

AUDIT REPORT

30 JUNE 2016

Report of the auditor-general to the Limpopo provincial legislature and the council on Blouberg Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Blouberg Local Municipality set out on pages 5 to 14 and 17 to 58, which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the 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, 2015 (Act No. 1 of 2015) (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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Property, plant and equipment

6. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for an item (infrastructure) of property, plant and equipment. As described in note 32 to the financial statements, the restatement to the amount of R55 896 470 was made to rectify a prior year misstatement, but the restatement could not be substantiated by sufficient appropriate audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment to the item of property, plant and equipment's corresponding figure stated at R607 587 660 in note 8 to the financial statements was necessary.

Irregular expenditure

7. I was unable to obtain sufficient appropriate audit evidence that the municipality determined the full extent of irregular expenditure incurred in the prior year. Consequently, I was unable to determine whether any adjustment to irregular expenditure stated at R91 008 416 in note 35 to the financial statements was necessary.

Qualified Opinion

8. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Blouberg Local Municipality as at 30 June 2016 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

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

Material impairments

10. As disclosed in note 4, 5 and 6 to the financial statements, material impairments to the amount of R6 095 188, R36 848 697 and R4 722 925, respectively, have been made as a result of irrecoverable consumer debtors and receivables.

Unauthorised expenditure

11. As disclosed in note 33 to the financial statements, the municipality incurred unauthorised expenditure to the amount of R2 874 520 in excess of the limits of the amounts provided for in two votes of the approved budget, as a result of cash and non-cash transactions not budgeted for.

Irregular expenditure

12. As disclosed in note 35 to the financial statements, the municipality incurred irregular expenditure to the amount of R43 591 097, due to the contravention of the supply chain management policy.

Additional matters

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

Unaudited disclosure notes

14. 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.

Unaudited supplementary information

15. The supplementary information set out on pages 15 to 16 does not form part of the financial statements and is presented as additional information. I have not audited these and, accordingly, I do not express an opinion thereon.

Report on other legal and regulatory requirements

16. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of 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

17. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2016:
 - Key Performance area (KPA) 1: Basic Service Delivery and Infrastructure Development - Roads and infrastructure on pages 7 to 14
 - KPA 1: Basic Service Delivery and Infrastructure Development - Waste management on page 10
 - KPA 1: Basic Service Delivery and Infrastructure Development - Electrification on pages 11 to 13
 - KPA 3: Local Economic Development on pages 32 to 35.

18. 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).
19. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
20. The material findings in respect of the selected development priorities are as follows:

KPA 1: Basic service delivery and infrastructure development - Roads and infrastructure

Usefulness of reported performance information

Measurability of indicators

21. The FMPPI requires that performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use. A total of 76% indicators were not well defined.

Reliability of reported performance information

22. I did not identify any material findings on the reliability of the reported performance information for KPA 1: basic service delivery and infrastructure development - roads and infrastructure.

KPA 1: Basic service delivery and infrastructure development - Waste management

Usefulness of reported performance information

Measurability of indicator

23. The FMPPI requires that performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use. The indicator was not well defined.

Reliability of reported performance information

24. I did not identify any material findings on the reliability of the reported performance information for KPA 1: basic service delivery and infrastructure development - waste management.

KPA 1: Basic service delivery and infrastructure development - Electrification

Usefulness of reported performance information

Measurability of indicators

25. The FMPPI requires that performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use. All indicators were not well defined.

Reliability of reported performance information

26. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned development priorities, indicators and targets. The reported achievements against planned targets of important indicators were not reliable when compared to the evidence provided.

KPA 3: Local Economic Development

Usefulness of reported performance information

Consistency of target

27. Section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of development priorities, indicators and targets between planning and reporting documents. An important target was not consistent with those in the approved integrated development plan.

Change to target not approved

28. Section 25(2) of the MSA determines that an integrated development plan adopted by a municipal council may be amended in accordance with the process as prescribed per section 34 of the MSA, and that such a plan remains in force until an integrated development plan is adopted by the next elected council. A material change was made to an important target in the annual performance report, without following the process as prescribed in section 34 of the MFMA and without adoption by the municipal council.

Reliability of reported performance information

29. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned development priorities, indicators and targets. The reported achievement against a planned target of an important indicator was not reliable when compared to the evidence provided.

Additional matters

30. I draw attention to the following matters.

Achievement of planned targets

31. Refer to the annual performance report on pages X to XX for information on the achievement of 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 in paragraphs 21, 23, 25 to 29 of this report.

Adjustment of material misstatements

32. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 1: basic service delivery and infrastructure development – roads and infrastructure, KPA 1: basic service delivery and infrastructure development – waste management and KPA 3: local economic development. As management subsequently corrected only some of the misstatements, I identified material findings on the usefulness and reliability of the reported performance information.

Unaudited supplementary information

33. The supplementary information set out on pages X to X does not form part of the annual performance report and is presented as additional information. I have not audited this information and, accordingly, I do not report on them.

Compliance with legislation

34. 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

35. 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 non-current assets, current assets, revenue and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

36. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
37. Reasonable steps were not taken to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Procurement and contract management

38. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by *Supply Chain Management (SCM) regulation 17(a) and (c)*.
39. Awards were made to providers who were in the service of other state institutions, in contravention of MFMA 112(j) and *SCM regulation 44*. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by *SCM regulation 38(1)*.

Asset management

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

Consequence management

41. 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) and (b) of the MFMA.

Internal control

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

Leadership

43. Management did not perform adequate review and monitoring over financial and performance reporting, resulting in a qualified opinion and material findings on the annual performance report.
44. The council have not yet investigated unauthorised and irregular expenditure incurred by the municipality in the prior years.

- 45. Management did not exercise oversight responsibility over the enforcement of the SCM policy and influencing an investigation to determine the full extent of irregular expenditure incurred in the prior year.
- 46. Management did not in all instances address and resolve recommendations made by the internal audit unit.

Financial and performance management

- 47. Senior management did not adequately oversee the operations of the entity, as the financial statements and annual performance report contained material misstatements not detected by the entity's own system of internal control. Additionally, capacity constraints in the finance unit and staff not fully understanding the requirements of the financial reporting framework contributed to these material misstatements.
- 48. The entity's management of records was inadequate in keeping financial information that formed the basis for the qualified audit opinion.
- 49. Supply chain management processes were inadequate due to a lack of monitoring, resulting in irregular expenditure.

Auditor-General,

Polokwane

30 November 2016



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence