



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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the financial statements of the Ventersdorp Local Municipality set out on pages XX to XX, which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, the statement of changes in net assets, the cash flow statement and the statement of comparison of budget information with actual amounts for the year then ended, as well as 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), 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, 2013 (Act No. 2 of 2013) (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 the financial statements based on conducting the 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. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer opinion

Property, plant and equipment

4. I was unable to obtain sufficient appropriate audit evidence for the unit rates used in the calculation of the deemed cost and actual cost apportioned to components of infrastructure assets and land and buildings included in property, plant and equipment, as the information and explanations considered necessary for the valuation of these assets were not available. The value of these assets could not be confirmed by alternative means. Consequently, I was unable to determine whether any adjustments to property, plant and equipment of R361 302 243 (2013: R328 672 409) or the depreciation expense of R16 933 909 (2013: R15 605 458) disclosed in note 11 to the financial statements, were necessary.

Inventory

5. I was unable to obtain sufficient appropriate audit evidence for properties held for sale for the current and prior year, due to the title deeds and council resolutions approving the sale not being available and could not be confirmed by alternative means. Consequently, I was unable to determine whether any adjustment to properties held for sale of R23 925 060 (2013: R23 925 060) disclosed in note 3 to the financial statements, was necessary. In addition, I was unable to obtain sufficient appropriate audit evidence for consumable stores,

due to invoices supporting the calculation of the closing balance not being available. I could not confirm the consumable stores by alternative means. Consequently, I was unable to determine whether any adjustment to consumable stores of R342 923 included in the disclosed balance of R24 268 020 in note 3 to the financial statements, was necessary.

Consumer debtors

6. I was unable to obtain sufficient appropriate audit evidence for consumer debtors due to a difference of R5 815 565 between the financial statements and subsidiary ledgers and as a result I was unable to determine whether management had properly charged and accounted for all consumer debtors. Consumer debtors could not be confirmed by alternative means. Consequently, I was unable to determine whether any adjustment to consumer debtors of R35 434 637 disclosed in note 8 to the financial statements, was necessary.

Payables

7. The municipality did not classify receivables with credit balances as payables as required by SA Standards of GRAP, GRAP 1, *Presentation of financial statements*, but incorrectly netted these off against receivables. Consequently, both payables from exchange transactions of R113 097 disclosed in the statement of financial position and consumer debtors of R35 434 637 disclosed in note 8 to the financial statements are understated by R3 838 056.

Revenue

8. I was unable to obtain sufficient audit evidence for service charges disclosed in the statement of financial performance, due to a difference of R5 815 565 between the financial statements and the subsidiary ledgers. As a result I was unable to determine whether management had properly accounted for all the service charges and could not be confirmed by alternative means. Consequently, I was unable to determine whether any adjustment to service charges of R43 859 228 disclosed in the statement of financial performance, was necessary.
9. The municipality did not recognise all traffic fines as revenue when issued, in accordance with SA Standards of GRAP, IGRAP 1, *Applying the probability test on initial recognition of exchange revenue*. As the municipality did not maintain adequate records of all traffic fines issued, I was unable to determine the full extent of the understatement of revenue and receivables in the financial statements.

Expenditure

10. I was unable to obtain sufficient appropriate audit evidence that the municipality received all goods and services paid for during the year, due to a lack of internal controls over receipt of goods and services. Consequently, I was unable to confirm the general expenses and repairs and maintenance by alternative means. I was thus unable to determine whether any adjustment to general expenses of R36 174 564 (2013: R19 643 343) and repairs and maintenance of R5 107 688 (2013: R4 249 964) disclosed in the statement of financial performance, was necessary.

Capital commitments

11. I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as commitments for other projects due to contracts not being available. In addition, commitments was overstated by R1 149 888 due to other invoices omitted in calculation of commitments. I was unable to confirm the commitments by alternative means. Consequently, I was unable to determine whether any adjustment to the commitments of R23 310 889 disclosed in note 36 to the financial statements was necessary.

Unauthorised expenditure

12. The municipality is required by section 125 of the MFMA to disclose particulars of unauthorised expenditure. Unauthorised expenditure as disclosed in note 42 to the financial

statements is overstated by R2 737 945, due to the expenditure of some of the departments within the vote being excluded in the calculation of the unauthorised expenditure.

Irregular expenditure

13. Section 125 of the MFMA requires that the financial statements include particulars of all irregular expenditure incurred during the current and the prior financial year. During the audit it was found that the municipality made payments of R2 930 161 in contravention of the supply chain management regulations, which were not included in irregular expenditure disclosed. Furthermore, during 2013, I was unable to obtain sufficient appropriate audit evidence for amounts disclosed as irregular expenditure as contracts and bid documents were not submitted for audit. As the municipality did not quantify the full extent of the irregular expenditure for the current and prior financial year, it was impracticable to determine the resultant understatement of irregular expenditure of R115 177 949 (2013: R65 175 366) disclosed in note 44 to the financial statements.

Accumulated surplus

14. I was unable to obtain sufficient appropriate audit evidence for adjustments made to the accumulated surplus due to limitations placed on my audit and could not confirm these adjustments by alternative means. Consequently, I was unable to determine whether any adjustment to the accumulated surplus of R434 655 282 (2013: R420 592 477) disclosed in the statement of net assets was necessary. Furthermore, I was unable to determine the effect of this limitation on the other account balances and classes of transactions contained in the financial statements.

Cash flow statement

15. The municipality's calculation of net cash flows from financing activities and cash flow from investing activities includes non-cash items, in contravention with the requirements of SA Standards of GRAP, GRAP 2, *Cash flow statements*. Consequently, the cash and cash equivalents at year end as disclosed in the Cash flow statements is understated by R2 059 692 (2013: R58 229 287)

Statement of comparison of budget and actual amounts

16. The municipality did not adhere to the budget presentation and disclosure requirements of SA Standards of GRAP, GRAP 24, *Presentation of budget information in the financial statements*. The statement of comparison of budget and actual amounts do not disclose the explanations for variances between actual and budgeted amounts for the cash flow statement and appropriation statement. In addition the statement of comparison of budget and actual amounts does not disclose the actual amount for capital expenditure.

Aggregation of immaterial uncorrected misstatements

17. The financial statements were materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following items making up the statement of financial position, and the statement of financial performance and the notes to the financial statements:
 - VAT receivable disclosed as R11 359 003 in the statement of financial position was overstated by R902 230
 - Receivables from non-exchange transactions disclosed as R9 540 293 in the statement of financial position was understated by R1 353 333
 - Unspent conditional grants disclosed as R12 041 167 in the statement of financial position was understated by R496 034
18. As a result, I was unable to determine whether any further adjustment to these items was necessary.

Distribution losses

19. I was unable to obtain sufficient appropriate audit evidence for electricity and water distribution losses disclosed in note 45 to the financial statements as required by section 125 (2)(d)(i) of the MFMA. The extent of these distribution losses could not be confirmed by alternative means. Consequently, I was unable to determine whether any adjustment relating to the financial statements was necessary.

MFMA disclosure

20. The municipality did not include particulars of non-compliance with the MFMA in the accounting officer's report and/or the notes to the financial statements, as required by section 125(2)(e) of the MFMA.

Disclaimer of opinion

21. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matters

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

Fruitless and wasteful expenditure

23. As disclosed in note 43 to the financial statements, fruitless and wasteful expenditure of R11 093 502 was incurred in the current year and fruitless and wasteful from prior years of R26 393 701 not yet been dealt with in accordance with section 32 of the MFMA.

Restatement of corresponding figures

24. As disclosed in note 39 to the financial statements, the corresponding figures for 2013 have been restated as a result of errors discovered during 2014 in the financial statements of the Ventersdorp Local Municipality at, and for the year ended, 30 June 2014.

Significant uncertainties

25. With reference to note 37 to the financial statements, the municipality is the defendant in a number of legal claims. The municipality is opposing these claims based on legal advice from the municipality's legal counsel. The ultimate outcome of these matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Material underspending of the conditional grants

26. As disclosed in note 18 to the financial statements, the municipality has materially underspent the conditional grants on Municipal infrastructure grant (by R7 289 329), Department of water affairs grant (by R2 184 441) and the Local government grant (by R2 183 429). As a consequence, planned performance on capital projects not being achieved.

Additional matter

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

Unaudited supplementary schedules

28. 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 REGULARITY REQUIREMENTS

29. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for the selected objectives presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

30. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2014:

- Service Delivery and Infrastructure Development on pages XX to XX.
- Local Economic Development on pages XX to XX.

31. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

32. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).

33. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

34. The material findings in respect of the selected objectives are as follows:

Service Delivery and Infrastructure Development

Usefulness of reported performance information

35. The FMPPI requires that indicators be well defined and verifiable and targets be specific, measurable and time bound:

- A total of 45% of the targets were not specific.
- We could not measure the required performance for 61% of the targets
- A total of 66% of the targets were not time bound.
- A total of 67% of the indicators were not well defined.
- A total of 69% of the indicators were not verifiable.

This was because management was not trained in the requirements of the FMPPI and due to a lack of proper technical indicator descriptions and effective monitoring systems and processes.

Reliability of reported performance information

36. The FMPPI requires auditees to 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. Adequate and reliable corroborating evidence could not be provided for 84% of the targets to assess the reliability of the reported performance information. This was due to the fact that the auditee could not provide sufficient appropriate evidence and explanations in support of the reported performance information. The municipality's records did not permit the application of alternative audit procedures to confirm the reliability of reported performance information.

Local Economic Development

Usefulness of reported performance information

37. The FMPPI requires that indicators be well defined and verifiable and targets be specific, measurable and time bound:

- A total of 29% of the targets were not specific.
- We could not measure the required performance for 24% of the targets
- A total of 38% of the targets were not time bound.
- A total of 95% of the indicators were not well defined.
- A total of 85% of the indicators were not verifiable.

This was because management was not trained in the requirements of the FMPPI and due to a lack of proper technical indicator descriptions and effective monitoring systems and processes.

Reliability of reported performance information

38. The FMPPI requires auditees to 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. Adequate and reliable corroborating evidence could not be provided for 55% of the targets to assess the reliability of the reported performance information. This was due to the fact that the auditee could not provide sufficient appropriate evidence and explanations in support of the reported performance information. The municipality's records did not permit the application of alternative audit procedures to confirm the reliability of reported performance information.

Additional matter

39. I draw attention to the following matter:

Achievement of planned targets

40. Refer to the annual performance report on pages 65 to 74 for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected development objectives reported in paragraphs 36 to 39 of this report.

Compliance with legislation

41. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

42. The integrated development plan (IDP) was not annually reviewed based on the assessment of its performance measurements and/or changing circumstances, as required by section 34 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) and regulations 3 and 11 of the Municipal planning and performance management regulations (MPPMR).
43. The performance management system did not provide for steps of improvement where performance targets were not met, as required by section 41(1)(d) of the MSA.
44. The performance management system and related controls were inadequate as it did not describe and represent the processes of performance planning, monitoring, measurement, review, reporting and improvement and how it is conducted, organised and managed, including determining the roles of the different role-players, as required by sections 38 of the MSA and regulation 7 of the MPPMR.

Annual financial statements, performance and annual reports

45. 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 to commitments, contingent liabilities, irregular and fruitless and wasteful expenditure, inventory, VAT receivable and movables assets identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements that could not be provided resulted in the financial statements receiving a disclaimer audit opinion.

Audit committee

46. 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.

Internal audit

47. The internal audit unit did not function as required by section 165(2) of the MFMA, in that it did not advise the accounting officer and report to the audit committee on matters relating to internal controls, accounting procedures and practices, risk and risk management and loss control.
48. The internal audit unit did not advise the accounting officer and report to the audit committee on matters relating to compliance with the MFMA, the DoRA and other applicable legislation, as required by section 165(2)(b)(vii) of the MFMA.

Human resource management and compensation

49. The municipality did not develop and adopt appropriate systems and policies and procedures to monitor measure and evaluate performance of staff in contravention of section 67(d) of the MSA.

Expenditure management

50. 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.
51. Sufficient appropriate audit evidence could not be obtained that payments from the municipality's bank account were approved by a properly authorised official, as required by section 11(1) of the MFMA.
52. An effective system of expenditure control, including procedures for the approval, authorisation and payment of funds, was not in place, as required by section 65(2)(a) of the MFMA.
53. Reasonable steps were not taken to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Conditional grants received

54. The municipality did not evaluate its performance in respect of programmes funded by the Municipal Infrastructure Grant, the Municipal Systems Improvement Grant, the Local Government Financial Management Grant and the Integrated National Electrification Programme Grant, as required by section 12(5) of the DORA.

Procurement and contract management

55. 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) regulations 17(a) and (c).
56. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
57. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.

58. Contracts and quotations 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.
59. 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).
60. Awards were made to providers who are persons in the service of the municipality and whose principal shareholders are persons in service of the municipality in contravention of SCM regulations 44. Furthermore, the provider failed to declare that he/she was in the service of the municipality, as required by SCM regulation 13(c).
61. Sufficient appropriate audit evidence could not be obtained that some contracts were awarded in accordance with the legislative requirements and a procurement process which is fair, equitable, transparent and competitive, as contracts and bid evaluation documents were not submitted for audit.
62. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a) and deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
63. Invitations for competitive bidding were not always advertised for a required minimum period of days, as required by SCM regulations 22(1) and 22(2).
64. Sufficient appropriate audit evidence could not be obtained that bids were evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services and at least one SCM practitioner of the municipality as required by SCM regulation 28(2).
65. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) (PPPFA) and SCM regulation 28(1)(a).
66. Contracts and quotations were awarded to bidders based on preference points that were not allocated and/or calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
67. Sufficient appropriate audit evidence could not be obtained that construction contracts were awarded to contractors that were registered with the Construction Industry Development Board (CIDB) and qualified for the contract in accordance with section 18(1) of the Construction Industry Development Board, 2000 (Act No. 38 of 2000) and CIDB regulations 17 and 25(7A).
68. Construction projects were not always registered with the CIDB, as required by section 22 of the CIDB Act and CIDB regulation 18.
69. The prospective providers list for procuring goods and services through quotations was not updated at least quarterly to include new suppliers that qualify for listing, and prospective providers were not invited to apply for such listing at least once a year as per the requirements of SCM regulations 14(1)(a)(ii) and 14(2).

Asset management

70. 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.
71. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.



Consequences management

- 72. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.
- 73. The condoning of irregular expenditure was not approved by the appropriate relevant authority, in accordance with the requirements of sections 1 and 170 of the MFMA.
- 74. Council certified unauthorised, irregular, fruitless and wasteful expenditure as irrecoverable without having conducted an investigation to determine the recoverability of the expenditure, in contravention of section 32(2)(a)(ii) of the MFMA.
- 75. Authorisation of unauthorised expenditure was not done through an adjustment budget, as required by section 32(2)(a)(i) of the MFMA.

Revenue management

- 76. An adequate management, accounting and information system which accounts for revenue and debtors was not in place, as required by section 64(2)(e) of the MFMA.
- 77. An effective system of internal control for debtors was not in place, as required by section 64(2)(f) of the MFMA.

Environmental waste management

- 78. The municipality operated its wastewater treatment facility without a license 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) and section 22(1)(b) of the National Water Act, 1998 (Act No. 36 of 1998) (NWA)
- 79. The municipality's operational activities at its waste disposal site and wastewater treatment facility contravened or failed to comply with the requirements of a waste management license, sections 67(1)(f) and (h) of the NEMWA and sections 151(1)(c) and (i) of the NWA
- 80. 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) and (d) and 26(1)(b) of the NEMWA.
- 81. The municipality did not exercise its legislative and executive authority as required by section 11(3)(l) and (m) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) by managing, monitoring and enforcing environmental related bylaws to promote a safe and healthy environment.

Internal control

- 82. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for disclaimer opinion, the findings on the annual performance report and the findings on non-compliance with legislation included in this report.

Leadership

- 83. Leadership did not ensure that the performance of the municipality is sufficiently measured against predetermined objectives and it did not establish and communicate some policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities. In addition, existing internal controls, including IT systems did not allow leadership to ensure adequate monitoring of financial and performance information resulting in material misstatements identified in the financial statements and material deviations from legislation being reported.

Financial and performance management

84. Management failed to implement effective controls to ensure that information in the financial statements and the report on predetermined objectives were reliable before submission for audit. Management could not provide evidence in support of the information presented in the annual performance report and documents were not submitted to verify compliance with legislation

Governance

85. The audit committee did not monitor the risk assessment process to ensure that risks relating to performance reporting and compliance with laws and regulations are considered. The audit committee also did not ensure that internal audit fulfil its functions resulting in the municipality's internal control environment over performance information and compliance with laws and regulations remaining ineffective.

OTHER REPORTS

Investigations

86. An investigation is currently being conducted by the Public Protector on alleged maladministration in the awarding and payments of tenders by the municipality. The investigation was still ongoing at the reporting date.
87. An investigation is currently being conducted by the Public Protector on allegations of Maladministration and impropriety in the appointment of the Director technical Services. The investigation was still ongoing at the reporting date.
88. An investigation is currently being conducted by the South African Police Services on the alleged fraud by the cashiers. Officials suspected of this misconduct are on suspension. The investigation was still ongoing at the reporting date.

Rustenburg

30 November 2014



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence