

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 6 to 103, which comprise the statement of financial position as at 30 June 2018, 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 this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Laingsburg Municipality as at 30 June 2018, 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, 2017 (Act No. 3 of 2017) (Dora).

Basis for qualified opinion

Inventory

3. The municipality did not have an inventory management system to account for the acquisition and issuance of inventory items throughout the period under review. Consequently, I was unable to determine whether any adjustment was necessary relating to inventory stated at R863 630 (2016-17: R1 409 983) in note 7 to the financial statements. I was also unable to quantify the possible misstatement of inventory.

Property, plant and equipment

4. Property, plant and equipment was identified that had not been recorded in the municipality's financial records and I was not able to quantify the possible understatement.
5. Furthermore, I was not able to verify the existence of property, plant and equipment to the value of R514 068. The municipality's property, plant and equipment is therefore overstated by this amount.

Payables from exchange transactions

6. I was unable to verify the existence, valuation, classification and rights and obligations of trade payables of R2 198 309, since no supporting schedules could be provided to substantiate this amount.

Irregular expenditure

7. Irregular expenditure of R2 863 462 incurred in the current year was not disclosed as irregular expenditure in note 59 to the notes to the financial statements. The irregular expenditure as disclosed in note 59 to the financial statements is therefore understated by this amount.

Revenue from exchange transactions

8. Revenue collected on behalf of the Department of Transport and Public Works (principal) and the related expenditure were not accounted for as required by paragraph .43 of GRAP 109, *Accounting by principals and agents*. Revenue from exchange transactions and expenditure are therefore both overstated by R1 135 562.

Context for the opinion

9. 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.
10. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and 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.
11. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

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

Restatement of corresponding figures

13. As disclosed in note 53 to the financial statements, the corresponding figures for 30 June 2017 have been restated as a result of errors discovered during the 2017-18 financial year in the financial statements of the municipality at, and for the year ended, 30 June 2018.

Material impairments

14. As disclosed in note 10 to the financial statements, the municipality provided for the impairment of receivables from exchange transactions (consumer debtors) amounting to R2,3 million (2016-17: R1,6 million).
15. As disclosed in note 11 to the financial statements, the municipality provided for the impairment of receivables from non-exchange transactions amounting to R36,8 million (2016-17: R19 million). This mainly related to traffic fines issued.

Material losses

16. As disclosed in note 60 to the financial statements, water losses of 61,4% amounting to R3 271 132 (2016-17: 51,8% amounting to R1 971 820) were suffered during the year.

Material underspending of conditional grants

17. As disclosed in note 17 to the financial statements, the municipality underspent its conditional grants by R11,2 million (2016-17: R4,6 million), of which R7,8 million relates to municipal drought support that was only received towards year-end. This represents 50,5% (2016-17: 33,1%) of the conditional grants received.

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. 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 accounting officer for the financial statements

20. 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.
21. 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 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

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

Introduction and scope

24. 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 the selected strategic objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
25. 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.
26. 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 strategic objective presented in the annual performance report of the municipality for the year ended 30 June 2018:

Strategic objective	Pages in the annual performance report
Strategic objective 5 – provision of infrastructure to deliver improved services to all residents and business	10 – 11

27. 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.
28. I did not raise any material findings on the usefulness and reliability of the reported performance information for this strategic objective:
- Strategic objective 5 – provision of infrastructure to deliver improved services to all residents and business

Other matter

29. I draw attention to the matter below.

Achievement of planned targets

30. Refer to the annual performance report on pages 10 to 11 for information on the achievement of planned targets for the year.

Report on the audit of compliance with legislation

Introduction and scope

31. 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.
32. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements, performance report and annual report

33. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) 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.
34. The annual financial statements were not submitted to the auditor-general for auditing within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.
35. The council failed to adopt an oversight report containing the council's comments on the 2016-17 annual report within the prescribed timelines, as required by section 129(1) of the MFMA.

Procurement and contract management

36. Some of the 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.
37. Some of the goods and services with 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).
38. Some of the contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43. Similar non-compliance was also reported in the prior year.

39. The bid documentation for procurement of commodities designated for local content and production did not stipulate the minimum threshold for local production and content. Furthermore, the supplier did not submit a declaration on local production and content and did not meet the prescribed minimum threshold for local production and content, as required by the Preferential Procurement Regulations of 2017. Similar non-compliance was also reported in the prior year.
40. The performance of some of the contractors or providers was not monitored on a monthly basis, while the contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2)(b) and (c) of the MFMA, respectively. Similar non-compliance was also reported in the prior year.

Expenditure management

41. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
42. An adequate management, accounting and information system was not in place to account for creditors, as required by section 65(2)(b) of the MFMA.
43. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by non-compliance with the SCM Regulations.
44. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R4 649 796, as disclosed in note 57 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by the overspending of votes.
45. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R28 221, as disclosed in note 58 to the annual financial statements, 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 and bank charges for a bank account that was not fully utilised by the municipality.

Asset management

46. An adequate management, accounting and information system was not in place to account for assets and inventory, as required by section 63(2)(a) of the MFMA.

Consequence management

47. Unauthorised expenditure of R271 147 incurred by the municipality in prior years was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
48. The authorisation of unauthorised expenditure amounting to R271 147 was not done through an adjustment budget, as required by section 32(2)(a)(i) of the MFMA.

49. Irregular expenditure of R30 961 026 incurred by the municipality in prior years was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
50. Fruitless and wasteful expenditure of R14 823 incurred by the municipality in prior years was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Other information

51. 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.
52. 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.
53. 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.
54. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact.
55. I have nothing to report in this regard.

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 and the findings on compliance with legislation included in this report.

Leadership

57. Leadership did not provide adequate oversight regarding the implementation of action plans to address the prior year's audit findings, which resulted in repeat findings in the areas of financial reporting and compliance with laws and regulations. Furthermore, leadership did not provide proper oversight over the preparation of the annual financial statements.
58. Leadership did not provide sufficient oversight over the implementing and monitoring of controls to prevent non-compliance. Furthermore, the municipality had capacity constraints and a shortage of skilled staff. However, management did not take initiatives or implement

processes to ensure that the municipality had an adequately skilled labour force that was sufficient to carry out the mandate and the functions of the municipality. In addition, leadership did not provide adequate oversight over the information technology environment of the municipality, which resulted in a breakdown of internal controls within the municipality.

Financial and performance management

59. Management did not implement proper review processes over the annual financial statements in order to ensure that the reported information was free from material misstatements, accurate and complete.
60. Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support financial reporting.
61. Deficiencies in the review processes and the ineffective implementation of compliance monitoring controls to ensure compliance with key legislation resulted in non-compliance with the MFMA and other applicable legislation.

Governance

62. The audit committee did not perform all of its functions as per the approved audit committee charter. The internal audit function was also not adequately resourced and equipped to carry out its functions effectively.

Auditor-General

Cape Town

06 June 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.

