

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

## Report on the financial statements

### Introduction

1. I have audited the financial statements of the Laingsburg Municipality set out on pages 4 to 92, which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget 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, 2015 (Act No. 1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the 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 audit opinion.

## Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Laingsburg Municipality as at 30 June 2016 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 and DoRA.

## Emphasis of matters

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

### Material impairments

8. As disclosed in notes 4 to 5 to the financial statements, receivables have been significantly impaired. The impairment allowance amounts to R35,8 million (2014-15: R36,1 million) (85.5% of gross receivables) of which R1,38 million (2014-15: R2,7 million) relates to services debtors.

### Material losses

9. As disclosed in note 19 to the financial statements, water losses of 50.74% amounting to R1 028 937 (2015-16: 51.54% amounting to R1 216 975) were incurred during the year.

### Material underspending of the budget

10. As disclosed on pages 9 to 12 of the financial statements, the municipality has underspent on its final approved capital budget to the amount of R9,7 million (5,67%).

### Restatement of corresponding figures

11. As disclosed in note 47 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of errors discovered during the 2014-15 financial year in the financial statements of Laingsburg Municipality.

## Additional matters

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

### Material inconsistencies in other information included in the annual report

13. The draft annual report has not yet been received for review. As a result, it has not been reviewed for any inconsistencies with the financial statements. The draft annual report, as well as the final printer's proof of the annual report will be reviewed and any material inconsistencies then identified will be communicated to management. Should the inconsistencies not be corrected, it may result in the matter being included in the audit report.

## Unaudited supplementary schedules

14. The supplementary information set out on pages 93 to 100 does also 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

15. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

## Report on other legal and regulatory requirements

16. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected key performance areas 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

17. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected key performance areas presented in the annual performance report of the Municipality for the year ended 30 June 2016:
  - KPA 2: Local Economic Development on pages 53 to 54
  - KPA 3: Infrastructure Development on pages 55 to 56 and 58 to 59
  - KPA 4: Social Development on pages 56 to 57
18. 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*.
19. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
20. I did not identify material findings on the usefulness and reliability of the reported performance information for the following selected key performance areas:

- KPA 2: Local Economic Development on pages 53 to 54
- KPA 3: Infrastructure Development on pages 55 to 56 and 58 to 59
- KPA 4: Social Development on pages 56 to 57

## **Additional matters**

21. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected key performance areas, I draw attention to the following matters:

### Achievement of planned targets

22. Refer to the annual performance report on pages 53 to 59 for information on the achievement of planned targets for the year.

### Adjustment of material misstatements

23. We identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Local Economic Development, Infrastructure Development and Social Development. As management subsequently corrected the misstatements, we did not raise any material findings on the usefulness and reliability of the reported performance information.

### Material inconsistencies in other information included in the annual report

24. No material inconsistencies between the draft annual report and the annual performance report were identified. The final printer's proof of the annual report will be reviewed and any material inconsistencies then identified will be communicated to management. Should the inconsistencies not be corrected, it may result in the matter being included in the audit report.

### Unaudited supplementary information

25. The supplementary information set out on pages 1 to 53 and 59 to 108 does not form part of the annual performance report and is presented as additional information. We have not audited these schedules and, accordingly, we do not express a conclusion on them.

## **Compliance with legislation**

26. 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

27. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). Material misstatements of non-current assets, current assets, current liabilities, revenue, expenditure, commitments, unauthorised expenditure, fruitless and wasteful expenditure, irregular expenditure, related parties, contingent liabilities and statement of comparison of budget and actual amounts identified by the auditors in the submitted financial statements were subsequently corrected, which resulted in the financial statements receiving an unqualified audit opinion.

## Municipal Budget

28. The municipality incurred expenditure that exceeded the limits of the amounts appropriated for the different votes in an approved budget as required by section 15(b) of the MFMA.

## Expenditure management

29. 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.
30. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

## Procurement and contract management

31. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) and (c).
32. Quotations were accepted from prospective providers who are not registered on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy in contravention of SCM regulation 16(b) and 17(b).
33. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R200 000 were procured by means of 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).
34. Sufficient appropriate audit evidence could not be obtained that bid specifications for procurement of goods and services through competitive bids were drafted in an unbiased manner that allowed all potential suppliers to offer their goods or services, as per required by SCM regulation 27(2)(a).

35. 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).
36. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period of days, as required by SCM regulation 22(1) and 22(2).
37. Sufficient appropriate audit evidence could not be obtained that bids were evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services and at least one SCM practitioner of the municipality as required by SCM regulation 28(2).
38. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding, as required by SCM Regulations 21(b) and 28(1)(a) and Preferential Procurement Regulations.
39. Sufficient appropriate audit evidence could not be obtained that bid adjudication was always done by committees which were composed in accordance with SCM regulation 29(2).
40. Sufficient appropriate audit evidence could not be obtained that councillors of the municipality participated in committees evaluating or approving tenders or attended meetings of committees evaluating or approving tenders, in contravention of section 117 of the MFMA.
41. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) (PPPFA) and SCM regulation 28(1)(a).
42. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the PPPFA and its regulations.
43. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders that scored the highest points in the evaluation process, as required by of section 2(1)(f) of PPPFA.
44. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded only to bidders who submitted 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).

45. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
46. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.
47. 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.

## Consequences management

48. 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 MFMA.

## Internal control

49. 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 findings on compliance with legislation included in this report.

## Leadership

50. Leadership was not effective in ensuring that good governance is in place to protect and enhance the interests of the municipality, due to the lack of proper implementation of consequence management systems, procedures and policies. Despite the recurring findings, leadership did not create a culture of good governance as evidenced by the lack of review of compliance with legislation. Leadership also has not acted on our audit recommendations made in the prior year and has not carried out the commitments made in previous audits.
51. Leadership did not provide sufficient oversight over the implementing and monitoring of controls to prevent non-compliance. This has resulted in a breakdown of controls. Furthermore, leadership did not provide adequate oversight over the preparation of the annual financial statements to ensure that they are free from material misstatements.
52. Despite a continuous shortage of skills, leadership has not implemented any policy or processes to ensure that staff is sufficiently and adequately trained and that the performance of staff is monitored, measured and evaluated. Leadership has also not implemented any policy or process to ensure the transfer of skills and knowledge from the consultants to the staff. Despite the challenges that the municipality face in attracting sufficiently skilled staff, leadership has not implemented any initiatives to address the shortage of skilled staff in the procurement and finance departments within the municipality.

53. Leadership did not have adequately documented policies and procedures to guide the operations of the municipality, resulting in numerous instances of non-compliance with the key legislation relating to the annual report, procurement and contract management, expenditure management and consequences management.
54. From the numerous instances of non-compliance with legislation and material misstatements identified in the financial statements, it can be concluded that the action plan developed to address the internal control deficiencies previously identified and communicated was not effective. Leadership did not ensure that management's action plan to address the internal control deficiencies identified in the prior financial year were implemented as is evidenced by the extent of recurring audit findings in the current financial year. The action plan in place is not driven with vigour and intervention is urgently required to prevent the municipality from regressing.

## **Financial and performance management**

55. Management did not ensure that information is timeously gathered and filed appropriately to support financial information reported in the financial statements and the annual performance report. Furthermore, the lack of contract management and maintaining proper contract registers hampered the disclosure of accurate figures for commitments in the financial statements.
56. Management has not implemented adequate controls to ensure that there are monthly reconciliations performed of transactions to support valid, accurate and complete financial reporting. Furthermore, management did not ensure that certain information used to prepare the annual performance report is correct and the calculations using the information from these reports.
57. Management did not prepare regular financial statements to enable an adequate and regular review of the financial statements throughout the year, thereby identifying emerging risks presented by the reporting framework for the preparation of the annual financial statements.
58. Despite the recurring findings, management has not ensured that the actions plans developed to address the recurring non-compliance findings were implemented and monitored. Management did not have adequate controls in place to effectively review and monitor compliance with all relevant legislation. Management has not carried out the commitments made of implementing monitoring processes to ensure compliance with legislation, specifically relating to procurement and contract management and key compliance focus areas. Vigorous monitoring of the action plan did not occur and responsibilities of those whom should action it is not clear.

Cape Town

30 November 2016



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*