

Report of the auditor-general to the Limpopo Provincial Legislature and council of the Ba-Phalaborwa Local Municipality

Report on the financial statements

Introduction

1. I was engaged to audit the financial statements of the Ba-Phalaborwa Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information 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), Division of Revenue Act of South Africa, 2015 (Act No 1. of 2015) (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 conducting the audit in accordance with International Standards on Auditing. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis of disclaimer of opinion

Property, plant and equipment

4. Included in the accounting records and financial statements of the municipality are properties owned by private individuals amounting to R5 399 808 and some of these properties are already occupied for other purposes that were erroneously recorded as owned by the municipality. Consequently, the municipality overstated the land and

buildings stated at R256 447 896 (2015: R268 212 600) by the same amount. I could not determine the consequent misstatements in other corresponding accounts as it was impractical to do so.

5. I identified a difference in the value of land to the amount of R16 700 000 between what was recorded in the previous valuation roll and supplementary valuation roll dated 23 January 2016. Consequently, value of land included in the property plant and equipment was overstated

Receivables

6. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for accounts receivable. As described in note 11 to the financial statements, the restatement was made to rectify a prior year misstatement, but the restatement could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment to the accounts receivable corresponding figure stated at R93 022 644 and current year account receivable balance amounting to R76 961 315 in the financial statements was necessary.
7. I was unable to obtain sufficient and appropriate audit evidence regarding receivables journals passed to the amount of R444 266 298, as internal controls were not established over recording and safekeeping of records. Consequently, I was unable to determine whether any adjustments to consumer debtors stated at R76 961 315 (2015: R93 022 644) and other corresponding accounts in the financial statements were necessary.
8. My audit revealed journals processed without approval for an amount of R366 647 588, as internal controls were not established over processing of journals. Consequently, I was unable to determine whether any adjustments to receivables stated at R76 961 315 (2015: R93 022 644) and other corresponding accounts in the financial statements were necessary.

Consumer deposit

9. I was unable to obtain sufficient appropriate audit evidence for consumer deposit accounts amounting to R2 040 256 (2015: R3 738 397) disclosed in note 20 to the annual financial statements as the municipality passed unsupported debit and credit entries to the amount of R10 092 482 and R10 091 032 respectively. I was unable to confirm these adjustments by alternative means. Consequently, I was unable to determine whether any adjustment to consumer deposit stated at R2 040 256 (3 738 397) in the financial statement was necessary.

10. I was unable to obtain sufficient appropriate audit evidence that consumer deposits for the current and prior year had been properly accounted for, due to the status of the accounting records as the municipality apportioned consumer deposits on a percentage basis between Ba-Phalaborwa and Mopani District Municipality instead of the actual amount received. I was unable to confirm the consumer deposits by alternative means. Consequently, I was unable to determine whether any adjustment to consumer deposits stated at R2 040 256 (2015: R3 738 397) in the financial statements was necessary.
11. I was unable to obtain sufficient and appropriate audit evidence regarding consumer deposit journals passed to the amount of R 350 596 767, as internal controls were not established over recording and safekeeping of records. Consequently, I was unable to determine whether any adjustments to consumer deposit stated at R2 040 256 and other corresponding accounts in the financial statements were necessary.

Inventory

12. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figures for inventory. As described in note 8 to the financial statements, the restatement was made to rectify a prior year misstatement, but the restatement could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment to inventory stated at R457 015 562, was necessary.
13. The Municipality included land which was already utilised for other purposes as part of its land inventory. Consequently the inventory stated as per note 8 to the annual financial statements was overstated by R185 214 665.

Value added tax (VAT)

14. I was unable to obtain sufficient and appropriate audit evidence regarding adjustment made to the VAT account amounting to R22 044 791 included in note 10 to the financial statements as internal controls had not been established over recording and safekeeping of records, I was unable to confirm these adjustments by alternative means. Consequently, I was unable to determine whether any adjustments to VAT receivable stated at R16 300 017 and other corresponding accounts in the financial statements were necessary.
15. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for VAT. As described in note 19 to the financial statements, the restatement could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment to the VAT corresponding figure stated at R3 068 663 in the financial statements was necessary.

16. The municipality did not reconcile its year-end VAT receivable amounting to R16 300 017 between VAT 201 and general ledger. My audit revealed an unreconciled difference between the general ledger balance and VAT 201 returns amounting to R 4 919 299. Consequently, the VAT receivable as disclosed in note 19 to the financial statements amounting to R16 300 017, is misstated.
17. The municipality accounted for the VAT output on water and sewerages which belongs to Mopani District Municipality amounting to R20 702 810. Consequently the municipality overstated the VAT output and it resulted in the understatement of VAT receivable by the same amount

Payables

18. I was unable to obtain sufficient and appropriate audit evidence regarding payables journals passed to the amount of R53 057 224, as internal controls were not established over recording and safekeeping of records. Consequently, I was unable to determine whether any adjustments to payables stated at R98 504 607 and other corresponding accounts in the financial statements were necessary.
19. The amount owed to the Mopani District municipality as disclosed in note 18 amounting to R17 869 136 does not agree to the balance of R133 471 281 in the accounting records and financial statements of the Mopani District Municipality. The municipality could not provide a sufficient explanation or supporting documentation for the difference of an amount of R115 602 145. Consequently, I was unable to determine whether any adjustments to payables from exchange transactions stated at R98 504 607 in the financial statements were necessary
20. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for money owed to Mopani District Municipality. As described in note 18 to the financial statements, the restatement could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment to the payables corresponding figure stated at R84 975 917 in the financial statements was necessary
21. I was unable to obtain sufficient appropriate audit evidence for the Mopani District's inter-municipal account due to the differences of R99 409 754 between the general ledger and annual financial statements. The municipality did not have adequate systems of internal control in place for the recording of all transactions and events and further could not reconcile the transactions and events to the financial statements. I could not confirm trade payables by alternative means. Consequently, I was unable to determine whether any adjustment to payables stated at R98 504 607 (2015: R 178 437 548) in the financial statements was necessary. I was unable to determine the effect on the other account balances contained in the financial statements.

Provision

22. Provision for the rehabilitation of landfill sites stated at R19 242 182 (2015: R 16 422 268) has not been valued in line with the requirements of GRAP 19, Provisions, contingent liabilities and contingent assets which requires that where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation. Consequently the provision is misstated by unknown amount.

Revenue from non - exchange transactions

23. I was unable to obtain sufficient appropriate audit evidence that management has properly charged and accounted for all revenue from property rates for the current and prior year due to the status of the accounting records whereby all properties as per valuation roll were not billed. I was unable to confirm the property rates revenue by alternative means. Furthermore, incorrect tariffs were charged and discrepancies were identified between the property value on the system and as per the valuation roll. Consequently, I was unable to determine whether any adjustment to property rates revenue stated at R68 105 690 (2015: R65 593 648) in the financial statements was necessary. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus.
24. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for property rates. As described in note 27 to the financial statements, the restatement was made to rectify a prior year misstatement, but the restatement could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment to the property rates corresponding figure stated at R65 593 648 in the financial statements was necessary
25. The municipality did not update its accounting records with the changes to the valuation roll in the 2015 -2016 year. I was unable to determine the impact on revenue of R68 105 690 (2015: R65 593 648) and receivables of R27 668 709 (2015: R27 050 260) in the financial statements as it was impractical to do so. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus.
26. I was unable to obtain sufficient and appropriate audit evidence regarding revenue from fines as adjustments passed to the amount of R6 118 727 were not substantiated by supporting audit evidence. The municipality did not have adequate internal controls over recording and safekeeping of records. Consequently, I was unable to determine whether any adjustments to revenue fines stated at R3 359 890 and corresponding accounts in the financial statements were necessary.
27. I was unable to obtain sufficient appropriate audit evidence that all revenue relating to fines was recorded as there were debit journals amounting to R47 073 352 in the accounting records which were not substantiated by adequate audit evidence. The

municipality did not have adequate internal controls over recording and safekeeping of records. There were no satisfactory alternative audit procedures that I could perform to determine the completeness of revenue from fines. Consequently, I could not satisfy myself as to whether any adjustments to the revenue of R3 359 890 as per the statement of financial performance were necessary.

28. I identified differences to the amount of R36 910 196 between what was recorded and my recalculation of Municipal Infrastructure Grant as disclosed under note 28 to the annual financial statements. Consequently, government grants and subsidies revenue were misstated by the same amount.

Revenue from exchange transactions

29. I was unable to obtain sufficient appropriate audit evidence for revenue recoveries to an amount of R117 719 466, included in statement of financial performance due to inadequate internal controls and accounting system. I was unable to confirm these recoveries by alternative means. Consequently, I was unable to determine whether any adjustment relating to revenue and receivable in the financial statements was necessary.
30. I was unable to obtain sufficient appropriate audit evidence that management has properly charged and accounted for all revenue from prepaid electricity for the current year due to the status of the accounting records. I was unable to confirm the prepaid electricity by alternative means. Consequently, I was unable to determine whether any adjustment to electricity revenue stated at R94 362 195 in the financial statements was necessary. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus

Employee cost

31. I was unable to obtain sufficient and appropriate audit evidence regarding employee cost journals passed to the amount of R 14 648 115, as internal controls were not established over recording and safekeeping of records. Consequently, I was unable to determine whether any adjustments to expenditure stated at R118 246 136 and other corresponding accounts in the financial statements were necessary
32. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for employee cost. As described in note 29 to the financial statements, the restatement was made to rectify a prior year misstatement, but the restatement could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment to the employee cost corresponding figure stated at R123 097 501 in the financial statements was necessary
33. I identified differences to the amount of R6 860 038 between the third party payments related to employee cost as per accounting records and annual financial statements under note 29 to the annual financial statements. Consequently, employee costs were overstated by the same amount.

Expenditure

34. Included in expenditure is an amount of R38 415 272 relating to the prior financial year which was recorded as expenditure in the current financial year. Consequently, current year expenditure was overstated and comparative amount of expenditure were understated by same amount.
35. I was unable to obtain sufficient and appropriate audit evidence regarding expenditure journals passed to the amount of R30 422 862, as internal controls were not established over recording and safekeeping of records. Consequently, I was unable to determine whether any adjustments to expenditure stated at R437 960 723 and other corresponding accounts in the financial statements were necessary.

Cash flow statement

36. The SA Standards of GRAP 2, Cash flow statements requires that the municipality summaries the entity's operating, investing and financing activities. The cash flow statement and the related notes are not fairly stated due to the material effects of the identified misstatements as reported in this report

Distribution loss

37. I identified a difference of R40 953 753 in comparatives relating to the prior year electricity distribution loss disclosed in note 33 to the annual financial statements. Consequently, the electricity distribution loss disclosure for prior year was overstated by R40 953 753.

Irregular expenditure

38. The municipality did not include all particulars of irregular expenditure in note 49 to the financial statements. The municipality made payments in contravention of the supply chain management requirements which were not included in the note on irregular expenditure, resulting in irregular expenditure being understated by R16 349 428 (2015: R1 504 076). This was due to the lack of a proper system of internal control to account and report irregular expenditure. I was unable to confirm that all amounts relating to irregular expenditure in the current year, has been recorded. Consequently, I am unable to determine if any adjustments to irregular expenditure stated at R136 459 593 (2015: R136 342 880) were necessary.

Commitments

39. I was unable to obtain sufficient appropriate audit evidence for commitments as the municipality did not maintain accurate and complete records of the contractual information used to determine commitments. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment to commitments stated at R71 977 121 (2015: R108 661 318) in the annual financial statements was necessary.

Contingent liabilities

40. I identified a difference amounting to R35 313 083 between the underlying records and the amount disclosed in note 41 to the financial statements as the municipality did not maintain accurate and complete records of contingent liabilities. I could not confirm whether all contingent liabilities were recorded by alternative means. Consequently, I was unable to determine whether any adjustment to contingent liabilities in note 41 to the financial statements were necessary.

Prior period error

41. SA Standards of GRAP 3, Accounting policies, change in accounting estimates and errors requires material prior period errors to be corrected retrospectively by restating the comparative amounts for the periods in which the error occurred. By disclosing the nature of the prior period error, the amount, and the financial line item affected. The municipality's disclosure in note 52 to the financial statements does not include all prior error misstatement disclosure in terms of the SA Standards of GRAP 3

Additional disclosure in terms of MFMA

42. Section 125 (1)(b) of the MFMA states that other compulsory disclosures must be made to the financial statements. The municipality's disclosure in note 50 to the financial statements does not include all disclosures

Related party disclosure

43. Paragraph 27 of GRAP 20 states that if a reporting entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. The municipality's disclosure in note 42 to the financial statements does not include all disclosures in relation to Mopani District Municipality

Disclaimer of opinion

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matters

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

Unauthorised expenditure

45. As disclosed in note 47 to the financial statements, unauthorised expenditure amounting to R13 489 065 was incurred due to the municipality overspending on their approved budget.

Fruitless and wasteful expenditure

46. As disclosed in note 48 to the financial statements, fruitless and wasteful expenditure amounting to R1 179 461 was incurred due to interest on late payments

Restatement of corresponding figures

47. As disclosed in note 52 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of errors discovered during 2016 in the financial statements of the municipality at, and for the year ended, 30 June 2015.

Material losses

48. As disclosed in note 33 to the financial statements, material losses to the amount of R13 835 367 were incurred as a result of electricity distribution.

Additional matter

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

Unaudited supplementary schedules

50. 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

51. 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.

Supplementary explanations of budget variances presented outside the financial statements

52. The supplementary explanations of budget variances contained in appendix E (1), as referred to in note 46, do not form part of the financial statements. I have not audited these explanations and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

53. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected development priorities presented in the annual performance report, compliance with legislation and 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

54. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2016:
- Development priority 1: Spatial Rationale on pages x to x
 - Development priority 2: Basic Services on pages x to x
 - Development priority 4: Local Economic Development on pages x to x
55. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned development priorities. 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).
56. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
57. The material findings in respect of the selected development priorities are as follows:

Development priority 1: Spatial rationale

Usefulness of reported performance information

Measurability of indicators

58. The FMPPPI requires that performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use. A total of 50% indicator was not well defined.

Reliability of reported performance information

59. The FMPPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements

against planned objectives, indicators and targets. The reported achievement against planned targets of 42% indicator was not reliable when compared to the evidence provided.

Development priority 2: Basic service delivery

Usefulness of reported performance information

Consistency of objectives and indicators

60. Section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires actual achievements against all planned indicators and targets to be reported annually. The annual performance report submitted for audit purposes did not include the actual performance of 36% planned indicators specified in the service delivery budget implementation plan for the year under review.

Relevance of indicators

61. A total of 57% 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/service delivery and budget implementation plan, as required by the FMPPI.

Reliability of reported performance information

62. I did not identify any material findings on the reliability of the reported performance information

Development priority 3: Local economic development

63. I did not identify any material findings on the usefulness and reliability of the reported performance information

Additional matters

64. I draw attention to the following matters; our conclusion is not modified in respect of these matters:

Achievement of planned targets

65. Refer to the annual performance report on pages x to x; x to x for information on the achievement of the planned targets for the year. This information should be considered in the context of material findings on the usefulness and reliability of the reported performance information.

Adjustment of material misstatements

66. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Basic Service Delivery development priority. As management subsequently corrected only some of the misstatements, I identified material findings on the usefulness of the reported performance information.

Unaudited supplementary schedules

67. The supplementary information set out on pages x to x 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 on them.

Compliance with legislation

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

Annual financial statements, performance and annual reports

69. 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 identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.

Procurement and contract management

70. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by Supply Chain Management Regulation (SCM regulation) 17(a) and (c).
71. Invitations for competitive bidding were not always advertised for a required minimum period of days, in contravention of SCM regulation 22(1) and 22(2).
72. 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.
73. Bid adjudication committees were not always composed in accordance with SCM regulation 29(2).

74. The preference point system was not applied in all procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) (PPPFA) and SCM regulation 28(1)(a).
75. Contracts were awarded to bidders based on preference points that were not allocated and calculated in accordance with the requirements of the PPPFA and its regulations.
76. 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).
77. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
78. 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.
79. Awards were made to providers who were in the service of the municipality and/or whose directors are in the service of the municipality, in contravention of section 112(j) of the MFMA and SCM regulation 44. Furthermore the provider failed to declare that he / she was in the service of the municipality, as required by SCM regulation 13(c).
80. Awards were made to providers who were in the service of other state institutions or whose directors / principal shareholders were in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulation 44.
81. Persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e)
82. 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.
83. Measures to combat the abuse of the SCM system were not implemented as per the requirements of SCM regulation 38(1), because awards were made to providers who: abused the SCM system of the municipality

Expenditure management

84. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
85. 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
86. An effective system of expenditure control, including procedures for the approval ,authorisation, withdrawal and payment of funds, was not in place, as required by section 65(2)(a) of the MFMA.

87. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred , accounted for creditors and accounted for payments made, as required by section 65(2)(b) of the MFMA.

Revenue management

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

Liability management

90. An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2)(c) of the MFMA
91. An adequate management, accounting and information system which accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.

Assets management

92. 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.
93. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

Consequence management

94. The accounting officer did not always report to the South African Police Service cases of alleged irregular expenditure that constituted a criminal offence, as required by section 32(6) of the MFMA.

Internal control

95. 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 basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

96. The municipality did not have sufficient monitoring controls to ensure the proper implementation of the overall processes of reporting on predetermined objectives and

compliance with legislation.

97. Management did not adequately review the financial statements and the annual performance report prior to their submission for audit and thus material misstatements were not prevented and identified at an earlier stage.
98. Management did not adequately address all recommendations made by the internal audit unit and audit committee.

Financial and performance management

99. The financial statements and other information to be included in the annual report are not reviewed for accuracy and completeness.
100. Controls over daily and monthly processing and reconciling of transactions were not implemented
101. Compliance with laws and regulations was not reviewed and monitored.
102. There is no proper record keeping supporting the financial statements and the annual performance report, consequently requested information was not submitted
103. Supply chain management processes were inadequate due to poor monitoring, resulting in irregular expenditure.
104. A lack of adequate technical knowledge within management with regard to the preparation of financial statements and a lack of adherence to laws and regulations resulted in the disclaimer opinion on the financial statements.

Governance

105. Those charged with governance did not provide adequate oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.

Other report

106. I draw attention to the following engagements conducted by various parties that have or could potentially have an impact on the matters reported on the municipality's financial-, performance- and compliance. The report noted does not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

Investigations

107. The municipality appointed an investigation panel to investigate the shortages of stock identified in the store. The report has been submitted to mayor and he is still evaluating the report

Auditor General

Polokwane

30 November 2016



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence