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

Report on the financial statements

Introduction

1. I have audited the financial statements of the Musina Local Municipality set out on pages X to XX, which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, 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 of South Africa, 2014 (Act No. 10 of 2014) (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 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 municipality'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 Musina Local Municipality as at 30 June 2015 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.

Material impairments

8. As disclosed in notes 2 and 3 to the financial statements, material impairments to the amounts of R2 183 840 and R13 750 786 were made to receivables from exchange transactions and receivables from non-exchange transactions respectively, as a result of irrecoverable debt.

Material underspending of the conditional grant

9. As disclosed in note 15 to the financial statements, the municipality has materially underspent its municipal infrastructure grant to the amount of R8 455 860.

Irregular expenditure

10. As disclosed in note 40.3 to the financial statements, irregular expenditure amounting to R3 100 843 has been incurred by the municipality, due to contravention of the supply chain management policy.

Going concern

11. Note 55 to the financial statements indicates that the municipality incurred a net deficit of R36 613 580 during the year ended 30 June 2015 and, as of that date, the municipality's current liabilities exceeded its current assets by R78 935 530

Additional matter

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

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 Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected strategic objectives 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

15. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected strategic objectives presented in the annual performance report of the municipality for the year ended 30 June 2015:

    - Strategic objective under technical services: To initiate and improve the quantity and quality of municipal infrastructure and services relating to refuse and waste management services on page 37.
    - Strategic objective under technical services: To initiate and improve the quantity and quality of municipal infrastructure and services relating to roads and storm water services, civil/works services and project management on pages 39 to 40 and 43.
    - Strategic objective under technical services: To initiate and improve the quantity and quality of municipal infrastructure and services relating to electricity services on pages 40 to 41.
    - Strategic objective under economic development and planning: To plan for the future and sustainable communities, to create a conducive environment for sustainable growth and to create a conducive environment and ensure support to key economic sectors in the district on pages 44 to 48.

16. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

17. 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 strategic 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* (FMPPI).

18. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

19. I did not identify material findings on the usefulness and reliability of the reported performance information for the following strategic objectives:

    - Strategic objective under technical services: To initiate and improve the quantity and quality of municipal infrastructure and services relating to refuse and waste management services.

- Strategic objective under technical services: To initiate and improve the quantity and quality of municipal infrastructure and services relating to roads and storm water services, civil/works services and project management.
- Strategic objective under technical services: To initiate and improve the quantity and quality of municipal infrastructure and services relating to electricity services.
- Strategic objective under economic development and planning: To plan for the future and sustainable communities, to create a conducive environment for sustainable growth and to create a conducive environment and ensure support to key economic sectors in the district.

Additional matters

20. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected strategic objectives, I draw attention to the following matters:

Achievement of planned targets

21. Refer to the annual performance report on pages 5 to 48 for information on the achievement of planned targets for the year.

Adjustment of material misstatements

22. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information of strategic objective under economic development and planning: to plan for the future and sustainable communities, to create a conducive environment for sustainable growth and to create a conducive environment and ensure support to key economic sectors in the district. As management subsequently corrected the misstatements I did not identify material findings on the reliability of the reported performance information.

Unaudited supplementary information

23. The supplementary information set out on pages 2 to 4 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

24. 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:

Strategic planning and performance management

25. The performance management system and related controls were inadequate as it did not describe and represent the processes of performance reporting and how it is conducted, organised and managed, as required by section 38 of the Municipal Systems Act of South Arica, 2000 (Act No. 32 of 2000) (MSA) and regulation 7 of the *Municipal planning and performance management regulations.*

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 current assets, liabilities, expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

27. The annual performance report for the year under review did not include measures taken to improve performance as required by section 46(1)(c) of the MSA.

Internal audit

28. The internal audit unit did not function as required by section 165(2) of the MFMA, in that it did not advise the accounting officer and report to the audit committee on matters relating to accounting procedures and practices, risk and risk management and loss control.

29. The internal audit unit did not advise the accounting officer and report to the audit committee on matters relating to compliance with the DoRA and other applicable legislation, as required by section 165(2)(b)(vii) of the MFMA.

Expenditure management

30. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

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

Consequence management

32. Unauthorised, irregular and 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

33. 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 compliance with legislation included in this report.

Leadership

34. Those charged with governance have not yet investigated unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality in the prior years.

35. The council and accounting officer did not provide adequate oversight responsibility in finding a solution to minimise the municipality's exposure to cash flow risk and liquidity problems, which lead to going concern and financial viability difficulties.

Financial and performance management

36. The financial statements and annual performance report contained material misstatements that were corrected, mainly due to inadequate review of the financial statements and annual performance report.

Governance

37. The internal audit unit increased its capacity during the year under review hence the unit was not yet able to perform fully all its functions.

Auditor - General.

Polokwane

30 November 2015

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence