

Report of the auditor-general to the Limpopo provincial legislature and the council on Aganang local municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Aganang local municipality set out on pages XX to XX, which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and 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 South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified opinion

Property, plant and equipment

6. During 2014, I was unable to obtain sufficient appropriate audit evidence for the adjustment on the property plant and equipment. Consequently, I was unable to determine whether any adjustments to the cost and depreciation for property plant and equipment stated at R52 992 172 (2014:R43 428 364) and accumulated surplus were necessary. My opinion on the financial statements for the period ended 2014 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period figures.

Receivables from non-exchange transaction

7. I was unable to obtain sufficient appropriate audit evidence for provision for bad debts disclosed in note 2 to the financial statements to the amount of R 69 689 297 as a proper review of the debtors and assessment of impairment was not performed. I could not confirm the correctness of the impairment loss by alternative means. Consequently, I was unable to determine whether any adjustment to debtors stated at R 90 484 524 (2014: 70 435 885) in the note 2 to the financial statements was necessary.

Value Added Tax (VAT)

8. Included in the VAT receivables is a balance of R 3 277 907 for which no supporting documentation could be obtained. I was unable to confirm this balance by alternative means. Consequently, I was unable to determine whether any adjustment to the VAT receivable stated at R19 437 265 in the financial statements was necessary.

Irregular expenditure

9. I was unable to obtain sufficient appropriate audit evidence that management has accounted for all irregular expenditure for the prior year. Management has not investigated the full extent of the irregular expenditure. I was unable to confirm the irregular expenditure by alternative means. Consequently, I was unable to determine whether any adjustment to irregular expenditure as disclosed in note 26 to the financial statements was necessary.

Aggregation of immaterial uncorrected misstatements

10. The financial statements were materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following items included in the statement of financial position:
 - Receivables: I have identified an unexplained differences between the general ledger and the annual financial statement to the amount of R 505 007 which were not cleared at year-end.
 - Cash and cash equivalents: I have identified an unexplained difference of R574 025 between the bank statements balance and the year-end cashbook balance.

- General expenses: I identified a number of transactions where the VAT portion of expenditure was incorrectly applied. This resulted in general expenditure being overstated and VAT receivables being understated by R112 777.
 - Receivables: Receivables was understated by R230 853, this pertains to debtors with credit balances incorrectly classified as receivables.
 - Employee cost: Employee expenditure reflected as R34 821 166 was understated by R 173 689.
11. In addition, I was unable to obtain sufficient appropriate audit evidence and to confirm the following item by alternative means:
- I was unable to confirm expenditure amounting to R106 827 due to lack of supporting documentation.

Qualified opinion

12. 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 Aganang Local Municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with requirements the SA standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matter

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

Unauthorised, Irregular and fruitless and wasteful expenditure

14. As disclosed in the note 26.1 to the financial statements, the municipality incurred unauthorised expenditure amounting R 1 282 238 as municipality overspent the budgeted expenditure.

Restatement of corresponding figures

15. As disclosed in note 25 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of an error discovered during 2014 in the financial statements of the municipality at, and for the year ended, 30 June 2015.

Additional matters

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

Unaudited supplementary schedules

17. 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

18. 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 development objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

19. 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 2015:
- Development priority 2: Basic Services and Infrastructure Development on pages x to x
 - Development priority 3: Local Economic Development on pages x to x
 - Development priority 4: Financial Viability and Management on pages x to x
20. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
21. 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/ 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).
22. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
23. The material findings in respect of the selected development priorities are as follows:

Usefulness of reported performance information

24. I did not identify material findings on the usefulness and reliability of the reported performance information for the following development priorities:
- Basic Services and Infrastructure Development
 - Local Economic Development
 - Financial Viability and Management

Reliability of reported performance information

25. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting

of actual achievements against planned objectives, indicators and targets. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to a lack of standard operating procedures or documented system descriptions for the accurate recording of actual achievements and technical indicator descriptions for the accurate measurement, recording and monitoring of performance.

Additional matters

26. I draw attention to the following matters:

Achievement of planned targets

27. 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 usefulness and reliability of the reported performance information for the selected development priorities reported in paragraphs 24 to 25 of this report.

Compliance with legislation

28. 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, performance and annual reports

29. 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, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Procurement and contract management

- 30. Sufficient appropriate audit evidence could not be obtained that bid specifications were drafted by bid specification committees which were composed of one or more officials of the municipality as required by SCM regulation 27(3).
- 31. Invitations for competitive bidding were not always advertised for a required minimum period of days, as required by SCM regulation 22(1) & 22(2).
- 32. Contracts and quotations were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.

Expenditure management

- 33. An adequate management, accounting and information system was not in place which accounted for creditors, as required by section 65(2)(b) of the Municipal Finance Management Act.

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

Revenue management

35. An adequate management, accounting and information system which accounts for revenue and debtors was not in place, as required by section 64(2)(e) of the Municipal Finance Management Act.
36. An effective system of internal control for debtors was not in place, as required by section 64(2)(f) of the Municipal Finance Management Act.

Asset management and liability management

37. 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 Municipal Finance Management Act.

Consequence management

38. Unauthorised, Irregular and Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the Municipal Finance Management Act.

Internal control

39. 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

40. Management did not develop and implement adequate policies, procedures and process to guide the operations of the municipality.
41. Management did not implement adequate measures to ensure that the annual financial statements were adequately reviewed before it was submitted for audit.
42. Management did not exercise oversight responsibility regarding financial and performance reporting, compliance and related internal controls

Financial and performance management

43. Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored.
44. The financial statements and other information to be included in the annual report are not properly reviewed for accuracy and completeness by the accounting officer.

Auditor-General.

Polokwane

30 November 2015



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence