



The Accounting Officer
Sol Plaatje Local Municipality
Private Bag X 5030
Kimberley
8300

30 November 2015

Reference: 21354REG14/15

Dear Sir

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Sol Plaatje Local Municipality for the year ended 30 June 2015

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
2. In terms of section 121(3) you are required to include the audit report in the municipality's annual report to be tabled.
3. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
4. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
5. Please notify the undersigned Corporate executive well in advance of the date on which the annual report containing this audit report will be tabled.
6. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely



Solly Seppoa
Corporate Executive

Enquiries: R Seaman
Telephone: (053) 836 8800
Fax: 082 559 1861
Email: Rseaman2@agsa.co.za

Report of the auditor-general to the Northern Cape provincial legislature and the council on Sol Plaatje Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Sol Plaatje Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information 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) 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 of South Africa, 2014 (Act No. 10 of 2014) (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 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 municipality'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 municipality'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 Sol Plaatje local municipality as at 30 June 2015 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 DoRA.

Emphasis of matters

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

Restatement of corresponding figures

8. As disclosed in note 39 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of an error discovered during 2015 in the financial statements of the municipality at, and for the year ended, 30 June 2015.

Material losses and impairments

9. As disclosed in note 4 to the financial statements, material losses to the amount of R56 467 179 (2014: R15 429 796) were incurred as a result of a write-off of irrecoverable trade debtors.
10. As disclosed in note 4 to the financial statements, material impairment to the amount of R640 524 698 (2014: R546 771 758) were incurred as a result of the impairment of trade debtors.
11. As disclosed in note 46 to the financial statements, material water losses to the amount of R36 519 978 and material electricity losses to the amount of R75 045 838 were incurred.

Employee cost

12. Included in note 15 for employee cost is an amount of R23 508 562 (2014:R19 410 239) relating to the implementation of the tuned assessment of skills and knowledge (TASK) salary scales as approved by council.

Irregular expenditure

13. As disclosed in note 45.3 to the financial statements, irregular expenditure to the amount of R212 719 245 (2014: R10 097 201) were incurred. R206 246 091 relate to employees occupying positions not on the organogram or whose contracts expired and in the process of renewal or extension.

Additional matters

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

Unaudited supplementary schedules

15. The supplementary information set out in appendix A - G 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.

Unaudited disclosure notes

1. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Supplementary explanations of budget variances presented outside the financial statements

2. The supplementary explanations of budget variances contained in appendix E1 to E3, as referred to in note 54 do not form part of the financial statements. I have not audited these explanations and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

3. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the [general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, compliance with legislation and 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

4. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2015:
 - Development priority 2: Basic and Sustainable Service Delivery and Infrastructure Development on pages x to x
 - Development priority 5: Good Governance and Public Participation on pages x to x
5. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

6. 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 development priorities. 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).
7. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
8. The material findings in respect of the selected development priorities are as follows:

KPA 2: Basic and Sustainable Service Delivery and Infrastructure Development

Usefulness of reported performance information

9. Performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPI. A total of 22% of the indicators were not well defined.
10. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. A total of 33% of the indicators were not verifiable. This was because management did not adhere to the requirements of the FMPPI due to a lack of proper systems and processes and technical indicator descriptions.

Reliability of reported performance information

11. 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. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to a lack of standard operating procedures for the accurate recording of actual achievements; technical indicator descriptions for the accurate measurement, recording and monitoring of performance and frequent review of the validity of reported achievements against source documentation.

KPA 5: Good Governance and Public Participation

Usefulness of reported performance information

12. Performance targets should be specific in clearly identifying the nature and required level of performance as required by the FMPPI. A total of 33% of the targets were not specific.
13. Performance targets should be measurable as required by the FMPPI. We could not measure the required performance for 33% of the targets.
14. Performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPI. A total of 33% of the indicators were not well defined.

15. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. A total of 33% of the indicators were not verifiable. This was because management did not adhere to the requirements of the FMPPI due to a lack of proper systems and processes and technical indicator descriptions.

Reliability of reported performance information

16. 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 33% of the targets to assess the reliability of the reported performance information. This was due to limitations placed on the scope of our work by the auditee.

Additional matters

17. I draw attention to the following matters:

Achievement of planned targets

18. Refer to the annual performance report on pages x to x; x to x for information on the achievement of planned targets for the year. This information should be considered in the context of the qualified and adverse conclusions expressed on usefulness and reliability of the reported performance information in paragraphs x; x; x of this report.

Adjustment of material misstatements

19. We identified material misstatements in the annual performance report submitted for auditing on the reported performance information of KPA 2: Basic and Sustainable Service Delivery and Infrastructure Development and KPA 5: Good governance and public participation. As management subsequently corrected only some of the misstatements, we raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are included in the basis for qualified and adverse conclusions paragraphs.

Unaudited supplementary schedules

20. The supplementary information set out on pages XX to XX does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.

Compliance with legislation

21. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on 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

22. The performance management system and related controls were inadequate as it did not describe and represent the processes of performance measurement and review and how it is conducted, organised and managed, as required by sections 38 of the MSA and regulation 7 of the municipal planning and performance management regulations.

Financial statements, performance and annual reports

23. The annual performance report for the year under review did not include:
- a comparison with the previous financial year and
 - measures taken to improve performance, as required by section 46 (1)(b) and (c) of the MSA.
24. The oversight report, containing comments on the annual report, was not adopted by council within two months from the date on which the 2013/14 annual report was tabled, as required by section 129(1) of the Municipal Finance Management Act.
25. 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. Material misstatements of irregular expenditure, property plant and equipment, related party disclosure, inventory, investment property and provisions identified by the auditors in the submitted financial statements were subsequently corrected.

Procurement and contract management

26. Contracts were extended without tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the MFMA.
27. Contracts were extended or modified without the approval of a properly delegated official, as required by SCM Regulation 5.
28. Awards were made to providers whose principal shareholders are in the service of the municipality in contravention of section 112(j) of the MFMA and SCM regulations 44. Furthermore the provider failed to declare that he/she was in the service of the municipality/municipal entity, as required by SCM regulation 13(c).
29. Awards were made to providers who are in the service of other state institutions or whose directors/ 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).

30. Persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by SCM regulation 46(2)(e), the code of conduct for councillors issued in terms of the Municipal Systems Act and the code of conduct for staff members issued in terms of the Municipal Systems Act.
31. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by SCM regulation 46(2)(e), the code of conduct for councillors issued in terms of the Municipal Systems Act and the code of conduct for staff members issued in terms of the Municipal Systems Act.

Human resource management and compensation

32. Appointments were made in posts which were not provided for in the approved staff establishment of the municipality, in contravention of section 66(3) of Municipal Systems Act.
33. An updated staff establishment was not in place, as required by section 66(1)(d) of the Municipal Systems Act.
34. Job descriptions were not established for all posts in which appointments were made in the current year, in contravention of section 66(1)(b) of Municipal Systems Act.
35. The municipality did not develop and adopt appropriate systems and procedures to monitor measure and evaluate performance of staff in contravention of section 67(d) of the Municipal Systems Act.
36. The municipality did not follow the proper process as prescribed by the Wage Collective Agreement to implement the TASK remunerative system in terms of Section 71(3) of the Municipal Systems Act.

Asset management

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

Consequence management

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

Internal control

39. 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 the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

40. The accounting officer did not exercise adequate oversight responsibility over financial and performance reporting, compliance with laws and regulations as well as internal control. The action plans compiled to address the previous year's audit findings were not monitored and reviewed to determine if the reported progress on the plans related was supported by credible information.
41. Management implemented the audit action plan, controls around the asset register was however not monitored to ensure proper maintenance of the register throughout the year.

Financial and performance management

42. Adequate documentation supporting the reported performance information could not be provided for audit purposes. The evidence provided for audit purposes were not clearly linked to the specific performance information reported in the annual performance report, this is as a result of a lack of adequate communication and understanding of what supporting documentation is required for the performance information reported.
43. The financial statements were subject to material corrections resulting from the audit and prior year's audit findings were not substantially addressed in all instances. This was due to a lack of adequate review by the chief financial officer to ensure completeness and accuracy prior to submission for auditing, as well as the late implementation of the municipality's action plan to address prior year audit findings.
44. The municipality did not review and monitor compliance with applicable laws and regulations.


Kimberley

30 November 2015



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence