

Report of the auditor-general to the Western Cape Provincial Parliament and the 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 5 to 85, which comprise the statement of financial position as at 30 June 2017, the statement of financial performance, statement of changes in net assets, cash flow statement and 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 my report, the financial statements present fairly, in all material respects, the financial position of the Laingsburg Municipality as at 30 June 2017, 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, 2016 (Act No. 3 of 2016) (DoRA).

Basis for qualified opinion

Irregular expenditure

3. I was unable to obtain sufficient appropriate audit evidence relating to the completeness of irregular expenditure, as I could not ascertain that management had inspected the entire population. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether irregular expenditure for the current year amounting to R17 309 353, as disclosed in note 49 to the financial statements, was fairly stated.

Inventory

4. I was unable to obtain sufficient appropriate audit evidence relating to the valuation of inventory. The municipality did not value inventory as per the requirements of SA Standard of GRAP 12, *Inventories* in the financial statements. Consequently, I was unable to determine whether any adjustment was necessary relating to inventory stated at R1 377 966 (2015-16: R1 596 544) in note 8 to the financial statements. I was also unable to quantify the possible misstatement of inventory.

Value-added tax (VAT)

5. The municipality's VAT receivable account is overstated by R2 213 462 as at 30 June 2017 as well as at 30 June 2016 due it not reconciling to the VAT statements of the South African Revenue Service as at 30 June 2016.

Context for the opinion

6. 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 my report.
7. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with 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 code.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

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

Restatement of corresponding figures

10. As disclosed in note 48 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of errors discovered during the 2016-17 financial year in the financial statements of the municipality at, and for the year ended, 30 June 2017.

Material impairments

11. As disclosed in note 4 to the financial statements, the municipality provided for the impairment of receivables from exchange transactions (consumer debtors) amounting to R1,63 million (2015-16: R1,38 million).
12. As disclosed in note 5 to the financial statements, the municipality provided for the impairment of receivables from non-exchange transactions amounting to R18,97 million (2015-16: R34,5 million). This mainly related to traffic fines issued.

Material losses

13. As disclosed in note 19 to the financial statements, water losses of 51,80% amounting to R1 971 820 (2015-16: 50,74% amounting to R1 028 937) were suffered during the year.

Material underspending of conditional grants

14. As disclosed in note 16 to the financial statements, the municipality underspent its conditional grants by R6,1 million (2015-16: R9,7 million). This represented 18,6% (2015-16: 16,9%) of the conditional grants received.

Subsequent events

15. As disclosed in note 55 to the financial statements, the Western Cape minister of local government informed the executive mayor in a letter dated 24 August 2017 that he could not support the appointment of the new municipal manager due to non-compliance with the applicable legal prescripts. He also indicated that he would be instituting legal proceedings seeking a declaratory order declaring the appointment invalid; or alternatively seek a review of the council decision, with the intention of setting the appointment aside.

The municipal manager has been suspended during a council meeting held on 23 November 2017.

Other matters

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

Unaudited supplementary schedules

17. The supplementary information set out on pages 86 to 89 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 note

18. 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.

Responsibilities of the accounting officer

19. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the 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.
20. In preparing the financial statements, the accounting officer is responsible for assessing the 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 accounting officer either intends to liquidate the municipality or cease operations, or has no realistic alternative but to do so.

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

21. 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

22. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor’s report.

Report on the audit of the annual performance report

Introduction and scope

23. 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.
24. 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/measures 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.
25. 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 objectives presented in the annual performance report of the municipality for the year ended 30 June 2017:

Objectives	Pages in the annual performance report
Strategic objective A – create an environment conducive for economic development	42
Strategic objective C – effective maintenance of municipal assets and natural resources	43 – 44
Strategic objective D – improve standards of living of all people in Laingsburg	44 – 45
Strategic objective E – provision of infrastructure to deliver improved services to all residents and business	45 – 46

26. I performed procedures to determine whether the reported performance information 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.
27. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following objectives:
- Strategic objective A – create an environment conducive for economic development
 - Strategic objective C – effective maintenance of municipal assets and natural resources
 - Strategic objective D – improve standards of living of all people in Laingsburg
 - Strategic objective E – provision of infrastructure to deliver improved services to all residents and business

Other matters

28. I draw attention to the matters below.

Achievement of planned targets

29. Refer to the annual performance report on pages 42 to 46 for information on the achievement of planned targets for the year and explanations provided for the under- or overachievement of a significant number of targets.

Adjustment of material misstatements

30. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of:
- Strategic objective A – create an environment conducive for economic development
 - Strategic objective C – effective maintenance of municipal assets and natural resources
 - Strategic objective D – improve standards of living of all people in Laingsburg
 - Strategic objective E – provision of infrastructure to deliver improved services to all residents and business
31. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Introduction and scope

32. 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.
33. The material findings on compliance with specific matters in key legislation 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 were identified by the auditors in the submitted financial statements, which resulted in the financial statements receiving a qualified audit opinion.

Budget

35. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R271 147, as disclosed in note 51 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

Expenditure management

36. An effective system of expenditure control was not in place, including procedures for the approval, authorisation and payment of funds, as required by section 65(2)(a) of the MFMA.
37. An adequate management, accounting and information system was not in place to recognise expenditure when it was incurred as well as to account for creditors and payments made, as required by section 65(2)(b) of the MFMA.
38. Effective steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed did not reflect the full extent of the irregular expenditure incurred, as indicated in the basis for qualified opinion paragraphs.
39. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R21 123, as disclosed in note 47 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.
40. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

Asset management

41. An adequate management, accounting and information system was not in place to account for assets, as required by section 63(2)(a) of the MFMA.
42. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Consequence management

43. Unauthorised expenditure amounting to R15 094 202 incurred by the municipality during the previous financial year was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(a) of the MFMA.
44. Irregular expenditure amounting to R40 434 784 incurred by the municipality during the previous financial year was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.
45. Fruitless and wasteful expenditure amounting to R11 049 incurred by the municipality during the previous financial year was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Human resource management

46. The newly appointed municipal manager failed to disclose his financial interests within 60 days from date of appointment, as required by regulation 36(1)(a) on appointment and conditions of employment of senior managers.

Procurement and contract management

47. Sufficient appropriate audit evidence could not be obtained that all contracts and quotations had been awarded in accordance with the legislative requirements as set out in section 112 of the MFMA, as the municipality did not keep proper registers of the awards made and continued to utilise suppliers without following the prescribed procurement process. A similar limitation was also reported in the prior year.
48. Goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, in contravention of supply chain management (SCM) regulation 17(a) and (c). Similar non-compliance was also reported in the prior year.
49. Quotations were accepted from prospective providers who were not on the list of accredited prospective providers and did not meet the listing requirements prescribed by the SCM policy, in contravention of SCM regulations 16(b) and 17(b). Similar non-compliance was also reported in the prior year.
50. Sufficient appropriate audit evidence could not be obtained that contracts had been awarded only to bidders who submitted a declaration on whether they were 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.

51. Sufficient appropriate audit evidence could not be obtained that quotations had been accepted from only bidders whose tax matters had been declared by Sars to be in order, as required by SCM regulation 43. Similar non-compliance was also reported in the prior year.
52. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R200 000 had been procured by inviting competitive bids and/or that deviations had been approved by the accounting officer only in cases where it was impractical to invite competitive bids, as required by SCM regulations 19(a) and 36(1). Similar non-compliance was also reported in the prior year.
53. Sufficient appropriate audit evidence could not be obtained that bid specifications had been unbiased and allowed all potential suppliers to offer their goods or services, as required by SCM regulation 27(2)(a). Similar non-compliance was also reported in the prior year.
54. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding had been advertised for the required minimum period, as required by SCM regulation 22(1) and 22(2). Similar non-compliance was also reported in the prior year.
55. Sufficient appropriate audit evidence could not be obtained that bids had been evaluated by bid evaluation committees 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). Similar non-compliance was also reported in the prior year.
56. Sufficient appropriate audit evidence could not be obtained that contracts had been awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding and quotations, as required by SCM regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations. Similar non-compliance was also reported in the prior year.
57. Contracts were awarded through a competitive bidding process that had not been adjudicated by the bid adjudication committee. Similar non-compliance was also reported in the prior year.
58. Sufficient appropriate audit evidence could not be obtained that bid adjudication committees had always been composed in accordance with SCM regulation 29(2). Similar non-compliance was also reported in the prior year.
59. Contracts were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b). Similar non-compliance was also reported in the prior year.
60. Contracts were awarded to 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.

61. Contracts were awarded to providers whose tax matters had not been declared by Sars to be in order, in contravention of SCM regulation 43. Similar non-compliance was also reported in the prior year.
62. Sufficient appropriate audit evidence could not be obtained that the preference point system had been applied in all procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act of South Africa, 2000 (Act No. 5 of 2000) (PPPFA) and treasury regulation 16A6.3(b). Similar non-compliance was also reported in the prior year.
63. Sufficient appropriate audit evidence could not be obtained that contracts and quotations had been awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the PPPFA and its regulations. Similar non-compliance was also reported in the prior year.
64. Sufficient appropriate audit evidence could not be obtained that contracts and quotations had been awarded to bidders that scored the highest points in the evaluation process, as required by section 2(1)(f) of the PPPFA and the Preferential Procurement Regulations. Similar non-compliance was also reported in the prior year.
65. Sufficient appropriate audit evidence could not be obtained that contracts and quotations had been awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding and quotations, as required by the Preferential Procurement Regulations. Similar non-compliance was also reported in the prior year.
66. Bid documentation for procurement of some of the commodities designated for local content and production did not stipulate the minimum threshold for local production and content, as required by preferential procurement regulation 9(1). Similar non-compliance was also reported in the prior year.
67. Commodities designated for local content and production were procured from suppliers who did not submit a declaration on local production and content, as required by preferential procurement regulation 9(1). Similar non-compliance was also reported in the prior year.
68. Commodities designated for local content and production were procured from suppliers who did not meet the prescribed minimum threshold for local production and content, as required by preferential procurement regulation 9(5). Similar non-compliance was also reported in the prior year.
69. Sufficient appropriate audit evidence could not be obtained that all extensions or modifications to contracts had been approved by a properly delegated official, as required by SCM regulation 5. Similar non-compliance was also reported in the prior year.
70. The performance of some of the 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.

71. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, in contravention of section 116(2)(c) of the MFMA. Similar non-compliance was also reported in the prior year.

Other information

72. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the mayor's foreword and executive summary and the municipal manager's overview. The other information does not include the financial statements, the auditor's report thereon and those selected objectives presented in the annual performance report that have been specifically reported on in the auditor's report.
73. 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.
74. 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 objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
75. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

Internal control deficiencies

76. 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 thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion and the findings on compliance with legislation included in this report.

Leadership

77. Leadership was not effective in ensuring that good governance was in place to protect and enhance the interests of the municipality, due to a lack of proper implementation of 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 did not act on my audit recommendations made in the prior year and did not carry out previous commitments made.
78. Leadership did not provide sufficient oversight of the implementation and monitoring of controls to prevent non-compliance, which resulted in a breakdown of controls.

Furthermore, leadership did not provide adequate oversight of the preparation of the annual financial statements to ensure that they were free from material misstatements.

79. Despite a continuous shortage of skills, leadership had not implemented any policy or processes to ensure that staff were sufficiently and adequately trained and that the performance of staff was monitored, measured and evaluated. Leadership had also not implemented any policy or process to ensure the transfer of skills and knowledge from consultants to staff. Despite the challenges that the municipality faced in attracting sufficiently skilled staff, leadership had not implemented any initiatives to address the shortage of skilled staff in the procurement and finance departments within the municipality.
80. Leadership did not have adequately documented policies and procedures to guide the operations of the municipality, resulting in numerous instances of non-compliance with key legislation relating to the annual financial statements, procurement and contract management, and expenditure management.
81. 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 was implemented, as evidenced by the extent of recurring audit findings in the current financial year. The action plan in place was not driven with vigour, and intervention is urgently required to prevent the overall audit outcome of the municipality from regressing.

Financial and performance management

82. Management did not ensure that information was timeously gathered and filed appropriately to support financial information reported in the financial statements. Furthermore, the lack of contract management and proper maintenance of contract registers hampered the disclosure of accurate figures for commitments in the financial statements and resulted in non-compliance with procurement and contract management legislation.
83. Management had not implemented adequate controls to ensure that monthly reconciliations of transactions were performed to support valid, accurate and complete financial reporting.
84. 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.
85. Despite the recurring findings, management had not ensured that the action plan developed to address the recurring compliance findings was implemented and monitored. Management did not have adequate controls in place to effectively review and monitor compliance with all relevant legislation. Management did not carry 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 the responsibilities of those who should action it were not clear.

Governance

86. Internal audit did not advise the accounting officer and report to the audit committee on matters relating to compliance with relevant laws and regulations.
87. Internal audit did not drive the municipality's action plan to ensure that it was executed in a manner that effectively addressed the prior year's audit findings, since most audit findings were repeat findings.
88. The audit committee did not carry out its core function of providing oversight of the effectiveness of the internal control environment. It did not ensure that internal audit had credible plans to address the audit findings previously raised nor did the committee monitor the function to ensure that it operated in an effective manner and carried out its core function. The audit committee failed to promote accountability and service delivery through evaluating and monitoring responses to risks and providing oversight of the effectiveness of the internal control environment. This is evident in the number of internal control deficiencies and non-compliance matters identified during the audit process.

Auditor-General

Cape Town

30 November 2017



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 the 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 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 the auditor’s report. However, future events or conditions may cause a municipality to cease to continue 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.