

REPORT OF THE AUDITOR-GENERAL TO PROVINCIAL LEGISLATURE AND COUNCIL ON: AGANANG LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of Aganang Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and 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 Division of Revenue Act (Act No. 5 of 2012) (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 of qualified opinion

Property, plant and equipment

6. The addition of infrastructure assets to property, plant and equipment as disclosed in note 5 to the financial statements, amounting to R18 476 405 (2012: 14 400 984), does not agree to the supporting documentation submitted for audit, as a result, infrastructure assets are understated by R4 250 886. Furthermore the municipality

- incorrectly included work in progress amounting to R16 175 918 as part of its infrastructure assets in note 5 to the financial statements.
- 7. The work in progress of infrastructure assets is overstated by R4 870 043 as the amount differs from the supporting documentation and accounting records provided for audit. The municipality incorrectly capitalised the work in progress and disclosed it as part of infrastructure assets disclosed under property, plant and equipment, in note 5 to financial statements.
- 8. I identified a number of assets belonging to the municipality that were not included in the accounting records and financial statements. The value of these assets could not be determined as the municipality's accounting records do not permit the application of alternative procedures. Consequently, it was impracticable to determine the extent of the understatement in the balance of R10 026 690 (2012: R8 732 089) and the accumulated depreciation for same amounting to R9 773 505 (2012: R11 525 664) as disclosed in note 5 to the financial statements.
- 9. Infrastructure assets of R75 224 016 were recognised at revalued amounts instead of cost in terms of the municipality's accounting policy, resulting in an overstatement of R1 171 587. Other balances in the financial statements were not affected as a result of the incorrect treatment of the revaluation in terms of the requirements of the accounting standard..
- 10. Section 84(1)(f) of the Municipal Structures Act , 1998 (Act No. 117 of 1998) states that the district municipality has the powers and functions with regard to municipal roads which form an integral part of a road transport system for the area of the district municipality as a whole. I was unable to obtain sufficient appropriate audit evidence that management has properly accounted for all roads as the municipality did not have systems and procedures in place to assess the rights and ownership thereof. I was unable to confirm the roads infrastructure by alternative means. Consequently, I was unable to determine whether any adjustment necessary to infrastructure assets amounting R75 224 016 (2012: R60 111 336) which is included in the property, plant and equipment stated at in the financial statements, was necessary.

Trade and other payables from exchange transactions

- 11. The trade creditors balance of R4 606 045 (2012: R5 601 312), as disclosed in note 6 to the financial statements, does not agree to the balance of R2 321 089 per the general ledger. The municipality did not reconcile the difference of R2 284 956 between the financial statements and the underlying accounting records. Consequently, the trade creditor's balance is overstated by R2 284 956. I was unable to determine the effect on the other account balances of classes of transactions contained in the financial statements.
- 12. The municipality did not have adequate systems in place to maintain records of retentions payables for goods and services received. Retentions as disclosed in note 6 to the financial statements amounting to R1 176 115 (2012: R 1 798 117) do not reconcile to the balance as per the accounting records of the municipality as all the retentions were not recorded. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for retentions.

Contingent liabilities

- 13. The municipality has not disclosed a contingent liability in respect of the uncertainties arising from the dispute declared by the unions and the pending litigation regarding the wage curve agreement. I was unable to confirm the contingent liabilities by alternative means. Consequently, I am unable to determine whether any adjustments to contingent liability stated at R 1 262 319 (2012:

R26 892 282) in the financial statements was necessary.

Revenue

14. Included in the statement of financial performance, as per note 14 to the financial statements, is revenue from interest earned on outstanding receivables amounting to R2 367 839. The municipality could not provide me with sufficient appropriate audit evidence to support this amount. The municipality's records did not permit the application of alternative audit procedures. Consequently, I was unable to determine whether any adjustments to the revenue in the financial statements were necessary.
15. Included in revenue from property rates as disclosed in note 12 to the financial statements, the amount of R20 448 486 includes an adjustment of R4 329 919 for which the municipality could not provide sufficient appropriate audit evidence. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for revenue from property rates.
16. With reference to the above paragraphs, I was unable to determine the effect on the receivables from non-exchange balance of R47 433 980 (2012: R24 615 980) as disclosed in note 2 to the financial statements.

Cash flow

17. Presentation of a cash flow statement, summarising the municipality's operating, investing and financing activities, is required by SA Standards of GRAP 2, *Cash flow statements*. I have noted that the cash flow statement from operating and investment activities are understated by R1 266 054 and R1 354 969 respectively. Consequently I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the accuracy and completeness of the amounts included in the cash flow statement.

Qualified opinion

18. 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 Aganang Local Municipality as at 30 June 2013 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.

Emphasis of matters

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

Restatement statement of corresponding figures

20. As disclosed in note 25 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of an error discovered during 2013 in the financial statements of the municipality at, and for the year ended, 30 June 2012.

Additional matter

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

Unaudited supplementary schedules

22. The supplementary information set out on pages ... to ... do 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

23. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

24. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.

25. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury *Framework for managing programme performance information (FMSSI)*.

The reliability of the information in respect of the selected development objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

26. The material findings are as follows:

Usefulness of information

Presentation

27. Section 46 of the Municipal Systems Act, 2000 (Act 32 of 2000) (MSA) requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Adequate and reliable corroborating evidence could not be provided for 31% measures taken to improve performance as disclosed in the annual performance report. The municipality's records did not permit the application of alternative audit procedures due to limitations placed on the scope of my work. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the reliability of the measures taken to improve performance.

Reliability of information

28. The National Treasury *FMSSI* requires that institutions should 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 with respect to local economic development are materially misstated:

- Number of wholesale warehouse operational
- Number of applications made for CIS programme

- Percentage progress regarding township development

This was due to the lack of standard operating procedures for the accurate recording of actual achievements, monitoring of the completeness of source documentation in support of actual achievements and frequent review of validity of reported achievements against source documentation.

29. The National Treasury *FMPPI* requires that institutions should 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.

The following significantly important targets with respect to financial viability and management are materially misstated:

- Number SCM committees established (specification evaluation and adjudication committees)
- Number formal quotations committee meetings
- Number approved demand management plan
- Percent implementation of the demand management plan
- Number established and functional budget and IDP steering committee
- Number of reports submitted per quarter
- Number of IDP/budget meetings held
- Number annual financial statements prepared and submitted on time
- Number adjustment budget submitted on time
- Number positive external audit opinion achieved
- Action plan developed to address audit findings

This was due to the lack of standard operating procedures for the accurate recording of actual achievements, monitoring of the completeness of source documentation in support of actual achievements and frequent review of validity of reported achievements against source documentation.

Additional matter

30. I draw attention to the following matter below. This matter does not have an impact on the predetermined objectives audit findings reported above.

Achievement of planned targets

31. Of the total number of 222 targets planned for the year, 86 of targets were not achieved during the year under review. This represents 39% of total planned targets that were not achieved during the year under review.

This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process

Material adjustments to the annual performance report

32. Material audit adjustments in the annual performance report were identified during the audit, of which some were corrected by management and those that were not corrected have been reported on accordingly.

Compliance with laws and regulations

33. I performed procedures to obtain evidence that the entity has complied with

applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Annual financial statements

34. 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 current assets, liabilities, and revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and supporting records were provided subsequently, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

Annual performance report

35. The annual performance report for the year under review does not include measures taken to improve performance, as required by section 46 (1) (c) of the MSA.
36. The municipal manager of the municipality did not submit a copy of the integrated development plan as adopted by council and any subsequent amendment to the plan, to the MEC for the provincial department of Cooperative Governance, Human Settlements and Traditional Affairs (CoGHSTA) within 10 days of the adoption or amendment of the plan as required by section 32 (1)(a) of the MSA.
37. The accounting officer of the municipality did not submit the performance of the municipality to National Treasury and Provincial Treasury during the first half of the financial year by 25 January as required by section 72 of the MFMA.

Budgets

38. Revisions to the service delivery and budget implementation plan were not approved by the council after the approval of the adjustments budget, as required by section 53 (1)-(c) of the MFMA.
39. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of sections 15 and 87(8) of the MFMA.

Expenditure management

40. Money owing 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.
41. The accounting officer did not take effective steps to prevent unauthorised and irregular expenditure, as required by section 62(1)(d) of the MFMA.
42. The accounting officer did not submit a report on unauthorised and irregular expenditure incurred by the municipality to the Auditor-General and MEC for CoGHSTA in accordance with section 32(4) of the MFMA.
43. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred accounted for creditors accounted for payments made, as required by section 65(2)(b) of the MFMA.

Revenue management

44. An adequate management accounting and information system was not in place which recognised revenue when it was earned, accounted for debtors and accounted for receipts of revenue, as required by section 64(2)(e) of the MFMA.
45. Revenue due to the municipality was not calculated on a monthly basis, as required

by section 64(2)(b) of the MFMA.

46. Sufficient appropriate audit evidence could not be obtained that accounts for municipal tax and charges for municipal services were prepared on GRAP basis, as required by section 64(2)(c) of the MFMA.
47. Sufficient audit evidence could not be obtained that interest had been charged on all accounts in arrears, as required by section 64(2) (g) of the MFMA.

Asset management

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

Liability management

49. An adequate management, accounting and information system which accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.
50. An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2)(c) of the MFMA.

Human resources management

51. An acting Chief Financial Officer of the municipality was appointed for a period of more than three months, in contravention of section 56(1)(c) of the MSA.
52. In contravention to 54A (2A) of the MSA, the municipal manager was acting for more than three months.

Financial misconduct and consequence management

53. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.

Internal control

54. I considered internal controls relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for qualified audit opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

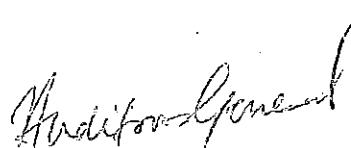
55. The accounting officer did not adequately review the financial statements and the annual performance report prior to their submission for audit.
56. Oversight responsibility regarding financial and performance reporting and compliance and related internal controls was not adequately exercised.
57. The municipality did not hold performance management and reporting staff accountable for shortcomings identified during the internal and external audit processes.
58. The municipality developed a plan to address internal and external audit findings, but adherence to the plan was not monitored on a timely basis.
59. The action plan to achieve a clean audit outcome was not cascaded to all operational staff. The leadership did not adequately engage with staff to seek their co-operation in achieving the clean audit objective.

Financial and performance management

60. Controls over daily and monthly processing and reconciling of transactions were not implemented by the accounting officer.
61. Compliance with laws and regulations was not reviewed and monitored by the accounting officer.

Governance

62. The audit committee did not monitor the implementation of recommendations made by internal audit.
63. The audit committee did not adequately review the financial statements and annual performance report for adequacy, reliability and accuracy prior to submission for audit.



Polokwane

29 November 2013



AUDITOR-GENERAL
SOUTH AFRICA

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