

Report of the auditor-general to Western Cape Provincial Parliament and council on the Laingsburg Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Laingsburg Municipality set out on pages 6 to 103, which comprise the statement of financial position as at 30 June 2019, 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 to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Laingsburg Municipality as at 30 June 2019, and its financial performance and cash flows for the year then ended 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, 2018 (Act No. 1 of 2018) (Dora).

Basis for qualified opinion

Inventory

3. I was unable to obtain sufficient appropriate audit evidence for inventory as the municipality did not have an inventory management system in place. I was therefore unable to obtain sufficient appropriate audit evidence to substantiate the inventory disclosed in note 8 to the financial statements. As a consequence, I was unable to determine whether any adjustments were required to the inventory balance stated at R888 956 (2017-18: R1 224 821). I was unable to quantify the possible misstatement of inventory by alternative means. Consequently I was also not able to determine whether any adjustments were required to expenditure: inventory consumed stated at R2 266 844 (2017-18: R1 828 325), surplus for the year stated at R9 344 722 (2017-18: R6 850 521) and accumulated surplus stated at R185 949 564.

Payables from exchange transactions

4. Included in trade payables is R3 422 241 (2018: R2 198 309) for goods and services received but for which sufficient appropriate audit evidence could not be provided to the auditors. The municipality did not reconcile the amount per the payables listings to the amount recorded per the financial statements and general ledger. As a consequence, I was unable to determine whether any adjustments were required to the financial statements arising from trade payables and accruals not brought to account or incorrectly stated. Consequently expenditure stated at R89 049 239 (2017-18: R78 088 837) and accumulated surplus stated at R185 949 564 is also impacted.

Transfer revenue: Government grants and subsidies

5. I was unable to obtain sufficient appropriate audit evidence to verify the amount recognised as Transfer revenue: Government grants and subsidies to the value of R10 523 098 and its related expenditure in relation to the Municipal Infrastructure Grant. I was also unable to confirm that R10 523 098 was spent in accordance with the stipulations of the grant by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to Transfer Revenue: Government grants and subsidies stated at R40 731 413 and the related expenditure stated at R89 049 239 and unspent conditional grants stated at R3 788 053 in the financial statements.

Expenditure

6. Total expenditure was materially misstated by R475 214 due to the cumulative effect of individually immaterial uncorrected misstatements in the following items:
 - Operational cost stated at R9 929 079 was overstated by R940 278 that related to expenditure incurred in respect of 2017-18 to the value of R842 550, incorrect allocation of an electricity deposit to the value of R19 730 and overpayments of travel and subsistence allowances that needs to be recovered from the relevant employees to the value of R77 998.
 - Total expenditure was understated with R465 064 since expenditure items were recorded inclusive of Value Added Tax (VAT) instead of exclusive of VAT as the municipality should have claimed the VAT. and the municipality did not adequately account for the apportionment of VAT during the financial year under review.
7. In addition, I was unable to obtain sufficient appropriate audit evidence and to confirm the following items by alternative means:
 - Operational cost of R451 185 as included in the disclosed balance of R9 929 079.
 - Contracted services of R268 509 as included in the disclosed balance of R8 613 606.

Context for the opinion

8. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
9. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA codes) as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
10. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Materiality uncertainty related to going concern

11. I draw attention to the matter below. My opinion is not modified in respect of this matter.
12. I draw attention to note 56 to the financial statements, which indicates that the municipality is dependant on the approval from National Treasury to rollover the unspent portion of their conditional grants in order to spend monies on capital projects. As stated in note 56, these events or conditions, along with the basis for qualified opinion in paragraph 6, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matters

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

Restatement of corresponding figures

14. As disclosed in note 53 to the financial statements, the corresponding figures for 30 June 2018 were restated as a result of errors detected during the 2018-19 financial year in the financial statements of the municipality at, and for the year ended, 30 June 2019.

Material impairments

15. As disclosed in note 11 to the financial statements, the municipality provided for the impairment of receivables from exchange transactions (consumer debtors) amounting to R2,2 million (2017-18: R2,3 million).
16. As disclosed in note 12 to the financial statements, the municipality provided for the impairment of receivables from non-exchange transactions amounting to R62,5 million (2017-18: R36,8 million). This mainly related to traffic fines issued.

Material losses

17. As disclosed in note 60 to the financial statements, water and electricity losses of 63,48% and 11,15% amounting to R3 737 930 (2017-18: 61.36 % amounting to R3 271 132) and R1 401 963 (2017-18: 9,19% amounting to R1 058 383) respectively were suffered during the year.

Other matter

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

Unaudited disclosure notes

19. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. 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 schedule

20. The supplementary information set out on page 104 does not form part of the financial statements and is presented as additional information. We have not audited these schedules and, accordingly, I do not express an opinion thereon.

Responsibilities of accounting officer for the financial statements

21. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with SA Standards of GRAP and the requirements of the MFMA and 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.
22. In preparing the financial statements, the accounting officer is responsible for assessing the Laingsburg Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

23. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
24. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

25. 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 material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
26. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

27. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objective presented in the annual performance report of the municipality for the year ended 30 June 2019:

Strategic objective	Pages in the annual performance report
Strategic objective 5: Provision of infrastructure to deliver improved services to all residents and business	11 – 13

28. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

29. The material finding in respect of the usefulness and reliability of the selected objective is as follows:

Strategic objective 5 – Provision of infrastructure to deliver improved services to all residents and business

30. The achievement for target TL7: Number of formal residential properties that received piped water (credit) that is connected to the municipal water infrastructure network and billed for the service as at 30 June 2019, reported in the annual report was 1 338. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of 518.

Other matter

31. I draw attention to the matter below.

Achievement of planned targets

32. Refer to the annual performance report on pages 11 to 13 for information on the achievement of planned targets for the year. This information should be considered in the context of the material finding on the reliability of the reported performance information in paragraph 29 of this report.

Report on the audit of compliance with legislation

Introduction and scope

33. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

34. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements, performance and annual reports

35. 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 identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a qualified audit opinion.

36. The council failed to adopt an oversight report containing the council's comments on the annual report, as required by section 129(1) of the MFMA.

Asset management

37. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

Consequence management

38. Unauthorised expenditure incurred by the municipality in the prior year was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.

39. Irregular expenditure incurred by the municipality in the prior year were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

40. Fruitless and wasteful expenditure incurred by the municipality in the prior year was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Expenditure management

41. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R4 296 079, as disclosed in note 57 to the annual financial statements. This is in contravention of section 62(1)(d) of the MFMA. The unauthorised expenditure was caused by the overspending of the respective municipal votes.

42. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R127 791, as disclosed in note 58 to the annual financial statements. This is in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by payments made in respect of interest on late payments.

43. Reasonable steps were not taken to prevent irregular expenditure amounting to R23 631 929 as disclosed in note 59 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by non-compliance with SCM regulations

Procurement and contract management

44. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(a) and (c). Similar non-compliance was also reported in the prior year.
45. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1). Similar non-compliance was also reported in the prior year.
46. Some of the quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.
47. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.

Revenue management

48. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.
49. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.

Utilisation of conditional grants

50. Performance in respect of programmes funded by the Municipal Infrastructure Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Dora.
51. I was unable to obtain sufficient appropriate audit evidence that the Municipal Infrastructure Grant was spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of the Dora.

Other information

52. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected strategic objectives presented in the annual performance report that have been specifically reported in this auditor's report.
53. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
54. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements

and the selected strategic objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

55. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

56. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

57. There are indicators of a lack of due regard for internal controls and adherence to legislative prescripts resulting in repeat qualification areas and non-compliance with laws and regulations. Leadership did not provide adequate oversight over the preparation of the annual financial statements by strengthening the internal control environment at the municipality.

58. Management did not implement proper review processes and record keeping over the annual financial statements and performance report in order to ensure that the reported financial and performance information are free from material misstatements and supported by relevant and accurate information. The information that the consultants required to compile the financial statements were not always provided timeously resulting in the financial statements only being completed on the day of submission, hence leaving management with insufficient time to adequately review the financial statements before submission for audit.

59. The municipality has significant capacity constraints and a shortage of skilled staff with a lack of succession planning in the finance department specifically. However, management has not implemented initiatives or processes to ensure that the municipality has an adequately skilled labour force to carry out the mandate and functions of the municipality. In addition, leadership did not provide adequate oversight over the information technology environment of the municipality through effective use of systems which resulted in a weakened internal control environment at the municipality.

60. Deficiencies in the review processes and the ineffective implementation of compliance monitoring controls to ensure compliance with key applicable legislation contributed to the non-compliance with the MFMA and other applicable legislation.

61. The audit committee did not perform all its functions as per the approved audit committee charter. Internal audit is also not adequately resourced and equipped in order to carry out its functions effectively. None of the tasks per the internal audit plan that had to be fulfilled by the municipality's internal audit function was performed.

Other reports

62. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
63. The Hawks is currently conducting an investigation into allegations relating to the appointment of the accounting officer, speaker, mayor and debt collector.

Auditor-General
Cape Town

29 November 2019



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit 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
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Laingsburg Municipality’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipality to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
 - Communication with those charged with governance
3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.