REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON KAI !GARIB LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Kai !Garib Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information 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 Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (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 the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and 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

Cash and cash equivalents

6. I was unable to obtain sufficient appropriate evidence for reconciling items and journals processed against cash and cash equivalents as the municipality did not have adequate systems in place to maintain records of cash and cash equivalents. I was unable to confirm cash and cash equivalents by alternative means. Consequently, I was unable to determine whether any adjustments to cash and cash equivalent liability stated at

R40 147 304 (2013: 297 853) and cash and cash equivalent asset stated at R2 404 486 (2013: 14 856 813) in the financial statements were necessary. Additionally, there was a consequential impact on accumulated surplus.

Property, plant and equipment

7. I was unable to obtain sufficient appropriate evidence relating to property, plant and equipment as the municipality did not have adequate systems in place to maintain records of property, plant and equipment. I was unable to confirm property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustments to property, plant and equipment stated at R811 431 197 (2013: R814 186 116) in the financial statements were necessary. Additionally, there was a consequential impact on accumulated surplus.

8. Property, plant and equipment relating to land and buildings, other property, plant and equipment as well as infrastructure assets stated at R724 639 389 (2013: R744 151 439) in note 4 to the financial statements were misstated due to the following:

   - Land and buildings were understated because municipal land and buildings included on the valuation roll were not stated as property, plant and equipment. I was not able to determine the correct net carrying amount of land and buildings as it was impractical to do so.

   - Property, plant and equipment relating to other property, plant and equipment as well as infrastructure assets were overstated, as assets that were damaged were not impaired. In addition the municipality did not assess the useful lives and residual values of property plant and equipment assessment in accordance with SA standard of GRAP 17, *Property, plant and equipment*. I was not able to determine the correct net carrying amount of property, plant and equipment as well as infrastructure assets as it was impractical to do so.

Consumer debtors

9. The municipality did not impair consumer debtors by grouping financial assets with similar credit risk characteristics as part of an impairment group for assessment in accordance with SA standard of GRAP 104, *Financial Instruments*. Consequently, consumer debtors were overstated by R9 614 866, and the provision for impairment understated by the same amount. Additionally, there was a resultant impact on the operating deficit and the accumulated surplus. Furthermore, the municipality did not separate between exchange and non-exchange receivables in accordance with the SA Standards of GRAP1, *Presentation of financial statements*.

Government grants and subsidies paid

10. I was unable to obtain sufficient appropriate evidence for transactions processed against government grants and subsidies as the municipality did not have adequate systems in place to maintain records of government grants and subsidies paid. I was unable to confirm government grants and subsidies paid by alternative means. Consequently, I was unable to determine whether any adjustments to government grants and subsidies paid stated at R20 498 556 (2013: R11 120 643) in the financial statements were necessary. In addition, the limitation on government grants and subsidies paid also had an impact on unspent conditional grants and their related revenue as well as on the operating deficit and accumulated surplus.

Other financial assets

11. I was unable to obtain sufficient appropriate evidence for other financial assets as the municipality did not have adequate systems in place to maintain records of other financial assets. I was unable to confirm other financial assets by alternative means. Consequently, I was unable to determine whether any adjustments to other financial assets stated at R1 103 835 (2013: R1 113 892) in note 6 to the financial statements were necessary. Additionally, there was a consequential impact on the operating deficit.

Commitments

12. I was unable to obtain sufficient appropriate audit evidence for commitments as the municipality did not institute proper controls or control registers to manage commitments. I was unable to confirm commitments by alternative means. Consequently, I was unable to determine whether any adjustments to commitments stated as R33 932 258 (2013: R23 382 699) in note 43 to the financial statements were necessary.

Payables from exchange transactions

13. I was unable to obtain sufficient appropriate audit evidence for payables from exchange transactions. The municipality did not have adequate systems in place to maintain records of payables from exchange transactions. I was unable to confirm payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments to payables from exchange transactions stated at R33 940 652 (2013: R52 475 764) in the financial statements were necessary. Additionally, there was a consequential impact on operating deficit. In addition, payables from exchange transactions are understated by R1 936 935 as the amount disclosed is differed from amount as per the invoices.

Provisions

14. I was unable to obtain sufficient appropriate audit evidence relating to provisions due to the status of the accounting records. Furthermore, I was unable to determine whether the re-measurement of the environmental rehabilitation site was calculated in accordance with the requirements of IGRAP2, *Changes in existing decommissioning, restoration and similar liabilities*. I was unable to confirm provisions by alternative means. Consequently, I was unable to determine whether any adjustments to provisions stated at R41 917 741 (2013: R32 425 002) in note 14 to the financial statements were necessary.

Irregular expenditure

15. I was unable to obtain sufficient appropriate audit evidence for transactions relating to irregular expenditure, as the municipality did not have systems to prevent and detect irregular expenditure. I could not confirm irregular expenditure by alternative means. Consequently, I was unable to determine whether any adjustments to irregular expenditure stated at R11 183 868 (2013: R3 544 867) in note 54 to the financial statements were necessary.

Unauthorised expenditure

16. The unauthorised expenditure was stated at R58 305 683 in note 52 to the financial statements, however, this was not calculated as per the definition of unauthorised expenditure as stipulated in section 1 of the MFMA. The unauthorised expenditure was therefore overstated by R12 373 544 (2013: R56 358 026).

Cash flow statement

17. Due to the extent of the differences identified in the current and previous year cash and cash equivalent asset and liability. I was unable to confirm the accuracy of the cash flow statement and the notes thereto. I was unable to confirm the accuracy of the cash flow

statement by alternative means. Consequently, I was unable to determine whether any adjustments to the cash flow statement were necessary.

Aggregation or accumulation of immaterial uncorrected misstatements

18. The financial statements were materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following items making up the statement of financial position, the statement of financial performance and the notes to the financial statements:

    - Expenditure relating to contract services stated as R10 504 651 and general expenditure stated as R22 237 409 was overstated by R743 670 and R270 917, respectively.

19. In addition, I was unable to obtain sufficient appropriate audit evidence and to confirm the following items by alternative means:

    - Expenditure relating to general expenditure, repair and maintenance, finance cost as well as contract services of R2 867 686 as included in the disclosed balance of R40 138 984.

As a result, I was unable to determine whether any adjustment to these items was necessary.

Qualified opinion

20. 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 Kai !Garib Local municipality as at 30 June 2014 and its 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 DoRA.

Emphasis of matters

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

Significant uncertainties

22. With reference to note 44 to the financial statements, the municipality was the defendant in cases regarding flood damage of R914 741 (2013: R914 741) and the development of land of R127 364 (2013: R127 364). The ultimate outcome of the matter could not be determined at the time of this report and no provision for any liability that might result was made in the financial statements.

Restatement of corresponding figures

23. As disclosed in notes 47 and 48 to the financial statements, the corresponding figures for 30 June 2013 was restated as a result of errors discovered during 2014 in the financial statements of the municipality at, and for the year ended, 30 June 2013.

Material losses

24. As disclosed in note 55 to the financial statements, material losses of R8 851 266 (2013: R6 627 624) were incurred due to electricity distribution.

Financial sustainability

25. While the municipality has prepared financial statements on a going concern basis in note 50 to the financial statements, there were a number of indicators that cast doubt

over the financial sustainability of the municipality in the foreseeable future. These include the following:

- The municipality incurred a net deficit of R52 264 644 (2013: R34 497 037) for the year under review.
- The municipality had a bank overdraft of R40 147 304 (2013: R297 853).
- The municipality was operating on net current ratio of 0.33:1.
- The municipality was operating on the acid test ratio of 0.31:1.
- The average debt payment days increased to 553 days (2013: 454 days).

Additional matters

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

Unaudited supplementary schedules

27. 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.

Unaudited disclosure notes

28. 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

29. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, non-compliance with legislation as well as 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

30. 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 2014:

    - Development priority: Lack of proper housing/existing informal settlements/lack of land ownership – pages x to x
    - Development priority: Lack of basic services – pages x to x
    - Development priority: Lack of sport and recreational facilities and services – pages x to x
    - Development priority: Lack of sufficient and proper health services (HIV/AIDS) – pages x to x

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

32. 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).

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

34. The material findings in respect of the selected objectives are as follows:

Development priority: Lack of proper housing/existing informal settlements/lack of land ownership

Usefulness of reported performance information

35. The Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires that the integrated development plan (IDP) should form the basis for the annual report, therefore requiring consistency of development priorities, indicators and targets between planning and reporting documents. A total of 100% of the reported development priorities, indicators and targets were not consistent with those in the approved integrated development plan. This was 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.

36. The National Treasury's FMPPI requires the following:

    - 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 100% of the indicators were not well defined.

    - Performance targets must be measurable. I could not measure the required performance for 100% of the targets.

    - The period or deadline for delivery of targets must be specified. A total of 100% of the targets were not time bound.

    - Performance indicator must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 100% of the indicators were not verifiable.

    - Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 100% of the targets were not specific.

    This was because management did not adhere to the requirements of the National Treasury's FMPPI due to a lack of proper systems and processes, furthermore, the municipality did not develop adequate performance system to collate, collect, store and report performance information.

Reliability of reported performance information

37. The National Treasury's FMPPI requires that auditees should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned development priorities, indicators and targets. Adequate and reliable supporting evidence could not be provided

for 100% of the targets to assess the reliability of the reported performance information. The municipality's records did not permit the application of alternative audit procedures. This was due to limitations placed on the scope of my work by the absence of effective performance information systems.

Development priority: Lack of basic services

Usefulness of reported performance information

38. The MSA section 41 (c) requires that the integrated development plan should form the basis for the annual report, therefore requiring consistency of development priorities, indicators and targets between planning and reporting documents. A total of 100% of the reported development priorities, indicators and targets were not consistent with those in the approved integrated development plan. This was 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.

39. The National Treasury's FMPPI requires the following:

    - 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 100% of the indicators were not well defined.

    - Performance targets must be measurable. I could not measure the required performance for 100% of the targets.

    - The period or deadline for delivery of targets must be specified. A total of 100% of the targets were not time bound.

    - Performance indicator must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 100% of the indicators were not verifiable.

    - Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 100% of the targets were not specific.

    This was because management did not adhere to the requirements of the National Treasury's FMPPI due to a lack of proper systems and processes. Furthermore, the municipality did not develop adequate performance system to collate, collect, store and report performance information.

Reliability of reported performance information

40. The National Treasury's FMPPI requires that auditees should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned development priorities, indicators and targets. Adequate and reliable supporting evidence could not be provided for 100% of the targets to assess the reliability of the reported performance information. The municipality's records did not permit the application of alternative audit procedures. This was due to limitations placed on the scope of my work by the absence of effective performance information systems.

Development priority: Lack of sport and recreational facilities and services

Usefulness of reported performance information

41. The MSA section 41 (c) requires that the integrated development plan should form the

basis for the annual report, therefore requiring consistency of development priorities, indicators and targets between planning and reporting documents. A total of 100% of the reported development priorities, indicators and targets were not consistent with those in the approved integrated development plan. This was 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.

42. The National Treasury's FMPPI requires the following:

- 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 100% of the indicators were not well defined.
- Performance targets must be measurable. I could not measure the required performance for 100% of the targets.
- The period or deadline for delivery of targets must be specified. A total of 100% of the targets were not time bound.
- Performance indicator must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 100% of the indicators were not verifiable.
- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 100% of the targets were not specific.

This was because management did not adhere to the requirements of the National Treasury's FMPPI due to a lack of proper systems and processes. Furthermore, the municipality did not develop adequate performance system to collate, collect, store and report performance information.

Reliability of reported performance information

43. The National Treasury's FMPPI requires that auditees should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned development priorities, indicators and targets. Adequate and reliable supporting evidence could not be provided for 100% of the targets to assess the reliability of the reported performance information. The municipality's records did not permit the application of alternative audit procedures. This was due to limitations placed on the scope of my work by the absence of effective performance information systems.

Development priority: Lack of sufficient and proper health services (HIV/AIDS)

Usefulness of reported performance information

44. The MSA, section 41 (c) requires that the integrated development plan should form the basis for the annual report, therefore requiring consistency of development priorities, indicators and targets between planning and reporting documents. A total of 100% of the reported development priorities, indicators and targets were not consistent with those in the approved integrated development plan. This was 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.

45. The National Treasury's FMPPI requires the following:

- 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 100% of the indicators were not well defined.

- Performance targets must be measurable. I could not measure the required performance for 100% of the targets.

- The period or deadline for delivery of targets must be specified. A total of 100% of the targets were not time bound.

- Performance indicator must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 100% of the indicators were not verifiable.

- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 100% of the targets were not specific.

This was because management did not adhere to the requirements of the National Treasury's FMPPI due to a lack of proper systems and processes. Furthermore, the municipality did not develop adequate performance system to collate, collect, store and report performance information.

Reliability of reported performance information

46. The National Treasury's FMPPI requires that auditees should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned development priorities, indicators and targets. Adequate and reliable supporting evidence could not be provided for 100% of the targets to assess the reliability of the reported performance information. The municipality's records did not permit the application of alternative audit procedures. This was due to limitations placed on the scope of my work by the absence of effective performance information systems.

Additional matters

47. I draw attention to the following matters:

Achievement of planned targets

48. Refer to the annual performance report on pages x to x; x to x for information on the achievement of planned targets for the year. This information should be considered in the context of material findings expressed on usefulness and reliability of the reported performance information in paragraphs 34 to 45 of this report.

Unaudited supplementary schedules and information

49. 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 express a conclusion thereon.

Compliance with legislation

50. 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 non-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

51. The adopted IDP did not reflect and identify the municipal council's vision for the long

term development of the municipality and a financial plan, as required by sections 26 and 41 of the MSA, as well as municipal planning and performance management regulation 2(1)(c).

52. The municipality did not establish a performance management system, as required by section 38(a) of the MSA.

53. The performance management system –

- was not in line with the priorities, objectives, indicators and targets contained in the municipality's integrated development plan
- did not clarify the roles and responsibilities of each role player
- did not determine the frequency of reporting and the lines of accountability
- did not relate to the employee's performance management processes
- did not link to the integrated development planning processes,

as required by section 38(a) of the MSA and Municipal planning and performance management regulation 7(2)(c), (e), (f) and (g).

54. 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.

55. The performance management system did not provide for steps of improvement where performance targets were not met, as required by section 41 (1)(d) of the MSA.

56. The municipality did not establish mechanisms to monitor and review its performance management system, as required by section 40 of the MSA.

57. The annual performance agreements for the municipal manager and all senior managers were not linked to the measurable performance objectives approved with the budget and to the service delivery budget implementation plan as required in terms of section 53(1)(c)(iii) of the MFMA and section 57(1)(b) of the MSA.

58. The performance management system and related controls were not in place as they did not describe and represent the processes of performance planning, monitoring, measurement, review, reporting and improvement and how they were conducted, organised and managed, including determining the roles of the different role players, as required by section 38 of the MSA and regulation 7 of the *Municipal planning and performance management regulations*.

Budget

59. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 87(8) of the MFMA.

Annual financial statements, performance and annual report

60. 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 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 and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

61. The annual report for 2012-13 was not tabled in municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.

62. A written explanation was not submitted to the council setting out the reasons for the delay in the tabling of the 2012-13 annual report in the council, as required by sections 127(3) and 133(1)(a) of the MFMA.

63. Oversight report, containing comments on the annual report, was not adopted by the council within two months from the date on which the 2012-13 annual report was tabled, as required by section 129(1) of the MFMA.

Audit committees

64. An audit committee was not in place, as required by section 166(1) of the MFMA.

Internal audit

65. An internal audit unit was not established, as required by section 165(1) of the MFMA.

Procurement management

66. Sufficient appropriate audit evidence could not be obtained that all contracts and quotations were awarded in accordance with the legislative requirements and a procurement process which is fair, equitable, transparent and competitive, as tender documents for selected bids could not be provided by management.

Human resource management

67. An acting chief financial officer was appointed for a period of more than six months, in contravention of section 56(1)(c) of the Municipal Systems Act.

68. Sufficient appropriate audit evidence could not be obtained that the appointment of the municipal manager was advertised, as required by section 54A(4)(a) of the Municipal Systems Act.

Expenditure management

69. Money owed by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.

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

71. An effective system of expenditure control, including procedures for the approval and authorisation of funds, was not in place, as required by section 65(2)(a) of the MFMA.

72. An adequate management, accounting and information system was not in place, which recognised expenditure when it was incurred and accounted for creditors, as required by section 65(2)(b) of the MFMA.

Conditional grant

73. The municipal infrastructure grant allocation was not spent in accordance with the applicable grant framework, in contravention of section 16(1) of DoRA.

74. The municipality did not evaluate its performance in respect of programmes or functions

funded by the municipal infrastructure grant allocation, as required by section 12(5) of DoRA.

75. Municipal infrastructure grant funds were retained or rolled over to the next financial year without seeking the approval of the National Treasury, as required by section 21(1) of DoRA.

76. The municipal systems improvement grant allocation was not spent in accordance with the applicable grant framework, in contravention of section 16(1) of DoRA.

77. 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 DoRA.

78. Municipal systems improvement grant funds were retained or rolled over to the next financial year without seeking the approval of the National Treasury, as required by section 21(1) of DoRA.

79. The local government financial management grants allocation was not spent in accordance with the applicable grant framework, in contravention of section 16(1) of DoRA.

80. The municipality did not evaluate its performance in respect of programmes or functions funded by the local government financial management grant allocation, as required by section 12(5) of DoRA.

81. Local government financial management grant funds were retained or rolled over to the next financial year without seeking the approval of the National Treasury, as required by section 21(1) of DoRA.

Revenue management

82. A credit control and debt-collection policy was not implemented, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of the MFMA.

83. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Asset management

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

85. Capital assets were permanently disposed without the approval of the council, as required by section 14(2) (a) of the MFMA.

Consequence management

86. Unauthorised, irregular as well as fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 102(1) of the MFMA.

Internal control

87. 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 deficiencies that resulted in the basis for qualified opinion, the

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

Leadership

88. The leadership did not exercise oversight of financial and performance reporting and compliance and related internal controls. The leadership did not ensure that there were processes to ensure that reviews are 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.

89. The leadership of the municipality 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 being detected by management and in non-compliance with relevant laws and regulations.

90. The lack of decisive action to mitigate emerging risks, implement timely corrective measures and address non-performance was evidenced 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 some of the previous year report recurring in the current year

91. The leadership did not ensure adherence to SCM policy at the municipality, which resulted in processes not preventing irregular expenditure and material non-compliance.

92. Management did not implement and monitor an audit report action plan to ensure that the matters reported in the previous year relating to performance and compliance were corrected

Financial and performance management

93. The accounting officer did not prepare regular, accurate and complete financial statements that are supported and evidenced by reliable information, review and monitor compliance with laws and regulations.

94. Finance staff had an insufficient understanding of the accounting framework. This contributed to the numerous misstatements in the municipality's financial statements.

95. Effective and appropriate disciplinary steps were not taken against officials who made and permitted unauthorised, irregular as well as fruitless and wasteful expenditure.

96. 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.

97. Management did not perform monthly bank reconciliations on a timely basis. In addition, reconciling items were not followed up and cleared on a monthly basis.

Governance

98. 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.

99. The accounting officer did not ensure that an internal audit unit and the audit committee were established. Consequently, there were no governance structures to advise the municipality on financial and performance reporting.

Auditor- General

Kimberley

30 November 2014

AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence