

**REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL  
LEGISLATURE AND THE COUNCIL ON THE HANTAM LOCAL MUNICIPALITY  
REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the accompanying financial statements of the Hantam Local Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages ... to ...

**Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of the 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, 2010 (Act No. 1 of 2010 as amended) (DoRA), and for such internal control as management determines 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. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on the financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.
5. 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.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

## **Basis for qualified opinion**

### **Property, plant and equipment**

7. A number of assets could not be traced to the fixed asset register; consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of property, plant and equipment stated at R61 665 957 in note 6 to the financial statements. There were no satisfactory alternative audit procedures that I could perform regarding the completeness of property, plant and equipment.

### **Investment property**

8. Investment property to the value of R2 964 300 was not recorded in the accounting records, resulting in investment property and accumulated surplus being understated by R2 964 300, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of investment property stated at R12 099 900 in note 6.1 to the financial statements. The municipality's records did not permit the application of alternative audit procedures that I could perform regarding the completeness of investment property.

### **Provisions**

9. Provision has not been made for environmental rehabilitation costs to restore the entity's landfill sites. A provision should be made for the entity's present obligation incurred because of its past use of the landfill sites in accordance with the SA Standards of GRAP 19, *Provisions, contingent liabilities and contingent assets*. This results in the understatement of provisions and assets. I could not determine the effect on the account balances in the financial statements.

### **Accounts receivables**

10. SA Standards of GRAP 1, *Presentation of financial statements*, requires that an asset not expected to be realised within 12 months after the reporting date should be classified as non-current. Debtors with payment arrangements exceeding 12 months were not classified as long-term debtors. This results in the overstatement of long-term receivables and the understatement of the current portion of long-term receivables. I could not determine the effect on the account balances in the financial statements, as no supporting documents could be obtained.
11. SA Standards of GRAP1, *Presentation of financial statements*, requires that the financial statements be prepared on the accrual basis of accounting. The entity did not accrue for revenue and debtors in respect of commonage rental for the current year, as well as the prior year, resulting in the understatement of accounts receivable, revenue and accumulated surplus in the financial statements. I could not determine the effect on accounts receivable and accumulated surplus as the commonage rental has not been accrued for since the inception of commonage rental.

### **Irregular expenditure**

12. There was no system of control over irregular expenditure on which I could rely for the purpose of my audit, and there were no satisfactory audit procedures that I could perform to obtain reasonable assurance that all irregular expenditure was properly recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of irregular expenditure of R3 046 297 (2009-10: R3 633 123), as stated in note 25.2 to the financial statements.

### **Commitments**

13. No contract management system was in place for the identification and recognition of contracts and there were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all commitments had been properly recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of commitments of R9 177 869, as stated in note 27 to the financial statements.

### **Qualified opinion**

14. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Hantam Local Municipality as at 30 June 2011 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**

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

### **Unauthorised expenditure**

13. As disclosed in note 25.3 to the financial statements, unauthorised expenditure of R5 568 631 was incurred due to the overspending of the main divisions within the budget, namely R1 588 624 on operating expenditure and R3 980 007 on capital expenditure.

### **Additional matters**

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

### **Material inconsistencies in other information included in the annual report**

17. As the 2010-11 annual report had not been received at the date of this report, a conclusion could not be drawn on the consistency between the financial statements and the audit report with other information included in the annual report.

### **Unaudited supplementary schedules**

18. The supplementary information set out in appendices A to F 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.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

19. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages ... to ... and material non-compliance with laws and regulations applicable to the municipality.

### **Predetermined objectives**

20. I was unable to conduct the audit of performance against predetermined objectives, as the municipality did not submit its annual performance report, as required by section 46 of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and section 121(3)(c) of the MFMA.

### **Usefulness of information**

21. The following criterion is relevant to the findings below:
- Measurability: Indicators are not well defined and verifiable; and targets are not specific, measurable and time bound.
22. Audit findings

#### **Planned and reported targets not specific, measurable and time bound (measurability)**

For all programmes, the planned and reported targets were not:

- specific in clearly identifying the nature and the required level of performance
- measurable in identifying the required performance
- time bound in specifying the time period or deadline for delivery.

#### **Planned and reported targets not well defined (measurability)**

For all programmes, the planned indicators were not clear, as unambiguous data definitions were not available to allow for data to be collected consistently.

#### **Planned and reported targets not verifiable (measurability)**

For all programmes, valid performance management processes and systems that produced actual performance against the planned measures did not exist for the measures.

## **Compliance with laws and regulations**

### **Strategic planning and performance management**

23. The municipality did not adopt and implement a framework that described and represented how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement would be conducted, organised and managed, including determining the roles of the different role players, as required by sections 38, 39, 40 and 41 of the MSA and Municipal Planning and Performance Management Regulations 7 and 8.
24. The accounting officer of the municipality did not, by 25 January, assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan, as required by section 72(1)(a)(ii) of the MFMA.

25. The accounting officer of the municipality did not submit the results of the assessment on the performance of the municipality during the first half of the financial year to the mayor of the municipality, the National Treasury and the provincial treasury, as required by section 72(1)(b) of the MFMA.
26. The municipality did not appoint and budget for a performance audit committee, nor was another audit committee utilised as the performance audit committee, as required by Municipal Planning and Performance Management Regulation 14.

### **Budget**

27. The municipality incurred expenditure in excess of the limits of the amounts provided for in the votes in the approved budget, in contravention of section 15 of the MFMA.

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

28. 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 in capital assets, current assets, expenditure and unauthorised expenditure identified by the auditors were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.
29. The performance report for the financial year under review was not prepared as required by section 46 of the MSA and section 121(3)(c) of the MFMA.

### **Audit committees**

30. The audit committee did not function as required by section 166 of the MFMA, in that:
  - the audit committee did not advise the council of the municipality on matters relating to internal financial control and internal audits, risk management, accounting policies, performance management, effective governance, compliance with applicable legislation or performance evaluation
  - the audit committee did not review the annual financial statements.

### **Procurement and contract management**

31. Goods and services with a transaction value between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers, as per the requirements of supply chain management (SCM) regulation 17(a) and (c).
32. Quotations were accepted from prospective providers, who are not on the list of accredited prospective providers and who do not meet the listing requirements prescribed by the SCM policy, in contravention of SCM regulations 16(b) and 17(b).
33. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R200 000 were procured by means of inviting competitive bids, as per the requirements of SCM regulations 19(a) and 36(1).
34. Bid specifications were not always drafted by bid specification committees, which were composed of one or more officials of the municipality, as required by SCM regulation 27(3).
35. Final awards and recommendations of awards to the accounting officer were not always made by an adjudication committee constituted as per the requirements of the SCM regulation 29(2).

36. Sufficient appropriate audit evidence could not be obtained that awards had been made to providers whose tax matters were declared to be in order by SARS, as required by SCM regulation 43.
37. Awards were made to suppliers that did not submit a declaration on their employment by the state or their relationship to a person employed by the state, as per the requirements of SCM regulation 13(c).
38. 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 and SCM regulation 28(1)(a).

#### **Human resource management**

39. Senior managers directly accountable to the municipal manager did not sign annual performance agreements for the year under review, as required by sections 57(1)(b) and 57(2)(a) of the MSA.

#### **Expenditure management**

40. The accounting officer did not take reasonable steps to prevent unauthorised, irregular as well as fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

#### **Revenue management**

41. A credit control and debt collection policy was not maintained as required by section 96(b) of the MSA.
42. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which recognised revenue when it is earned and accounted for debtors, as required by section 64(2)(e) of the MFMA.

#### **Asset management**

43. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of internal control for assets (including an asset register), as required by section 63(2)(c) of the MFMA.

#### **INTERNAL CONTROL**

44. In accordance with the PAA and in terms of *General notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

#### **Leadership**

45. The municipality had vacancies at municipal manager and chief financial officer (CFO) level during the year under review, which could lead to deficiencies concerning service delivery.
46. The accounting officer did not exercise oversight responsibility over the preparation of the financial statements, the report on predetermined objectives, compliance with laws and regulations, and internal control. The leadership did not ensure that there were processes to ensure that reviews took place before information was submitted. This was also evidenced by the material misstatements in the financial statements, non-compliance with laws and regulations and internal control deficiencies noted throughout the audit process.

47. The accounting officer did not evaluate whether management had implemented effective internal controls by gaining an understanding of how senior management members had met their responsibilities.
48. The technical manager did not submit the capital expenditure budget to the CFO when the budget of the municipality was compiled. This resulted in unauthorised expenditure.

### **Financial and performance management**

49. Manual or automated controls were not designed to ensure that the transactions had occurred, were authorised and were completely and accurately processed in all instances, while the system of internal control was not adequately designed. Certain corrective measures were not implemented to address the shortcomings in the financial statements and related systems.
50. The municipality did not have documented and approved internal policies and procedures to address planning, monitoring and reporting processes and events pertaining to performance information.
51. There were deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.
52. Material amendments had to be made to the financial statements as these were not accurate and complete, because senior management did not pick up inconsistencies during the review process. This indicates that there were weaknesses in internal control with regard to the review process of the financial statements.
53. In the absence of appropriate GRAP training to municipal officers, management appointed external service providers to assist with the compilation of a GRAP-compliant asset register.
54. The SCM unit of the municipality did not function effectively. The necessary procedures were not always followed and SCM officials were not aware of all the acts and regulations that should be adhered to concerning SCM.

## **Governance**

55. The audit committee did not perform its functions as required and therefore did not promote accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.

Kimberley

30 November 2011



**A U D I T O R - G E N E R A L**  
**S O U T H A F R I C A**

*Auditing to build public confidence*