Report of the auditor-general to the North West provincial legislature and the council on the Greater Taung Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Greater Taung Local Municipality set out on pages XX to XX, 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 the 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 separate 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

Irregular expenditure

6. Section 125 of the MFMA requires the disclosure of irregular expenditure incurred. The municipality made payments of R1 168 321 (2015: R8 540 620) in contravention with the supply chain management requirements which were not included in irregular expenditure disclosed. Consequently, irregular expenditure as per note 45 to the financial statements is understated by R9 708 941 (2015: R8 540 620).

Commitments

7. I was unable to obtain sufficient appropriate audit evidence for commitments as the municipality did not have adequate accounting records for all contractual agreements. I was unable to confirm these commitments by alternative means. Consequently, I was unable to determine whether any adjustments relating to commitments of R23 977 444 (2015: R21 213 725) in the financial statements was necessary.

Cash flow statement

8. The municipality did not seperately disclose all cash received in the cash flow statement as required by GRAP 2 *Cash flow statements*. Consequently, cash received included in cash flows from operating activities was overstated by R3 845 324 and cash payments was understated by the same amount. Furthermore, the municipality did not seperately disclose all interest received in the prior year cash flow statement as required by GRAP 2 *Cash flow statements*. Consequently, interest received included in cash flows from operating activities was understated by R5 232 452 and other receipts was overstated by the same amount.

Qualified opinion

9. In my opinion, except for the 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 Greater Taung Local Municipality as at 30 June 2016 and financial performance and cash flows for the year then ended, in accordance with the SA standards of GRAP and the requirements of the MFMA and the DoRA Act.

Emphasis of matters

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

Restatement of corresponding figures

11. As disclosed in note 39 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of errors discovered during the year ended 30 June 2016 in the financial statements of the Greater Taung Local Municipality at, and for the year ended 30 June 2015.

Unauthorised and fruitless and wasteful expenditure

12. As disclosed in note 43 to the financial statements, unauthorised expenditure of R26 554 437 was incurred in the current year and the unauthorised expenditure in respect of prior years of R28 921 944 had not yet been dealt with in accordance with section 32 of the MFMA.

13. As disclosed in note 44 to the financial statements, fruitless and wasteful expenditure of

R152 706 was incurred in the current year and fruitless and wasteful expenditure from prior years of R986 473 had not yet been dealt with in accordance with section 32 of the MFMA.

Additional matters

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

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.

Unaudited supplementary schedules

16. 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 these schedules and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

17. 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 key performance areas (KPAs) 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

18. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected key performance area presented in the annual performance report of the Greater Taung Local Municipality for the year ended 30 June 2016:

    - KPA 1: Basic service delivery and infrastructure development: Community social services department on pages x to x
    - KPA 2: Basic service delivery and infrastructure development: Infrastructure department on pages x to x
    - KPA 3: Local economic development: Office of the Municipal Manager on pages x to x

19. 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 (FMPPI).

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

21. The material findings in respect of the selected key performance areas are as follows:

KPA 1: Basic service delivery and infrastructure development: Community social services department

22. I did not identify any material findings on the usefulness and reliability of the reported performance information for this key performance area.

KPA 2: Basic service delivery and infrastructure development: Infrastructure department

Reliability of reported performance information

23. 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. The reported achievements against planned targets of 18% indicators were not reliable when compared to the evidence provided.

KPA 3: Local economic development: Office of the Municipal Manager

24. I did not identify any material findings on the usefulness and reliability of the reported performance information for this key performance area.

Additional matter

25. I draw attention to the following matter:

Achievement of planned targets

26. Refer to the annual performance report on pages XX to XX and XX to XX 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 reliability of the reported performance information for the selected key performance areas reported in paragraphs XX to XX of this report.

Compliance with legislation

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

28. The amendments to the integrated development plan (IDP) was not adopted by the council only after the proposed amendment has been published for public comment and consultation with the district and taking into account all comments received as required by regulation 6 of the Municipal planning and performance management regulations.

29. Key performance 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 Municipal System Act, 2000 (Act No. 32 of 2000) (MSA) and regulations 1 and 9(1)(a) of the Municipal planning and performance management regulations.

30. The service delivery and budget implementation plan (SDBIP) for implementing the municipality's delivery of municipal services and annual budget did not indicate projections for each month of the operational and capital expenditure, by vote, as required by sections 1 and

53(1)(c) of the MFMA.

Annual financial statements, performance and annual reports

31. 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, liabilities, 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 uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

Procurement and contract management

32. Awards were made to providers who were in the service of other state institutions or whose directors / principal shareholders were in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44.

Expenditure management

33. Reasonable steps were not taken to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Environmental management

34. The municipality did not exercise its legislative and executive authority as required by section 11(3)(l) and (m) of the MSA by managing, monitoring and enforcing environmental related bylaws to promote a safe and healthy environment.

35. The municipality's waste management and disposal activities contravened or failed to comply with the requirements of section 28(1) of the NEMA, section 19 of the NWA and sections 16(1)(c) and (d) and 26(1)(b) of the NEMWA.

Internal control

36. I considered internal control relevant to my audit of the financial statements, the 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

37. Leadership did not sufficiently exercise their oversight responsibility regarding financial and performance reporting, compliance with legislation and the related internal controls to prevent material misstatements to the financial statements. This resulted in audit findings from the previous year's being repeated.

Financial and performance management

38. Management did not put adequate processes in place to ensure that the internal review procedures could identify and correct material misstatements in the financial statements before these were submitted for auditing.

Governance

39. Management did not implement appropriate risk management activities specifically tailor made for the municipality to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, were approved and that a risk strategy to address these risks were developed and monitored.

AUDITOR GENERAL

Potchefstroom

30 November 2016

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

139. Our staff remains committed to assisting in identifying and communicating good practices to improve governance and accountability and to build public confidence in government's ability to account for public resources in a transparent manner.

Yours faithfully

Jacobus Swarts

Senior Manager: North West

30 November 2016

Enquiries: Jean-Pierre Buys
Telephone: (018) 294 3301
Fax: (018) 294 3405
Email: Jean-PierreB@agsa.co.za

Distribution:
Audit committee
Head of internal audit unit
Mayor
Accounting Officer

SECTION 7: Summary of detailed audit findings