



## *Chapter 6*

**Minister Pravin Gordhan congratulates  
Mayor Serite Sekgoloane on obtaining an unqualified audit opinion for the 2013\14 FY**





## CHAPTER 6– AUDITOR GENERAL AUDIT FINDING

### INTRODUCTION

Legislation dictates that upon closure of a financial year the Municipality must prepare its annual financial statements and performance information for the year in review. Such Annual Financial Statements and Performance Report must be submitted to the office of the Auditor-General of South Africa (AGSA) for auditing to determine the usefulness, accuracy and reliability of information provided.

For the first time since the inception of the Municipality since its establishment in 2000 the Municipality attained an unqualified audit opinion from the office of the AGSA. This is a remarkable improvement from the previous audit opinions issued by the AGSA. The previous outer years saw the Municipality attaining qualified opinions from the office of the AG. The opinions issued by the AGSA from the 2008\09 financial years to date are as follows:

FINANCIAL YEAR	OPINION	NUMBER OF ISSUES	MATTERS RAISED BY AG AND COMMENTS
2008\09	Disclaimer		
2009\10	Qualified	11	Unauthorized expenditure, asset management; IT related matters; irregular expenditure; disclosures; revenue losses especially electricity distribution losses
2010\11	Qualified	5	Unauthorized expenditure, asset management; IT related matters; irregular expenditure; disclosures; revenue losses especially electricity distribution losses
2011\12	Disclaimer		Municipal Manager was suspended in the middle of the audit execution process
2012\13	Qualified	3	Contingent liability; Asset management; fruitless and unauthorized expenditure
2013\14	Unqualified		



# Report of the Auditor-General to Limpopo Provincial Legislature and the council on Blouberg local municipality

## Report on the financial statements

### Introduction

1. I have audited the financial statements of the Blouberg local 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, the 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 South African Standards of Generally Recognised Accounting Practice (SA Standard 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 (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 Bloubaerg local municipality as at 30 June 2014, and its financial performance and cash flows for the year then ended, in accordance with SA Standard 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.

## Irregular expenditure

8. As disclosed in note 36 to the financial statements, irregular expenditure amounting to R775 361 was incurred as a result of the municipality procuring goods and services without following supply chain management requirements.

## Unauthorised expenditure

9. As disclosed in the note 34 to the financial statements, the municipality incurred unauthorised expenditure amounting R3 667 122 as municipality overspent the budgeted expenditure

## Fruitless and wasteful expenditure

10. As disclosed in note 35 to the financial statements, fruitless and wasteful expenditure amounting R115 444 was incurred as a result of interest paid on overdue account

## Material losses

11. As disclosed in note 39 to the financial statements, the municipality has suffered an abnormal loss to the amount of R5 761 119 from its electricity distribution business.

## Restatement of corresponding figures

12. As disclosed in note 33 to the financial statements, the corresponding figures for 30 June 2013 have been restated as a result of an error discovered during 2014 in the financial statements of the municipality at, and for the year ended, 30 June 2013.

## Material underspending of the conditional grant

13. As disclosed in the note 21 to the financial statements, the municipality has materially underspent the conditional grant (MIG) received on basic service delivery and infrastructure development programme to the amount of R9 779 375.





### Additional matter

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

### Unaudited supplementary schedules

15. 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

16. 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

17. 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

18. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected programmes presented in the annual performance report of the municipality for the year ended 30 June 2014:
- Basic service delivery and infrastructure development (development priority 1) on pages x to x
  - Local economic development (development priority 3) on pages x to x
19. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
20. 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 programmes. 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* (FMPPI).
21. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.



22. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected development priorities.

#### **Additional matter**

23. Although I raised no material findings on the usefulness and reliability of the reported performance information for the selected development priorities, I draw attention to the following matter:

#### **Achievement of planned targets**

24. Refer to the annual performance report on pages x to x for information on the achievement of the planned targets for the year.

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

25. 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:

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

26. 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 disclosure items identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

#### **Budget**

27. 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 MFMA.

#### **Procurement and contract management**

28. Goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, as required by section 16(a) and 17(b) of *Supply Chain Management Regulations*.

#### **Expenditure management**

29. An effective system of expenditure control, including procedures for the approval of funds, was not in place, as required by section 65(2) (a) of the MFMA.

30. An adequate management, accounting and information system was not in place which accounted for creditors, as required by section 65(2)(c) of the MFMA

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



### **Liability management**

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

### **Consequence management**

34. Unauthorised, irregular, fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.

### **Internal control**

35. 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 non-compliance with legislation included in this report.

### **Leadership**

36. The accounting officer did not develop and implement adequate policies, procedures and process to guide the operations of the municipality.
37. The accounting officer did not adequately review the annual financial statements before they were submitted for audit.
38. The accounting officer did not exercise adequate oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

### **Financial and performance management**

39. Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored by management.
40. Management did not implement the daily and monthly controls designed for the municipality's business processes.

Polokwane

28 November 2014



**AUDITOR-GENERAL  
SOUTH AFRICA**

*Auditing to build public confidence*





## COMPONENT A: AUDITOR-GENERAL OPINION OF FINANCIAL STATEMENTS 2011/12

### 6.1 AUDITORGENERAL REPORTS 2011/12

Auditor-General Report on Financial Performance 2012/13	
Audit Report status*:	
Non-Compliance Issues	Remedial Action Taken
<ul style="list-style-type: none"> <li>• Management of assets and inventory especially property, plant and equipment</li> <li>• Poor internal controls</li> <li>• Unauthorized and irregular expenditure</li> <li>• IT governance</li> <li>• Human Resources deficiencies such as leave management and record keeping</li> <li>• Lack of supporting documents</li> <li>• Distribution losses of electricity</li> <li>• Non-disclosures</li> <li>• suspense account</li> </ul>	Action plan developed and fully covered aspects raised by the A-G with improvements in the 2012\13 audit opinion

Auditor-General Report on Service Delivery Performance 2012/13	
Audit Report status*:	
Qualified opinion	
Non-Compliance Issues	Remedial Action Taken
Contingent liability	Audit action plan developed and implemented up to 79 % by end of June 2014
Assets Management	
Fruitless and wasteful expenditure	
T6.1.2	

### AUDITOR GENERAL REPORT ON THE FINANCIAL STATEMENTS 2013/14

NOT YET AVAILABLE

T6.2.3

### COMMENTS ON AUDITOR-GENERAL'S OPINION 2013\14

NOT YET AVAILABLE