
RESOLUTIONS OF THE PROVINCIAL PUBLIC ACCOUNTS COMMITTEE

SECOND REPORT, 2010

RESOLUTION NO. 2

(As presented to the North West Legislature)

REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF GREATER TAUNG LOCAL MUNICIPALITY FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008.

The Committee, having heard evidence on 18 February 2010 on the aforementioned Report of the Auditor-General (AG) for the financial year ended 30 June 2008, wishes to express its concern over the following:

1. Sufficient, appropriate audit evidence could not be obtained to determine the accuracy, completeness, rights and obligations, existence and presentation and disclosure of opening balances of assets of R43 944 778, liabilities of R2 057 416 and accumulated funds and reserves of R41 887 361 due to differences between the comparative figures disclosed in the financial statements and the audited 2007 financial statements as well as most matters giving rise to the prior year's qualifications remaining unresolved.
2. The existence of assets of R4 687 453 included in the balance sheet could not be confirmed, due to insufficient detail in the asset register. Alternative procedures indicated that various assets of R1 903 000 as per the valuation roll were not included in the asset register. The register was not updated with additions of R4 555 137 or disposals of R174 766 as per the trail balance. The additions of R4 555 137 were also incorrectly included in debtors.
3. Sufficient appropriate supporting documentation and explanations could not be obtained for a difference of R8 474 between cash and bank as per the balance sheet and the year-end bank reconciliation. Furthermore an unexplained difference of R1 149 123 existed between the opening balance per the trial balance and the closing bank balance of the previous year.
4. Sufficient appropriate supporting documentation and explanations could not be obtained for a difference R1 334 071 between the disaster management bank account as disclosed in note 23 of the financial statements and the third party bank confirmation relating to this bank account.
5. Sufficient appropriate supporting documentation and explanations could not be obtained for a difference of R12 663 933 between the opening balance as per the trial balance and the closing balance of the previous year. Furthermore third party bank confirmations and bank statements could not be obtained for investment accounts of R1 004 436 included in the balance sheet.
6. Sufficient appropriate supporting documentation and explanations could not be obtained for a difference of R9 190 962 between the opening balance as per the trial balance and the closing balance of the previous year. Furthermore sufficient, appropriate audit evidence could not be obtained for journals of R11 997 649 included in the fixed assets of R91 150 367 as per note 6 to the financial statements.
7. Sufficient appropriate supporting documentation and explanations could not be obtained for a difference of R44 751 082 between the asset register and fixed assets of R91 150 367 as per note 6 to the financial statements.

8. Sufficient appropriate supporting documents and explanations could not be obtained for differences of R395 277 and R1 659 207 between the opening balance of other debtors as per the trial balance and general ledger and the closing balance of the previous year of R2 436 131 included in note 10 to the financial statements.
9. Sufficient appropriate supporting documents and explanations could not be obtained for a difference of R144 404 between the year-end stock list and the inventory of R363 193 included in note 8 to the financial statements.
10. Sufficient appropriate audit evidence could not be obtained for creditors of R2 525 603 (2007: R717 382) included in note 12 to the financial statements. Furthermore an unexplained difference of R1 315 562 existed between the opening balance according to the trial balance and the closing balance of the previous year.
11. Sufficient appropriate supporting documents could not be obtained for journals of R10 236 278 included in the accumulated surplus of R25 891 000 as per note 16 to the financial statements. Alternative procedures indicated unexplained differences between the opening and closing balances as per the trial balance, general ledger and financial statements.
12. Sufficient appropriate supporting documents and explanations could not be obtained for a difference of R3 477 274 between the opening balance as per the trial balance and the closing balance of the prior year. Furthermore, sufficient, appropriate audit evidence could not be obtained for journals of R944 233..
13. Sufficient appropriate supporting documents and explanations could not be obtained for a difference R1 473 496 between the opening balance as per the trial balance and the closing balance of the prior year.
14. Sufficient appropriate supporting documents and explanations could not be obtained for a difference R1 030 491 between the opening balance as per the trial balance and the closing balance of the prior year.
15. Deposits according to the bank statements of R432 014 could not be traced to the general ledger accounts.
16. Sufficient, appropriate audit evidence could not be obtained for journals of R8 237 157 included in consumer debtors and other debtors of R16 228 422 as per note 9 and R10 134 577 as per note 10 to the financial statements respectively.
17. Sufficient appropriate supporting documents and explanations could not be obtained for consumer debtors of R16 228 422 included in note 9 to the financial statements.
18. Sufficient appropriate audit evidence could not be obtained for interest earned of R3 698 647 included in actual income of R48 427 438 as per the income statement.
19. Sufficient, appropriate audit evidence could not be obtained for expenditure of R945 364 and contributions of R4 333 869 included in actual expenditure of R51 895 020 as per the income statement.
20. Sufficient, appropriate audit evidence could not be obtained for commitments of R18 077 767 included in note 24 to the financial statements. Alternative procedures indicated that an amount of R26 288 524 was approved but not yet contracted.
21. Sufficient, appropriate audit evidence could not be obtained to support calculations for cash contributions from public and state of R45 585 967 (2007: R24 086 177) and investments in fixed assets of R8 175 360 (2007: R29 438 303) included in the cash flow statement.
22. Sufficient, appropriate audit evidence could not be obtained for the contingent liability included in note 25 to the financial statements as the disclosure note did not provide sufficient detail to indicate the nature, extent and impact of the contingent liability.
23. Expenditure against conditional grants of R1 368 625 was incorrectly capitalised as fixed assets and not written off resulting in the overstatement of fixed asset and understatement of expenses.
24. Interest received on the main bank account of R385 646 was incorrectly classified as interest on investments instead of other income resulting in the overstatement of interest earned and understatement of other income.

25. The MFMA section 125(2)(d) requires the municipality to disclose any material unauthorised expenditure that occurred during the financial year in the financial statements. Contrary to this requirement over-expenditure on the budget of R4 804 708 was not disclosed as such in the notes to the financial statements.
26. The net cash flow resulting from normal activities as per the cash flow statement decreased from R28 million in the previous year to R11.4 million in the current year. This impacted negatively on the ability of the municipality to meet their liabilities. Given the result that funding from government will remain consistent for the next financial year the entity will not be able to maintain their yearly expenditure off R45 million. Based on these factors a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern.
27. Invoices were not paid within 30 days of receipt as required by section 65(2)(e) of the MFMA.
28. The municipality did not complete bank reconciliations for all bank accounts held in the name of the municipality as required by section 98(a) and (b) of the MFMA.
29. The notes to the annual financial statements did not disclose all the investments held by the municipality as required by section (2)(b) of the MFMA.
30. All councillors did not declare their interest in contracts on an annual basis as required by section 7(1) of the MSA..
31. The performance audit committee did not review the municipality's performance management system and make recommendations in this regard to the council as required by regulation 14(4)(a) of the Municipal Planning and Performance Management Regulations, 2001.
32. The performance audit committee did not review the quarterly performance reports and submit a report to the council of the municipality as required by regulation 14(4)(a) of the Municipal Planning and Performance Management Regulations, 2001.
33. The internal auditors did not audit the performance measurements on a continuous basis and submit quarterly reports on their audits to the municipal manager and the performance audit committee as required by regulation 14(1)(c) of the Municipal Planning and Performance Management Regulations, 2001.
34. The internal audit processes and procedures did not included assessments of the functionality of the municipality's performance management system and whether the system complied with the requirements of the MSA as required by regulation 14(1)(b) of the Municipal Planning and Performance Management Regulations, 2001.
35. The different programme managers did not prepare quarterly reports on the progress in achieving measurable objectives and targets and as a whole for the Greater Taung Municipality to facilitate effective performance monitoring, evaluation and corrective action.
36. Various objectives were reported in the annual report, although they were not included as predetermined objectives in the integrated development plan.
37. Various key performance indicators in the service delivery and budget implementation plan were not reported in the annual performance report:

The committee recommends that:

1. Control measures should be implemented **on or before on or before 17 June 2010** to ensure that matters raised in the audit report are addressed to comply with section 131 of the MFMA.
2. The asset register should be updated **on or before 17 June 2010** and thereafter on a monthly basis and the asset register should reconcile with the general ledger control account. The asset register should contain the following minimal information:
 - Segmentation of assets (infrastructure)
 - Fair value of assets and date

- Any impairment of assets and date
 - Useful life of asset and date
 - Residual value of the assets and date
 - Source funding of assets (i.e. grants, own revenue, loan account)
- 3-10. (a) The differences should be investigated and corrected **on or before 17 June 2010**.
- (b) Control measures should be implemented **on or before 17 June 2010** to detect and correct any differences before finalising the financial statements.
- 3-21. (a) The required supporting documentation should be submitted for audit **on or before 17 June 2010**.
- (b) Control measures should be implemented to ensure the adequate safekeeping of all supporting documentation **on or before 17 June 2010**.
- (c) Control measures should be implemented **on or before 17 June 2010** to ensure that no journals can be processed without the accompanying documentation attached.
22. Control measures should be implemented **on or before 17 June 2010** that disclosure notes for contingent liabilities provide sufficient detail to indicate the nature, extent and impact of the contingent liability.
- 23-24. Control measures should be implemented **on or before 17 June 2010** to detect and correct the incorrect recording or classification of transactions and these measures should be monitored on a regular basis.
25. The unauthorised expenditure should be investigated **on or before 17 June 2010** and reported to the relevant authority in terms of section 32 of the MFMA.
26. The council should submit a detailed turn-around strategy to the committee **on or before 17 June 2010**.
27. A post-received register should be implemented **on or before 17 June 2010** and the municipality should design and implement a system to ensure that invoices are paid within 30 days. These measures should be monitored to ensure compliance with the MFMA.
28. Control measures should be implemented **on or before 17 June 2010** to ensure that monthly bank reconciliations are performed as required by section 98(a) and (b) of the MFMA and these measures should be monitored regularly.
29. Control measures should be implemented **on or before 17 June 2010** to ensure that all the investments held by the municipality are disclosed as required by section (2)(b) of the MFMA.
30. Control measures should be implemented **on or before 17 June 2010** to ensure that all councillors declare their interest in contracts on an annual basis as required by section 7(1) of the MSA.
- 31-35. Control measures should be implemented **on or before 17 June 2010** to ensure compliance with all regulatory requirements in respect of performance information.
36. Control measures should be implemented **on or before 17 June 2010** to ensure that all objectives reported in the annual report are included as predetermined objectives in the integrated development plan.
37. Controls should be implemented **on or before 17 June 2010** to ensure that all key performance indicators in the service delivery and budget implementation plan are reported in the annual performance report: