard is the fact that the municipality does not have individuals who fully understand the performance management requirements.
46. The municipality did not have a proper system of record management that provides for the maintenance of information that supports the reported performance contained in the annual performance report.
47. The performance of consultants and the status of accounting functions that are contracted out are not reviewed and effectively monitored. Corrective action on under-performance is not formulated and implemented in a timely manner in order to avoid material misstatements in the financial statements.

## **Governance**

48. Internal audit does not follow up the implementation of internal and external audit recommendations to address audit outcomes as similar findings to that of the prior year were identified during the current financial year audit.
49. The audit committee did not adequately review the annual financial statements and the annual performance report to provide the council with an authoritative and credible view of the financial position and performance of the municipality and also did not advise the council on matters relating to the adequacy, reliability and accuracy of financial and performance reporting and information.

Cape Town

30 November 2013



**AUDITOR - GENERAL**  
**SOUTH AFRICA**

*Auditing to build public confidence*

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