

Report of the auditor-general to the Western Cape Provincial Parliament and the council on Laingsburg Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Laingsburg Municipality set out on pages 4 to 86, 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 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 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 Laingsburg 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 matter

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

Material impairments

8. As disclosed in notes 4 and 5 to the financial statements, receivables have been significantly impaired. The impairment allowance amounts to R36,1 million (84% of gross receivables) of which R2,5 million (6% of gross receivables) relates to services debtors.

Material losses

9. As disclosed in note 21 to the financial statements, water losses of 51,5% amounting to R1 216 975 (2013-14: 52,8% amounting to R992 521) were incurred during the year.

Additional matters

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

Unaudited supplementary schedules

11. The supplementary information set out on pages 87 to 91 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

12. 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

13. 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 objectives 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

14. 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 2015:
 - Objective D: Improve the standard of living of all people in Laingsburg on pages 16 to 17
 - Objective E: Provision of infrastructure to deliver improved services to all residents and business on pages 17 to 20
 - Objective G: To create an institution with skilled employees to provide a professional service to its clientele guided by municipal values on pages 20 to 21
15. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
16. 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*.
17. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
18. I did not identify any material findings on the usefulness and reliability of the reported performance information for the selected objectives.

Additional matters

19. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected objectives, I draw attention to the following matters:

Achievement of planned targets

20. Refer to the annual performance report on pages 16 to 17 and 18 to 21 for information on the achievement of planned targets for the year.

Unaudited supplementary information

21. The supplementary information set out on pages 22 to 65 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 express a conclusion thereon.

Compliance with legislation

22. 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:

Annual financial statements

23. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of current assets, current liabilities, revenue, disclosure items, cash flow statement and statement of comparison of budget and actual amounts, identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Tabling of prior year annual report

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 MFMA.

Audit committee

25. The audit committee did not advise the council and the accounting officer on matters relating to:
- (a) internal financial control and internal audits, accounting policies, effective governance, performance management and performance evaluation as required by section 166(2)(a) of the MFMA;
 - (b) the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA; and
 - (c) compliance with legislation, as required by section 166(2)(a)(vii) of the MFMA.
26. 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.
27. The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA.
28. The audit committee did not review the municipality's performance management system and make recommendations to the council, as required by Municipal planning and performance management regulation 14(4)(a)(ii).
29. The audit committee did not review the quarterly internal audit reports on performance measurement, as required by Municipal planning and performance management regulation 14(4)(a)(i).
30. 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

31. 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 audit, internal controls, accounting procedures and practices, risk and risk management and loss control.
32. 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

33. 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, 2000 (Act No. 32 of 2000).

Expenditure management

34. 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 MFMA.

Procurement and contract management

35. 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) regulation 17(a) and (c).
36. Quotations were accepted from prospective providers who are not registered on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy in contravention of SCM regulation 16(b) and 17(b).
37. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R200 000 were procured by means of inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
38. Sufficient appropriate audit evidence could not be obtained that bid specifications for procurement of goods and services through competitive bids were drafted in an unbiased manner that allowed all potential suppliers to offer their goods or services, as per required by SCM regulation 27(2)(a).
39. Sufficient appropriate audit evidence could not be obtained that bid specifications were drafted by bid specification committees which were composed of one or more officials of the municipality as required by SCM regulation 27(3).
40. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period of days, as required by SCM regulation 22(1) and 22(2).

41. 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).
42. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding, as required by SCM Regulations 21(b) and 28(1)(a) and Preferential Procurement Regulations.
43. Sufficient appropriate audit evidence could not be obtained that bid adjudication was always done by committees which were composed in accordance with SCM regulation 29(2).
44. Thresholds for local content on designated sectors procurement were not properly applied in accordance with the requirements of preferential procurement regulation 9.
45. Sufficient appropriate audit evidence could not be obtained that councillors of the municipality participated in committees evaluating or approving tenders or attended meetings of committees evaluating or approving tenders, in contravention of section 117 of the MFMA.
46. 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).
47. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the PPPFA and its regulations.
48. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders that scored the highest points in the evaluation process, as required by section 2(1)(f) of PPPFA.
49. 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).
50. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
51. 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.
52. 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.

Consequences management

53. 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.

Internal control

54. 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 findings on compliance with legislation included in this report.

Leadership

55. Leadership was not effective in ensuring that good governance is in place to protect and enhance the interests of the municipality, due to the lack of proper consequence management systems, procedures and policies. Despite the recurring findings, leadership did not create a culture of good governance as evidenced by the lack of review of compliance with legislation. Leadership also has not acted on our audit recommendations made in the prior year and has not carried out the commitments made in previous audits.
56. Leadership did not provide sufficient oversight over the implementing and monitoring of controls to prevent non-compliance. This has resulted in a breakdown of controls. Furthermore, leadership did not provide adequate oversight over the preparation of the annual financial statements to ensure that they are free from material misstatements.
57. Despite a continuous shortage of skills, leadership has not implemented any policy or processes to ensure that staff is sufficiently and adequately trained and that the performance of staff is monitored, measured and evaluated. Leadership has also not implemented any policy or process to ensure the transfer of skills and knowledge from the consultants to the staff. Despite the challenges that the municipality face in attracting sufficiently skilled staff, leadership has not implemented any initiatives to address the shortage of skilled staff in the procurement and finance departments within the municipality.
58. Leadership did not have adequately documented policies and procedures to guide the operations of the municipality, resulting in numerous instances of non-compliance with the key legislation relating to the annual report, procurement and contract management, expenditure management, consequences management and human resource management.
59. From the numerous instances of non-compliance with legislation and material misstatements identified in the financial statements, it can be concluded that the action plan developed to address the internal control deficiencies previously identified and communicated was not effective. Leadership did not ensure that management's action plan to address the internal control deficiencies identified in the prior financial year were implemented as is evidenced by the extent of recurring audit findings in the current financial year. The action plan in place is not driven with vigour and intervention is urgently required to prevent the municipality from regressing.

Financial and performance management

60. Management did not ensure that information is timeously gathered and filed appropriately to support financial information reported in the financial statements. Furthermore, the lack of contract management and maintaining proper contract registers hampered the disclosure of accurate figures for commitments in the financial statements.

61. Management has not implemented adequate controls to ensure that there are monthly reconciliations performed of transactions to support valid, accurate and complete financial reporting.
62. Management did not prepare regular financial statements to enable an adequate and regular review of the financial statements throughout the year, thereby identifying emerging risks presented by the reporting framework for the preparation of the annual financial statements.
63. Despite the recurring findings, management has not ensured that the actions plans developed to address the recurring non-compliance findings were implemented and monitored. Management did not have adequate controls in place to effectively review and monitor compliance with all relevant legislation. Management has not carried out the commitments made of implementing monitoring processes to ensure compliance with legislation, specifically relating to procurement and contract management and key compliance focus areas.

Governance

64. The internal audit work was not performed in accordance with an internal audit plan and the legislative framework. The internal audit unit also did not review or audit the performance measures on a continuous basis and there did not submit quarterly reports to the municipal manager and the audit committee. The internal audit unit also did not advise the accounting officer and report to the audit committee on matters relating to compliance with relevant laws and regulations.
65. The audit committee has not carried out its core function in providing oversight over the effectiveness of the internal control environment. It has not ensured that the internal audit had credible plans to address the audit findings previously raised nor have they monitored the function to ensure that it operates in an effective manner and carries out its core function. The audit committee has failed in promoting accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations which is evident from the number of internal control deficiencies and non-compliance matters identified during the audit process. The audit committee has also not performed its functions as prescribed by the legislative framework, which is further compounded as it was not properly constituted as required by the legislative framework.

Auditor-General

Cape Town

30 November 2015



AUDITOR - GENERAL
SOUTH AFRICA

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