

# Report of the auditor-general to the Northern Cape Provincial Legislature and the council on John Taolo Gaetsewe District Municipality

## Report on the financial statements

### Introduction

1. I have audited the financial statements of the John Taolo Gaetsewe District Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, cash flow statement and appropriation statement 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 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 Division of Revenue Act of South Africa, 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 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 audit opinion.

## **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the John Taolo Gaetsewe District 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 matter**

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

## **Restatement of corresponding figures**

8. As disclosed in note 52 to the financial statements, the corresponding figures for 30 June 2013 were restated as a result of an error discovered during 2014 in the financial statements of John Taolo Gaetsewe District Municipality at, and for the year ended, 30 June 2013.

## **Additional matters**

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

## **Unaudited supplementary schedules**

10. 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**

11. 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**

12. 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 objectives 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**

13. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the municipality for the year ended 31 June 2014:
  - Objective 1 : To provide road and transport services – pages x to x
  - Objective 3; To provide adequate housing to the residents of the district – pages x to x
  - Objective 5: To facilitate the creation of jobs/employment opportunities in the district – pages x to x
  - Objective 8: To control environment pollution – pages x to x
  - Objective 9: To manage disposal of the dead – pages x to x
14. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
15. 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 (FMPPPI).
16. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
17. The material findings in respect of the selected objectives are as follows:

## **Objective 1: To provide road and transport services**

### **Usefulness of reported performance information**

18. The National Treasury's FMPPPI requires the following:
  - Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 50% of the targets were not specific.
  - Performance targets must be measurable. We could not measure the required performance for 50% of the targets.

This was because management did not adhere to the requirements of the National Treasury's FMPPPI and furthermore, there was a lack of understanding of how to design SMART targets.

19. The National Treasury's FMPPI requires indicators to relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives. A total of 67% of the indicators did not relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives as per the five-year integrated development plan and budget implementation. This was because proper performance planning and management practices had not been developed and implemented to provide for the development of performance indicators and targets included in the annual service delivery and budget implementation plan. Furthermore, supporting evidence pertaining to 67% of targets did not agree to the matters reported in the annual performance report and thus rendered the reported information irrelevant for decision-making purposes.

### **Reliability of reported performance information**

20. The National Treasury's 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. Significantly important targets were not reliable when compared to the evidence provided. This was due to a lack of standard operating procedures for the accurate recording of actual achievements and technical indicator descriptions for the accurate measurement and there were no frequent reviews of the validity of reported achievements against source documentation.

### **Objective 3: To provide adequate housing to the residents of the district**

#### **Usefulness of reported performance information**

21. The National Treasury's FMPPI requires the following:
  - Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 60% of the targets were not specific.
  - Performance targets must be measurable. We could not measure the required performance for 60% of the targets.

This was because management did not adhere to the requirements of the National Treasury's FMPPI. Furthermore, there was a lack of understanding of how to design SMART targets.

22. The National Treasury's FMPPI requires indicators to relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives. A total of 60% of the indicators did not relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives as per the five-year strategic plan. This was because proper performance planning and management practices had not been developed and implemented to provide for the development of performance indicators and targets included in the annual performance report. The targets were based on the incorrect performance measure; furthermore, reports to the council were not accurate as the indicators were not met.

## **Reliability of reported performance information**

23. The National Treasury's FMPPPI 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. Significantly important targets were not reliable when compared to the evidence provided. This was due to a lack of standard operating procedures for the accurate recording of actual achievements and technical indicator descriptions for the accurate measurement, frequent review of the validity of reported achievements against source documentation.

## **Objective 5: To facilitate the creation of jobs/employment opportunities in the district**

24. I did not raise any material findings on the usefulness and reliability of the reported performance information on this objective objective.

## **Objective 8: To control environment pollution**

25. I did not raise any material findings on the usefulness and reliability of the reported performance information on this objective.

## **Objective 9: To manage disposal of the dead**

## **Usefulness of reported performance information**

26. The National Treasury's FMPPPI requires that the performance targets must be measurable. We could not measure the required level of performance for 25% of the targets. This was because management did not adhere to the requirements of the National Treasury's FMPPPI. Furthermore, there was a lack of understanding of how to design SMART targets.
27. The National Treasury's FMPPPI requires indicators to relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives. A total of 25% of the targets did not relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives as per five-year integrated development plan. This was because proper performance planning and management practices had not been developed and implemented to provide for the development of performance indicators and targets included in the integrated development plan and budget implementation. Furthermore, supporting evidence pertaining to 25% of the targets did not agree to the matters reported in the annual performance report and thus rendered the reported information irrelevant for decision-making purposes.

## **Reliability of reported performance information**

28. I did not raise any material findings on the reliability of the reported performance information on this objective.

## **Additional matters**

29. I draw attention to the following matters:

## **Achievement of planned targets**

30. Refer to the annual performance report on pages xx to xx and xx to xx for information on the achievement of the 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 objectives reported in paragraphs 17 to 25 of this report

## **Unaudited supplementary schedules**

31. The supplementary information set out on pages xx to xx does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.

## **Compliance with legislation**

32. 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**

33. The municipality did not afford the local community at least 21 days to comment on the final draft of its integrated development plan before the plan was submitted to the council for adoption, as required by municipal planning and performance management regulation 15(3).

## **Budgets**

34. Sufficient appropriate audit evidence could not be obtained that the expenditure was incurred in accordance with the approved budget, in contravention of section 15 of the MFMA.

## **Annual financial statements, performance and annual report**

35. 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, revenue 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.
36. Sufficient appropriate audit evidence could not be obtained to confirm that the 2012-2013 annual report was tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.
37. Sufficient appropriate audit evidence could not be obtained to confirm that a written explanation was submitted to the council setting out the reasons for the delay in the tabling of the 2012-13 annual report in the council, as required by section 127(3) and 133(1)(a) of the MFMA.
38. Sufficient appropriate audit evidence could not be obtained to confirm that the oversight report, containing comments on the annual report, was not adopted by the council within two months from the date on which the 2012-2013 annual report was tabled, as required by section 129(1) of the MFMA.

## **Procurement and contract management**

39. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, as required by supply chain management (SCM) regulation 17(a) and (c).
40. Contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding and quotations, in contravention of SCM regulations 21(b) and 28(1)(a) and the preferential procurement regulations.
41. Contracts were awarded to bidders based on preference points that were not calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 2000) (PPPFA) and its regulations.
42. Contracts were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of the PPPFA.
43. 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.

## **Human resource management and compensation**

44. Job descriptions were not established for all posts in which appointments were made in the current year, in contravention of section 66(1)(b) of Municipal Systems Act, 2000 (Act No.32 of 2000).

## **Expenditure management**

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

## **Revenue management**

46. An adequate management, accounting and information system which accounts for revenue was not in place, as required by section 64(2)(e) of the MFMA.
47. An effective system of internal control for debtors was not in place, as required by section 64(2)(f) of the MFMA.

## **Asset management**

48. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
49. An effective system of internal control for assets, including a complete and accurate asset register, was not in place, as required by section 96(2) (b) of the MFMA.

## **Conditional grants**

50. The municipality did not evaluate its performance in respect of programmes or functions funded by the municipal systems improvement grant allocation, as required by section 12(5) of DoRA.
51. The municipality did not evaluate its performance in respect of programmes or functions funded by the local government financial management grant allocation, as required by section 12(5) of DoRA.

## **Internal control**

52. 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 deficiencies that resulted in the findings on the annual performance report and the findings on non-compliance with legislation included in this report.

## **Leadership**

53. Management did not continuously exercise oversight responsibility regarding financial reporting and related internal controls due to a lack of direction and review of the development and performance of the system of internal control.
54. Management did not ensure that adequate reviews on the financial statements were performed as the material errors were identified.



55. Management did not review compliance with laws and regulations as various instances of non-compliance with laws and regulations were identified. Furthermore, management did not implement actions against officials that did not adhere to the prescribed policies, laws and regulations, most of the findings identified were the repeat findings.

## Financial and performance management

56. Management did not implement proper record keeping by ensuring that complete, relevant and accurate information was accessible and available to support financial reporting. This was due to the fact that responsible personnel did not continuously perform control activities in a timely manner as defined by policies and procedures. Furthermore, there were no consequences for these employees.

57. Finance staff members did not have knowledge of GRAP and did not take initiative by using the GRAP checklist provided by the National Treasury, to ensure that the financial statements prepared are free from errors. As a result, the municipality opted to use the consultants to prepare quarterly and annual financial statements.

58. Management did not ensure that the underlying records and information supporting the reported data in the annual performance report was kept and readily available for audit purposes.

## Governance

59. Ongoing monitoring and supervision were not undertaken to enable an assessment of the effectiveness of internal control over financial and performance reporting regarding information technology controls information.

*Auditor-General*

Kimberley

30 November 2014



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