

Report of the auditor-general to the Northern Cape Provincial Legislature and the council on Gamagara Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Gamagara Local Municipality set out on pages X to X, 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 audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Gamagara 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

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

Going concern

8. Note 55 to the financial statements indicate that the municipality's current liabilities exceeded its current assets by R149 302 915. This condition, along with other matters as set forth in the note, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

Restatement of corresponding figures

9. As disclosed in note 58 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of an error discovered during 2016 in the financial statements of the municipality at, and for the year ended, 30 June 2015.

Material losses

10. As disclosed in note 48 to the financial statements, material losses to the amount of R16 209 003 were incurred as a result of bulk electricity and water losses.

Irregular expenditure

11. As disclosed in note 46 to the financial statements, the municipality incurred irregular expenditure of R63 530 788 (2015: R45 709 846) during the year under review. The total amount of irregular expenditure recorded in the annual financial statements at 30 June 2016 amount to R268 143 650 (2015: R204 612 862). In addition. The full extent of the irregular expenditure, as disclosed in note 46 to the financial statements, was still in the process of being investigated.

Unauthorised expenditure

12. As disclosed in note 45 to the financial statements, the municipality incurred

unauthorised expenditure of R179 225 375 (2015: R63 332 444) during the year under review. The total amount of unauthorised expenditure recorded in the annual financial statements at 30 June 2016 amount to R179 225 375 (2015: R63 332 444).

Additional matters

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

Unaudited supplementary schedules

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

Unaudited disclosure notes

15. 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

16. 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 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:
 - Development priority x (1): Basic Service Delivery and Infrastructure Investment on pages x to x
 - Development priority x (5): Community Safety, Development and Sustainable Environment on pages x to x
18. I evaluated the usefulness of the reported performance information to determine

whether it 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:

Basic Service Delivery and Infrastructure Investment

Usefulness of reported performance information

21. Section 41(c) of the Municipal Systems Act (MSA) requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 50% reported indicators were not consistent with those in the approved integrated development plan. This is due to a lack of an approved framework or properly documented processes and procedures that address the effective and efficient functioning of the performance management system.
22. Section 41(c) of the MSA 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 28% of all planned targets specified in the integrated development plan for the year under review. This was due to a lack of information systems recording and documenting actual achievements against targets.
23. 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. Material changes were made to 70% of indicators and 100% of targets in the annual performance report, without following the process as prescribed in section 34 of the MFMA and without adoption by the municipal council.
24. The FMPPI requires that performance targets should be specific in clearly identifying the nature and required level of performance. A total of 95% targets were not specific.
25. The FMPPI requires that performance targets should be measurable. A total of 95% targets were not measurable.
26. The FMPPI requires that performance targets should be specify the period or deadline for delivery. A total of 95% targets were not time bound.
27. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. A total of 91% indicators were not verifiable.

Reliability of reported performance information

28. 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 objectives, indicators and targets. We were unable to obtain the information and explanations we considered necessary to satisfy ourselves as to the reliability of the reported performance information. This was due to limitations placed on the scope of our work due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information and the auditee's records not permitting the application of alternative audit procedures.

Community Safety, Development and Sustainable Environment

Usefulness of reported performance information

29. Section 41(c) of the MSA 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 24% of all planned targets specified in the integrated development plan for the year under review. This was due to a lack of information systems recording and documenting actual achievements against targets.
30. 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. Material changes were made to 100% of indicators and 100% of targets in the annual performance report, without following the process as prescribed in section 34 of the MFMA and without adoption by the municipal council.
31. The FMPPI requires that performance targets should be measurable. A total of 49% targets were not measurable.
32. The FMPPI requires that performance targets should specify the period or deadline for delivery. A total of 49% targets were not time bound.
33. 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 45% indicators were not well defined.
34. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. A total of 45% indicators were not verifiable.

Reliability of reported performance information

35. 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 objectives, indicators and targets. We were unable to obtain the information and explanations we considered necessary to satisfy ourselves as to the

reliability of the reported performance information. This was due to limitations placed on the scope of our work due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information and the auditee's records not permitting the application of alternative audit procedures.

Additional matters

36. I draw attention to the following matters:

Achievement of planned targets

37. Refer to the annual performance report on pages x to x; 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 in paragraphs 25 to 40 of this report.

Unaudited supplementary schedules

38. 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 these schedules and, accordingly, I do not report on them.

Compliance with legislation

39. 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

40. The performance management system and related controls were inadequate as it did not describe and represent the processes of performance monitoring, measurement, review, reporting as well as improvement 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.
41. The performance management system did not provide for the monitoring, measuring and review of performance at least once per year, as required by section 41 of the MSA.
42. The performance management system did not provide for policies and procedures to take steps of improvement where performance targets were not met, as required by section 41 (1)(d) of the MSA.

Financial statements, performance and annual reports

43. 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, current liabilities, revenue and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.
44. The annual performance report for the year under review did not include;
 - A comparison with the previous financial year as required by section 46 (1)(b) of the MSA.
 - Measures taken to improve performance, as required by section 46 (1)(c) of the MSA.

Procurement and contract management

45. 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) & (c).
46. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).
47. Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
48. Invitations for competitive bidding were not always advertised for a required minimum period of days, as required by SCM regulation 22(1) & 22(2).
49. Awards were made to providers who were in the service of the municipality or whose directors are in the service of the municipality, in contravention of section 112(j) of the MFMA and SCM regulation 44. Furthermore the provider failed to declare that he was in the service of the municipality, as required by SCM regulation 13(c).

Human resource management and compensation

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

Expenditure management

51. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

52. 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.

Conditional grants received

53. The Municipal Infrastructure Grant (MIG) allocation was not spent in accordance with the applicable grant framework, in contravention of section 17(1) of the DoRA.

Asset management

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

Consequence management

55. Unauthorised 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) of the MFMA.
56. Irregular expenditure 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)(b) of the MFMA.

Internal control

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

Leadership

58. Management did not sufficiently exercise its oversight responsibility to ensure that proper internal control procedures are developed and implemented that will enable the municipality to produce accurate and complete annual financial statements. The leadership did not ensure adherence to the SCM policy at the municipality, which resulted in processes not preventing irregular expenditure and material non-compliance.
59. Management did not sufficiently exercise its oversight responsibility over performance reporting and compliance with laws and regulations and internal control.
60. Management did not implement effective human resource management to ensure that adequate and sufficiently skilled resources were in place and that performance was monitored.
61. Management did not adequately establish and communicate approved policies and procedures to enable and support the understanding and execution of internal control

objectives, processes and responsibilities.

62. Management did not adequately develop and monitor the implementation of action plans to address internal control deficiencies prevailing in SCM.
63. Management did not establish an information technology governance framework that supported and enabled the business, delivered value and improved performance.

Financial and performance management

64. 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 and fruitless and wasteful expenditure.
65. Management did not implement sufficient proper record keeping in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support financial and performance reporting.
66. Management did not adequately implement controls over daily and monthly processing and reconciling of transactions.
67. Management did not sufficiently prepare regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information. The municipality does not have specific business processes which details how its performance management system works from setting of objectives, indicators and targets through to reporting on objectives, indicators and targets.
68. Management did not adequately review and monitor compliance with applicable laws and regulations.
69. Management did not adequately design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

Governance

70. The municipality did not conduct adequate risk assessment as required by the MFMA. 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.
71. The municipality utilised the shared internal audit division within John Taolo Gaetsewe District Municipality. Performance information was not audited by the shared internal audit during the financial years.

72. The municipality utilised the shared audit committee within John Taolo Gaetsewe District Municipality. The audit committee did not review the financial statement and performance management systems and did not make recommendations to the councils in this regard.

Kimberley

07 February 2017



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence