

Report of the auditor-general to the Limpopo provincial legislature and council on the Makhado Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Makhado Municipality set out on pages X to XX, which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, the cash flow statement and statement of comparison of budget and actual amounts 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, 2013 (Act No.2 of 2013) (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 the 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 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 Makhado Municipality as at 30 June 2014, 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.

Restatement of corresponding figures

8. As disclosed in note 42 to the financial statements, the corresponding figures for 30 June 2013 have been restated as a result of errors discovered during 2014 in the financial statements of the Makhado Municipality at, and for the year ended 30 June 2013.

Material impairments

9. As disclosed in note 6 to the financial statements, material impairments to the amount of R105 783 283 was made to receivables as a result of the municipality's inadequate collection practices.

Material underspending of the conditional grant

10. As disclosed in note 17 to the financial statements, the municipality has materially under spent its conditional grants to the amount of R48 099 226. The underspending relates to mainly an additional R45 million received in March 2014 and for which the municipality put in place procurement plans.

Additional matters

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

Unaudited supplementary schedules

12. The supplementary information set out on 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.

Unaudited disclosure notes

13. 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

14. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, non-compliance with legislation as well as 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

15. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2014.
 - Development priority: Roads and storm water on pages 139 to 143
 - Development priority: Electrical on pages 120 to 139
 - Development priority: Library services, traffic and licensing, parks and recreation, buildings and control, environmental management, disaster management and security services on pages 117 to 118, 144, 147, 150 to 158
 - Development priority: Waste management on pages 118 to 119 and 148 to 149
16. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
17. I evaluated the usefulness of 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 development priority. 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* (FMPPPI).
18. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
19. The material findings in respect of the selected development priorities are as follows:

Development priority: Electrical

Usefulness of reported performance information

Measurability of targets

20. The FMPPI requires that the performance targets be measurable. I could not measure the required performance for 23% of the targets.

This was due to a lack of proper systems and processes as well as technical indicator descriptions.

Reliability of reported performance information

21. The FMPPI requires auditees to 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 was not valid, accurate and complete when compared to the source information or evidence provided. This was due to a lack of technical indicator descriptions for the accurate measurement, recording and monitoring of performance and monitoring of completeness of source documentation in support of actual achievements.

Development priority: Library services, traffic and licensing, parks and recreation, buildings and control, environmental management, disaster management and security services

Usefulness of reported performance information

Measurability of targets

22. The FMPPI requires that the performance targets be measurable. I could not measure the required performance for 46% of the targets.

This was due to a lack of proper systems and processes as well as technical indicator descriptions.

Development priority: Waste management

Usefulness of reported performance information

Measurability of targets

23. The FMPPI requires the following:

- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 38% of the targets were not specific.
- Performance targets must be measurable. I could not measure the required performance for 38% of the targets.

This was due to a lack of proper systems and processes as well as technical indicator descriptions.

Additional matters

24. I draw attention to the following matters.

Achievement of planned targets

25. Refer to the annual performance report on pages 117 to 144 and 147 to 158 for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected development priorities in paragraphs 20 to 23 of this report.

Adjustment of material misstatements

26. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information of all selected development priorities. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information.

Compliance with legislation

27. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

28. The performance management system and related controls were inadequate as it did not describe and represent the processes of performance planning, monitoring, measurement, review, reporting and improvement and how it is conducted, organised and managed, as required by sections 38 of the MSA and regulation 7 of the *Municipal planning and performance management regulations*.

Financial statements, performance and annual reports

29. 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 of non-current assets, liabilities and expenditure identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

30. A contract was awarded to a bidder that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act.

Expenditure management

31. Reasonable steps were not taken to prevent irregular and fruitless and wasteful expenditure as required by section 62(1)(d) of MFMA.

Internal control

32. 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 the annual performance report and the findings on non-compliance with legislation included in this report.

Leadership

33. An inadequate performance management system and processes exist which did not ensure performance information that is in all instances useful and reliable.
34. The council, accounting officer and management did not exercise oversight responsibility in finding a solution that would ensure that material provision for bad debts are reduced to satisfactory levels and increased the municipality's contribution towards delivering quality services.
35. The accounting officer and management did not exercise adequate oversight responsibility over the enforcement of the municipality's procurement policy.

Financial and performance management

36. The financial statements contained material misstatements that were corrected. This was mainly due to inadequate internal controls over a wide spectrum of the activities of the municipality and lack of competencies within finance department.
37. An adequate and frequent review of the validity, accuracy and completeness of reported achievements against source documentation was not performed.
38. The municipality's internal controls over procurement did not identify non-compliance with the procurement policy.

Governance

39. Through on-going monitoring the accounting officer, management and the audit committee has to ensure there is an adequately resourced internal audit unit that assessed the effectiveness of the internal control environment supporting performance reporting and compliance with legislation.

Auditor - General.

Polokwane

28 November 2014



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence