

# REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON HANTAM LOCAL MUNICIPALITY

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I have audited the financial statements of the Hantam Local Municipality set out on pages xx to xx, which comprise statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets, the cash flow statement and the budget statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

### Basis for qualified opinion

#### Investment Property

6. The municipality did not measure investment property at its fair value in accordance with the adopted accounting policy and the requirements of the Standard of Generally Recognised Accounting Practice, GRAP 16, *Investment property*. Consequently, investment property is overstated by R2 185 741 and the fair value adjustment is understated by R2 185 741.

### **Property, plant and equipment**

7. The municipality did not measure property, plant and equipment at a revalued amount, being its fair value in accordance with the adopted accounting policy and the requirements of the Standard of Generally Recognised Accounting Practice, GRAP 17, *Property, plant and equipment*. Consequently, property, plant and equipment and the revaluation reserve are overstated by R1 822 200.
8. I was unable to obtain sufficient appropriate audit evidence that management has properly accounted for property, plant and equipment as land and buildings were identified that were not included in the accounting records. I was unable to confirm the property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustment to the land and buildings stated at R5 111 460 in note 10 to the financial statements was necessary.

### **Qualified opinion**

9. In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Hantam Local Municipality as at 30 June 2013, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

### **Emphasis of matters**

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

### **Restatement of corresponding figures**

11. As disclosed in note 46 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of errors discovered during 30 June 2013 in the financial statements of the Hantam Local Municipality at, and for the year ended, 30 June 2012.

### **Material losses and impairments**

12. As disclosed in note 16 and 17 to the financial statements, a significant provision for the impairment of receivables from exchange transactions and non-exchange transactions was created which constitutes 50% and 44% of the total receivables from exchange transactions and non-exchange transactions balance respectively.
13. As disclosed in note 44 to the financial statements, material losses to the amount of R1 491 706 and R3 675 300 were incurred as a result of the distribution of water and electricity respectively.

### **Irregular Expenditure**

14. The full extent of the irregular expenditure of R7 768 634 as disclosed in note 33.2 to the financial statements is still in the process of being determined.

### **Additional matter**

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

### **Unaudited supplementary schedules**

16. The supplementary information set out in pages xx to xx 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.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

### **Predetermined objectives**

18. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual section 47 performance report as set out on pages xx to xx of the annual report.
19. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

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

20. The material findings are as follows:

### **Usefulness of information**

21. The National Treasury *Framework for managing programme performance information (FMPPI)* requires that performance targets be measurable. The required performance could not be measured for a total of 27% of the targets. This was due to the fact that management was not aware of the requirements of the *FMPPI*.

### **Reliability of information**

22. The National Treasury *Framework for managing programme performance information (FMPPI)* requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The reported performance information as a whole of KPA 1 – Municipal Transformation and Organisational Development is materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the targets relevant to the selected objective. This was due to the lack of adequate review of validity of reported achievements against source documentation.
23. The National Treasury Framework for managing programme performance information (FMPPI) requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of information presented with respect to KPA 2 – Basic Service Delivery objective. This was due to the following reasons:
- The municipality did not include the actual results in the section 57 performance report in all instances.

- The achievement of the certain targets could not be validated because all targets were not measurable.
  - Sufficient appropriate audit evidence could not be provided to substantiate the targets in all instances.
  - The audit evidence obtained did not agree with the reported targets in certain instances.
24. The National Treasury *Framework for managing programme performance information (FMPPi)* requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The reported performance information as a whole of KPA 4 – Municipal Financial Viability and Management are materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the targets relevant to the selected objective. This was due to the lack of adequate review of validity of reported achievements against source documentation.

### **Compliance with laws and regulations**

25. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

### **Strategic planning and performance management**

26. A performance audit committee was not in place and no evidence was obtained that the audit committee was used to fulfil the performance audit committee function, as required by Municipal planning and performance management regulation 14(2)(a).
27. The internal audit did not audit the results of performance measurements, as required by section 45(1)(a) of the Municipal Systems Act and Municipal planning and performance management regulation 14(1)(a).
28. The internal audit unit did not audit the performance measurements on a continuous basis and did not submit quarterly reports on their audits to the municipal manager and the performance audit committee, as required by Municipal planning and performance management regulation 14(1)(c).

### **Budget**

29. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the Municipal Finance Management Act.

### **Financial statements, performance and annual reports**

30. 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.

Material misstatements of current assets and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

### **Audit committees**

31. The audit committee did not advise the council and accounting officer on matters relating to performance management and performance evaluation as required by section 166(2)(a) of the Municipal Finance Management Act.
32. The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the Municipal Finance Management Act.

### **Procurement and contract management**

33. 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 supply chain management policy, in contravention of Supply Chain Management Regulations 16(b) and 17(b).
34. Sufficient appropriate audit evidence could not be obtained that bid adjudication was always done by committees which were composed in accordance with Supply Chain Management Regulation 29(2).
35. 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 Supply Chain Management Regulation 43.
36. Quotations 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 Supply Chain Management Regulation 13(c).

### **Human resource management**

37. An acting Chief Financial Officer was appointed for a period of more than six months, in contravention of section 56(1)(c) of the Municipal Systems Act.

### **Expenditure management**

38. Sufficient appropriate audit evidence could not be obtained that money owing by the municipality had always been paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the Municipal Finance Management Act.
39. The accounting officer did not take effective steps to prevent unauthorised and irregular expenditure, as required by section 62(1)(d) of the Municipal Finance Management Act.

### **Asset management and liability management**

40. A management, accounting and information system was not in place to adequately account for liabilities, as required by section 63(2)(a) of the Municipal Finance Management Act.
41. An adequate management, accounting and information system which accounts for assets was not in place as required by section 63(2)(a) of the Municipal Finance Management Act.

### **Internal control**

42. I considered internal control relevant to my audit of the financial statements, annual section 47 performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for qualified opinion, the findings on the annual section 47 performance report and the findings on compliance with laws and regulations included in this report.

## **Leadership**

43. The accounting officer did not exercise oversight responsibility over the preparation of the financial statements, the report on predetermined objectives, compliance with laws and regulations, and internal control. The leadership did not implement processes to ensure that reviews took place before information was submitted. This was evidenced by the material misstatements in the financial statements, non-compliance with laws and regulations and internal control deficiencies noted throughout the audit process.

## **Financial and performance management**

44. Manual or automated controls were not designed to ensure that the transactions had occurred, were authorised and were completely and accurately processed in all instances, while the system of internal control was not adequately designed. Certain corrective measures were not implemented to address the shortcomings in the financial statements and related systems.
45. Material amendments had to be made to the financial statements as these were not accurate and complete, because senior management did not detect misstatements during the review process. This indicates that there were weaknesses in internal control with regard to the review process of the financial statements.
46. There were deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.
47. The supply chain management unit of the municipality did not always function effectively. The necessary procedures were not always followed.

## **Governance**

48. The municipality did not establish an audit committee charter that set out the duties of the audit committee and performance audit committee.

Kimberley

30 November 2013

