

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

Report on the financial statements

Introduction

1. I was engaged to audit the financial statements of the Ga-Segonyana 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, and cash flow statement and Statement of Comparison of Budget and 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) 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 the financial statements based on conducting the audit in accordance with 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 of opinion

Property, plant and equipment

4. The municipality did not depreciate property, plant and equipment in accordance with GRAP 17 *Property, plant and equipment*. The incorrect useful lives of fixed assets were applied for the calculation of depreciation. Consequently, property, plant and equipment was overstated and depreciation and amortisation was understated, it was impractical to determine the full extent thereof. Furthermore the asset register did not agree to the financial statements by R5 602 842. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus.

5. I was unable to obtain sufficient appropriate audit evidence regarding other property, as I was unable to physically verify assets to the value of R302 707 on the asset register. I was unable to confirm the existence of the other property by alternative means. Consequently, I was unable to determine whether any adjustment relating to other property stated at R14 220 370, in note 9 to the financial statements was necessary.
6. The municipality did not record land at the correct value in accordance with GRAP 17 *Property, plant and equipment*. The value of land does not agree to the valuation roll, in addition municipal land as per title deed was not included on the asset register. Consequently, I was unable to determine whether any adjustment relating to land stated at R60 862 600, in note 9 to the financial statements was necessary
7. I was unable to obtain sufficient appropriate audit evidence regarding land, as the properties listed on the asset register was not in the municipality's name as per title deeds register. I was unable to confirm the ownership of the land by alternative means. Consequently, property, plant and equipment was overstated by R 4 219 000. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus.
8. The municipality did not record additions in accordance with GRAP 17 *Property, plant and equipment*. Certain additions were recorded in the incorrect period. Consequently, additions was overstated by R4 005 719, I was unable to determine the full extent thereof by alternative means. Additionally, there was a resultant impact on the surplus for the current and prior periods and the accumulated surplus.
9. The municipality did not review the residual values and useful lives of infrastructure assets at each reporting date, in accordance with GRAP 17 *Property, plant and equipment*. Infrastructure assets with a carrying amount of R1 911 757 were included in the financial statements while not being in use. I was not able to determine the correct net carrying amount of infrastructure assets, as it was impracticable to do so.
10. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for property plant and equipment. As described in note 39 to the financial statements, the restatement was made to rectify a prior year misstatement. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment to the property plant and equipment corresponding figure stated at R974 442 758, in the financial statements was necessary.

Rental of facilities and equipment

11. I was unable to obtain sufficient appropriate audit evidence for revenue from the rental of facilities and equipment as supporting documentation was not provided. Consequently, I was unable to determine whether any adjustments relating to revenue from the rental of facilities and equipment stated at R1 406 614 as disclosed in note 23 to the financial statements.

Service charges

12. The municipality did not record revenue from service charges in accordance with GRAP 9 *Revenue from exchange transactions*. Service charges were not levied in terms of the approved tariffs. Consequently, service charges was understated by R1 113 839. Additionally, there was a resultant impact on the consumer debtors and the accumulated surplus.
13. During 2014, I was unable to obtain sufficient and appropriate audit evidence for service charges relating to the prior year stated at R95 795 843. My audit opinion on the financial statements for the period ended 30 June 2014 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

Property rates

14. The municipality did not record property rates in accordance with GRAP 23 *Revenue from non-exchange transactions*. Property rates were not levied on all properties situated in the municipality's jurisdiction. Consequently, property rates were understated by R 976 412. I was unable to determine the extent thereof. I was unable to determine whether any adjustment to property rates stated at R26 115 305 (2014: R19 812 771) as per note 25 to the financial statements was necessary.
15. During 2014, I was unable to obtain sufficient appropriate audit evidence for revenue from non-exchange transactions. Consequently, I was unable to determine whether any adjustments relating to revenue from non-exchange transactions stated at R219 257 762, in the statement of financial performance were necessary. My audit opinion on the financial statements for the period ended 30 June 2014 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

Receivables from non-exchange transactions

16. During 2014, I was unable to obtain sufficient appropriate audit evidence for receivables and to confirm the receivables by alternative means. Consequently, I was unable to determine whether any adjustment to receivables from non-exchange transactions stated at R7 481 464 was necessary. My audit opinion on the financial statements for the period ended 30 June 2014 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

Repairs and maintenance

17. The municipality did not classify all items of repairs and maintenance in accordance with GRAP 1 *Presentation of financial statements*. General expenses of R4 891 051 and bulk purchases of R1 893 357 were incorrectly recognised as repairs and maintenance. Consequently, repairs and maintenance was overstated by R6 784 408. In addition the municipality did not have adequate systems to maintain expenditure. Due to the lack of systems I was unable to determine the full extent thereof. Additionally, there was a resultant impact on general expenditure and bulk purchases.

18. During 2014, I was unable to obtain sufficient appropriate audit evidence for expenditure and to confirm the expenditure by alternative means. Consequently, I was unable to determine whether any adjustment to repairs and maintenance stated at R44 707 401, in the statement of financial performance were necessary was necessary. My audit opinion on the financial statements for the period ended 30 June 2014 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

General expenses

19. The municipality did not record expenditure in accordance with GRAP 1 *Presentation of financial statements*. Certain transactions were recorded in the incorrect period. In addition, I was unable to obtain sufficient appropriate audit evidence for general expenditure as supporting documentation was not provided. Consequently, I was unable to determine whether any adjustments relating to general expenditure stated at R45 079 714 (2014: R53 245 837), in the statement of financial performance were necessary.

Prior period errors

20. Prior year errors have been corrected during the current year and disclosed in note 39 to the financial statements in accordance with the SA Standards of GRAP 3, *Accounting policies, changes in accounting estimates and errors*. The nature of the changes in accounting policies, descriptions of the transitional provisions, the amounts of the adjustments for each financial statement line item affected and the amounts of the adjustments relating to periods before those presented were not adequately disclosed in the financial statements.

21. I was unable to obtain sufficient appropriate evidence of the statement of financial performance, statement of financial position and cash flow statement adjustments included in note 39. I was unable to obtain supporting documentation to substantiate the adjustments. I was unable to confirm the prior period error adjustments by alternative means. Consequently I was unable to determine whether any adjustments to the prior period disclosure note and the resultant impact to the financial statements as a whole was necessary.

Consumer debtors

22. During 2014, I was unable to obtain sufficient appropriate audit evidence for consumer debtors. Consequently, I was unable to determine whether any adjustments relating to consumer debtors stated at R16 421 847, in the statement of financial position were necessary. My audit opinion on the financial statements for the period ended 30 June 2014 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

VAT receivable

23. I was unable to obtain sufficient appropriate audit evidence regarding VAT receivable due to an inadequate management accounting and information system to account for VAT. Furthermore VAT amounting to R 2 158 580 was incorrectly claimed on repairs and maintenance and general expenditure in contravention with the Value Added Tax Act 89 of 1991 (VAT Act). I was unable to confirm the balance disclosed by alternative means.

Consequently, I was unable to determine whether any adjustment relating to VAT receivable stated at R3 114 246 (2014: R510 726 payable) in note 4 to the financial statements was necessary.

Statement of changes in net assets

24. I was unable to obtain sufficient appropriate audit evidence with regards to the differences between the accumulated surplus as at 30 June 2014 as per the statement financial position stated at R908 553 010, statement of changes in net assets stated at R906 331 164 and note 39 to the financial statements stated at R 901 525 825. This was due to the fact that supporting documentation was not available to substantiate these differences. I was unable to confirm these differences by alternative means. Consequently, I was unable to determine whether any adjustment to these items stated in the financial statements was necessary.

Inventory

25. The municipality did not correctly account for land classified as inventory in accordance with *GRAP 12 Inventory*. The land listed as per the inventory listing was not in the municipality's name as per title deeds register. I was unable to confirm the ownership of the land by alternative means. Consequently, inventory and accumulated surplus was overstated by R3 987 000.

Payables from exchange transactions

26. I was unable to obtain sufficient appropriate audit evidence that management had properly charged and accounted for retention monies. Due to the status of the accounting records I was unable to confirm the retention monies by alternative means. Consequently, I was unable to determine whether any adjustment to retention monies stated at R9 977 653 (2014: R7 255 047) in note 14 to the financial statements was necessary.

Payables from non-exchange transactions

27. During 2014, I was unable to obtain sufficient appropriate audit evidence for payables and to confirm the payables by alternative means. Consequently, I was unable to determine whether any adjustment to payables from non- exchange stated at R7 894 279 was necessary. My audit opinion on the financial statements for the period ended 30 June 2014 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

Unspent conditional grants

28. During 2014, I was unable to obtain sufficient appropriate audit evidence for unspent conditional grants and to confirm the unspent conditional grants by alternative means. Consequently, I was unable to determine whether any adjustment to unspent conditional grants stated at R6 069 796 was necessary. My audit opinion on the financial statements for the period ended 30 June 2014 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures

Irregular expenditure

29. The MFMA requires the municipality to include particulars of irregular expenditure in the notes to the annual financial statements. The municipality incurred expenditure in contravention of the supply chain management (SCM) requirements that were not included in irregular expenditure. In addition, the municipality did not have adequate systems to maintain complete records of irregular expenditure. Due to this lack of systems, I was not able to confirm the amount of irregular expenditure to be disclosed by alternative means. Consequently, I was unable to determine whether any further adjustment to irregular expenditure, R183 549 607 (2014: R82 944 052) as disclosed in note 46 to the financial statements, was necessary.

Fruitless and wasteful expenditure

30. During 2014, I was unable to obtain sufficient appropriate audit evidence that management has properly accounted for all fruitless and wasteful expenditure, as the municipality does not have system to identify and disclose fruitless and wasteful expenditure. I was unable to confirm the fruitless and wasteful expenditure by alternative means. Consequently, I was unable to determine whether any adjustment to fruitless and wasteful expenditure stated at R361 939 in note 45 to the financial statements was necessary. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

Unauthorised expenditure

31. The unauthorised expenditure of the current year stated at R132 043 853 in note 44 to the financial statements was not calculated as per the definition of unauthorised expenditure stipulated in the MFMA section 1. The amount disclosed was consequently understated by R34 625 481. In addition, the municipality does not have a system to identify, calculate and disclose unauthorised expenditure. I was unable to confirm the unauthorised expenditure by alternative means. Consequently, I was unable to determine whether any adjustment to unauthorised expenditure stated at R132 043 853 (2014: R132 043 853) in note 44 to the financial statements was necessary.

Cash flow statement

32. Cash and cash equivalents at the end of the year stated at R4 477 500 in the cash flow statement does not agree to cash and cash equivalents in note 7 to the financial statements. In addition, I was unable to obtain sufficient appropriate audit evidence with regards to cash flows from sale of goods and services, grants and suppliers included under cash flows from operating activities in the cash flow statement. This was due to the fact that appropriate supporting calculations were not available. I was unable to confirm these cash flow items by alternative means. Consequently, I was unable to determine whether any adjustment to these items stated in the cash flow statement was necessary.

Commitments

33. The Municipality did not accurately calculate and disclose commitments as required by *GRAP 17 Property, plant and equipment*. This resulted in commitments being understated by R3 553 323. In addition I was unable to obtain sufficient appropriate audit evidence that management has accounted for commitments as the municipality did not submit all documentation regarding work in progress. I was unable to substantiate commitments by alternative means. Consequently, I was unable to determine whether any further adjustments to commitments disclosed as R111 100 704 (2014 R69 297 985) in note 38 to the financial statements were necessary.

Going concern

34. The municipality did not disclose the nature and correct amounts for going concern in note 42 of the financial statements. in terms of *GRAP 1 Presentation of financial statements*. The municipality had accumulated surplus of R 953 283 697 and the municipality's total assets exceed its liabilities by R987 853 547 which was incorrectly disclosed as an accumulated deficit of R953 283 697 and that total liabilities exceed its assets by R987 853 547.

Disclaimer of opinion

35. 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

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

Material losses and impairments

37. As disclosed in note 47 to the financial statements, material water losses to the amount of R3 013 260 and material electricity losses to the amount of R13 579 454 were incurred.
38. As disclosed in note 3 to the financial statements, a significant provision for the impairment of receivables from non-exchange transactions was created which constitutes 28.5% (R5 251 096 / R18 425 117) of the total receivables from non-exchange transaction balance.
39. As disclosed in note 5 to the financial statements, a significant provision for the impairment of receivables from exchange transactions was created which constitutes 61.7% (R45 923 162 / R74 449 550) of the total receivables from exchange transaction balance.

Additional matters

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

Unaudited supplementary schedules

41. The supplementary information set out on pages 118 to 120 does not form part of the financial statements and is presented as additional information. I have not audited these schedule(s) and, accordingly, I do not express an opinion thereon.

Unaudited disclosure notes

42. 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.

Report on other legal and regulatory requirements

43. 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

44. 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:

- Key Performance Area 1 : Basic Service Delivery on pages 16 to 56

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

46. 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).

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

48. The material findings in respect of the selected development priorities are as follows:

Key Performance Area 1: Basic Service Delivery

Usefulness of reported performance information

49. Section 41(c) of the Municipal Systems Act requires actual achievements against all planned indicators and targets to be reported annually. The annual performance report submitted for audit purposes did not include the actual performance of 37% of all planned indicators and targets specified in Integrated Development Plan, Service Delivery and Budget Implementation Plan and Annual Performance Plan for the year under review. This was due to a lack of review and monitoring of the completeness of reporting documents by management and the audit committee.

50. The FMPPI requires the following:

- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 43% of the targets were not specific.
- Performance targets must be measurable. I could not measure the required performance for 43% of the targets.
- Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 43% of the indicators were not well defined.

51. Performance indicators must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 43% of the indicators were not verifiable.

Reliability of reported performance information

52. 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. We have currently been unable to obtain the information and explanations we considered necessary to satisfy ourselves as to the reliability of the reported performance information. This is due to limitations placed on the scope of our work due to some of the required information not being submitted yet. Also some of the information submitted not being reliable as its not sufficient and also the absence of reliable information systems are not in place and the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information. The auditee's records did not permit the application of alternative audit procedures.

Additional matter

53. I draw attention to the following matter

Achievement of planned targets

54. Refer to the annual performance report on pages 16 to 56 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 priorities reported in paragraphs

49 to 52 of this report.

Compliance with legislation

55. 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

62. The municipality did not, within 14 days of the adoption of its integrated development plan give notice to the public of the adoption of the plan. Make available that copies of or extracts from the plan are available for public inspection at specified places, required by MSA sec. 25(4) (a) and (b).
63. The municipality Integrated Development Plan (IDP) for 2014/15 financial year does not include municipal organogram as required by Municipal Planning and Performance Management regulation.
64. The municipality did not give effect to its integrated development plan and conduct its affairs in a manner which was consistent with its integrated development plan, as required by section 36 of the MSA, section 21(2)(a) of the MFMA and Municipal planning and performance management regulation 6
65. The performance management system did not relate to the employee's performance management processes as required by section 38(a) of the MSA and Municipal planning and performance management regulation 7(2)(c, e, f, g).
66. Key performance indicators, including input, output and outcome indicators, in respect of each of the development priorities and objectives were not set out in the IDP, as required by section 41(1)(a) of the MSA and the Municipal planning and performance management regulation 1 and 9(1)(a).
67. The mechanisms, systems and processes for the monitoring, measurement and review of performance are not designed in a manner that enables the municipality to detect early indications of under-performance and also to provide for corrective measures where under-performance has been identified. As required by MSA sec. 41(1)(c) & (d) Local Government: Municipal Planning and Performance Management Regulations (GNR. 796 of 24 August 2011) Reg 13(2)(b-c)
68. The annual performance report for the year under review did not include. The performance of the municipality and each external service provider. A comparison of the performance with set targets of current and previous financial year - measures taken to improve performance, as required by section 46 (1)(a) (b) (c) of the MSA.

Budgets

69. The total unforeseen and unavoidable expenditure incurred exceeded 4% of own revenue in contravention of Municipal Budget and Reporting Regulation 72.

Financial statements, performance and annual reports

70. 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 identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.

Asset Management

71. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the Municipal Finance Management Act.
72. An effective system of internal control for assets including an asset register was not in place, as required by section 63(2)(b) of the Municipal Finance Management Act.

Audit committees

73. 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

74. The internal audit unit did not advise the accounting officer or report to the audit committee on matters relating to compliance with the Municipal Finance Management Act, the Division of Revenue Act and other applicable legislation, as required by section 165(2)(b)(vii) of the Municipal Finance Management Act.

Procurement and contract management

75. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) & (c).
76. Bid specifications for procurement of goods and services through competitive bids were drafted in a biased manner that did not allow all potential suppliers to offer their goods or services, in contravention of SCM regulation 27(2)(a).
77. Bid specifications were not always drafted by bid specification committees which were composed of one or more officials of the municipality as required by SCM regulation 27(3).
78. Bids were not always 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).
79. Thresholds for local content on designated sectors procurement were not properly applied in accordance with the requirements of preferential procurement regulation 9.

80. Contracts and quotations 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.
81. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded only to bidders who submitted 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).
82. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
83. Awards were made to providers who are in the service of the municipality and 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, as required by SCM regulation 13(c) Similar non-compliance was reported in the prior year and the municipality did not take disciplinary action against the suppliers or officials involved.
84. 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.

Human resource management and compensation

85. The competencies of the chief financial officer were not assessed in a timely manner in order to identify and address gaps in competency levels as required by Municipal Regulations on Minimum Competency Levels 13.
86. 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 Municipal Regulations on Minimum Competency Levels 14(2)(a).
87. The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies as required by the Municipal Regulations on Minimum Competency Levels 14(2)(b) and 14(3).
88. The municipality did not develop and adopt appropriate systems (policies) and procedures to monitor measure and evaluate performance of staff in contravention of section 67(d) of the Municipal Systems Act.
89. The senior managers directly accountable to the municipal manager did not sign performance agreements, as required by section 57(2)(a) of the Municipal Systems Act.

Expenditure management

90. 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 Municipal Finance Management Act.

Conditional grants received

91. The Municipal Systems Improvement Grant allocation was not spent in accordance with the applicable grant framework, in contravention of section 17(1) of the Division of Revenue Act.
92. The municipality did not evaluate its performance in respect of programmes or functions funded by the Municipal Systems Improvement Grant allocation, as required by section 12(5) of the Division of Revenue Act.

Revenue management

93. An effective system of internal control for debtors / revenue was not in place, as required by section 64(2)(f) of the Municipal Finance Management Act.

Liability management

94. An adequate management, accounting and information system which accounts for liabilities was not in place, as required by section 63(2)(a) of the Municipal Finance Management Act.
95. An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2)(c) of the Municipal Finance Management Act.
96. Long-term debt was incurred without a resolution of the municipal council approving the debt agreement, in contravention of section 46(2)(a) of the Municipal Finance Management Act.

Consequence management

97. Unauthorised, Irregular, 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 Municipal Finance Management Act.

Internal control

98. 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 of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

99. Management did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls. Management did not ensure that there were processes to ensure reviews were implemented before submission of information as material errors were detected in the financial statements and non-compliance with laws and regulations and internal control deficiencies were noted throughout the audit process.

100. Management did not set the correct tone at the top. Senior management did not adhere to internal controls, which resulted in unauthorised and irregular expenditure not detected by management and non-compliance with relevant laws and regulations.
101. The lack of decisive action to mitigate emerging risks, implement timely corrective measures and address non-performance was evident by the failure of management to adequately address the external audit findings in a timely manner. The municipality failed to properly analyse the control weaknesses and implement appropriate follow-up actions that adequately addressed the root cause. This resulted in the audit findings in the prior year report recurring in the current year.
102. Management did not ensure adherence to supply chain management policy at the municipality, which resulted in processes not preventing irregular expenditure and material non-compliance with laws and regulations.
103. Management did not review and monitor compliance with applicable laws and regulations.
104. Management did not implement and monitor an audit report action plan to ensure that the matters reported in the previous years were corrected.

Financial and performance management

105. Management did not prepare regular, accurate and complete financial statements that were supported and evidenced by reliable information, review and monitor compliance with laws and regulations.
106. Finance staff had an insufficient understanding of the accounting framework. This contributed towards the numerous qualifications in the financial statements of the municipality.
107. Inadequate filing procedures at the municipality have resulted in limitations of scope during the current and previous year's audits. As a result significant difficulties were experienced in respect of the availability of information.
108. Management did not review the financial statements. This resulted in a large number of findings relating to incorrect disclosure and incorrect accounting treatments.
109. The systems underlying the procurement processes at the municipality were inadequate to prevent and detect irregular expenditure on contracts entered into, resulting in irregular expenditure that was disclosed in the accounting records of the municipality. Effective and appropriate disciplinary steps were not taken against officials who made and permitted unauthorised, irregular as well as fruitless and wasteful expenditure.
110. The underlying systems and controls were inadequate to provide reliable and accurate evidence to support the reporting on predetermined objectives. Senior management did not perform an adequate review on the actual performance against predetermined objectives reported. Therefore, no explanations were documented for targets that were not achieved.

Governance

111. Management did not ensure that a financial and risk unit is established. The municipality did not identify risks relating to the achievement of financial and performance reporting objectives. Consequently, controls were not developed to prevent, detect and correct material misstatements in financial reporting and reporting on predetermined objectives.
112. The municipality did not ensure the establishment of an effective audit committee to enhance the internal control environment of the municipality. The audit committee did not review the financial statements and performance report prior to submission to the external auditors.

Auditor - General

Kimberley

30 November 2015



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence