
RESOLUTIONS OF THE PROVINCIAL PUBLIC ACCOUNTS COMMITTEE

SECOND REPORT, 2010

RESOLUTION NO. 4

(As presented to the North West Legislature)

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

The Committee, having heard evidence on 27 January 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 for journals amounting to R208 949 pertaining to Cash and cash equivalents.
2. Sufficient, appropriate audit evidence for journals amounting to R7 539 428 pertaining to investments.
3. Sufficient appropriate audit evidence could not be obtained for journals in respect of property, plant and equipment amounting to R44 171 714.
4. Sufficient, appropriate audit evidence could not be obtained for journals in respect of long-term debtors amounting to R1 392 794.
5. Sufficient, appropriate audit evidence could not be obtained for journals in respect of long-term liabilities amounting to R15 963 031.
6. Sufficient, appropriate audit evidence could not be obtained for staff debtors amounting to R1 984 630 and sundry debtors amounting to R9 705 285. Information provided for health subsidy debtors amounting to R1 264 142 indicated that the amount was not recoverable.
7. Sufficient, appropriate audit evidence could not be obtained for balances in respect of payables amounting to R1 084 355 and journals amounting to R49 170 699.
8. Sufficient appropriate audit evidence could not be obtained for journals in respect of accumulated surplus/deficit amounting to R7 289 052.
9. Sufficient, appropriate audit evidence could not be obtained for journals amounting to R1 818 187 pertaining to consumer deposits.
10. Sufficient, appropriate audit evidence could not be obtained for journals amounting to R52 552 448 pertaining to revenue.
11. Appropriate sufficient audit evidence could not be obtained for an unexplained difference of R3 659 609 between the property rates per the financial statements and the rateable valuation reconciliation.
12. Sufficient, appropriate audit evidence could not be obtained for journals pertaining to expenditure amounting to R28 917 805.

13. Management was unable to provide sufficient, appropriate audit evidence for depreciation and accumulated depreciation balances amounting to R527 362 and R250 927 837 respectively. The depreciation of assets is not in accordance with the municipality's basis of accounting. The municipality did not obtain approval from National Treasury for the early adoption of GAMAP 17, Property, plant and equipment.
14. Sufficient, appropriate audit evidence could not be obtained for interdepartmental charges amounting to R2 485 579 as disclosed in note 19 to the financial statements.
15. An unexplained difference of R711 951 existed between cash and cash equivalents as disclosed in the balance sheet and the year-end bank reconciliation.
16. An unexplained difference of R1 373 577 existed between investments as disclosed in the balance sheet and the year-end bank statements.
17. The existence of assets amounting to R2 427 623 could not be determined due to insufficient detail in the fixed asset register.
18. Unexplained differences existed between the general ledger and the financial statements with regards to opening balances, additions and loans redeemed amounting to R10 163 123, R7 713 542 and R17 876 766 respectively.
19. The source of funding for additions amounting to R31 911 209 could not be traced to loans redeemed and other capital receipts.
20. An unexplained difference of R1 391 689 existed between third party confirmations obtained and long-term liabilities as disclosed in the balance sheet.
21. An unexplained difference of R16 955 195 existed between the debtor sub-ledger and receivables as disclosed in note 10.
22. The existence and valuation of debtors amounting to R77 967 824 could not be confirmed. These debtors did not make any payments after year-end and alternative attempts to verify these balances were unsuccessful.
23. Included in trade debtors were debtors with credit balances amounting to R13 384 552. Had these debtors been correctly classified as creditors, receivables would have been stated at R185 947 135 and payables as R26 576 085 in the balance sheet.
24. A long outstanding debtor to the amount of R1 219 594 included in the trade debtors was identified as municipal charges for property that belong to Mafikeng Local Municipality. This amount should have been accounted for as operating expenditure.
25. The bad debts provision included in note 10 to the financial statements was understated by R44 284 527.
26. The unallocated receipts suspense account amounting to R1 967 868 was not cleared as at year end. Had these deposits been allocated to the relevant debtors, receivables would have been stated at R170 594 897 and payables would have been stated at R11 223 665 in the balance sheet.
27. An unexplained difference of R827 590 existed between the trade creditors as disclosed in the financial statements and the creditors list.
28. The municipality is registered on the cash basis for VAT. An unexplained difference of R9 772 473 existed between the VAT control account, the unclaimed VAT account maintained and the VAT returns submitted.
29. Commission paid to a consulting firm amounting to R1 304 824 was incorrectly recorded against the net proceeds of the receipts from SARS.

30. With reference to accounting policy note 5.1, the municipality's policy is to annually contribute a minimum of 7.5% of assessment rates of the immediately preceding year to the Consolidated Capital Development and Loans Fund. No contribution has been made for the financial year ended 30 June 2008.
31. Statutory funds amounting to R119 767 242 showed no movement for the year under review. Therefore the valuation and existence of these funds could not be verified.
32. R15 370 168 should have been journalised to recognise income from conditional grants of which the conditions have been met. Only R13 903 495 was recognised as income during the year under review. Had this been correctly done, grant income would have increased with R1 466 673. Furthermore, the income journalised was incorrectly classified as sundry income amounting to R9 060 477 and hall income amounting to R1 004 187.
33. Contrary to section 65(2)(e) of the MFMA the municipality did not pay all creditors within 30 days.
34. Contrary to section 125 (2)(a) of the MFMA the municipality did not disclose the required information relating to its bank accounts in a note to the financial statements.
35. Contrary to section 64(3) of the MFMA the municipality did not issue any correspondence to National Treasury with regards to the outstanding accounts of organs of state.
36. Contrary to section 7(1) of the MSA councillors did not declare their interests on an annual basis.
37. The municipality has not approved or adopted a process set out in writing to guide the planning, drafting, adoption and review of its Integrated Development Plan as required by section 28(1) of the MSA.
38. The annual performance report did not reflect a comparison of the performance with targets for and with performance in the previous financial year as required by section 46 of the MSA.
39. The performance audit committee did not meet at least twice during the financial year nor reviewed the Mafikeng Local Municipality's performance management system and make recommendations in this regard to the council of the Mafikeng Local Municipality.
40. The internal audit processes and procedures did not include assessments of the functionality of the Mafikeng Local Municipality's performance management system and whether the system complied with the requirements of the MSA.
41. The reported performance information did not include a complete and comprehensive coverage of planned performance indicators and targets as per integrated development plan and budget.
42. Various instances occurred where the actual achievement of targets could not be substantiated by adequate source documentation.
43. Instances occurred where variances could not be substantiated by adequate explanation.

The committee recommends that:

- 1-14. Supporting documentation should be traced and made available for audit **on or before 17 June 2010**. Furthermore, control measures should be implemented **on or before 17 June 2010** to ensure that no transactions can be processed without the relevant supporting documentation as well as the adequate safeguarding of supporting documentation.
15. The unexplained difference of R711 951 between cash and cash equivalents as disclosed in the balance sheet and the year-end bank reconciliation should be investigated and corrected **on or before 17 June 2010**. Furthermore, a system should be implemented **on or before 17 June 2010** whereby differences are detected and corrected when compiling the financial statements.

16. The unexplained difference of R1 373 577 between investments as disclosed in the balance sheet and the year-end bank statements should be investigated and corrected **on or before 17 June 2010**.
17. 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)
18. The unexplained differences that existed between the general ledger and the financial statements with regard to opening balances, additions and loans redeemed amounting to R10 163 123, R7 713 542 and R17 876 766 respectively, should be investigated and corrected **on or before 17 June 2010**.
19. The municipality should submit adequate documentation for audit to indicate the source of funding for additions amounting to R31 911 209 **on or before 17 June 2010**.
20. The unexplained difference of R1 391 689 that existed between third party confirmations obtained and long-term liabilities as disclosed in the balance sheet should be investigated and corrected **on or before 17 June 2010**.
21. The unexplained difference of R16 955 195 between the debtor sub-ledger and receivables as disclosed in note 10 should be investigated and corrected **on or before 17 June 2010**.
22. Debtors amounting to R77 967 824 that showed no movement after year-end should be investigated to verify their existence **on or before 17 June 2010**.
- 23-24. Control measures should be implemented **on or before 17 June 2010** to detect incorrect classifications before finalising the financial statements.
25. Control measures should be implemented **on or before 17 June 2010** to ensure the adequate provision for bad debts.
26. The unallocated receipts suspense account amounting to R1 967 868 should be investigated and cleared **on or before 17 June 2010**.
27. The unexplained difference of R827 590 between the trade creditors as disclosed in the financial statements and the creditors list should be investigated and corrected **on or before 17 June 2010**.
28. The unexplained difference of R9 772 473 between the VAT control account, the unclaimed VAT account maintained and the VAT returns submitted should be investigated and corrected **on or before 17 June 2010**.
29. The incorrect recording of commission paid to a consulting firm amounting to R1 304 824 should be corrected and control measures implemented **on or before 17 June 2010** to ensure that incorrect recordings are detected when finalising the financial statements.
30. Control measures should be implemented **on or before 17 June 2010** to ensure that the annual contribution is made to the Consolidated Capital Development and Loans Fund to comply with the municipality's policy.
31. The statutory funds amounting to R119 767 242 should be investigated **on or before 17 June 2010** to ascertain why no movement took place for the year.

32. The incorrect amount of R13 903 495 instead of R15 370 168 that was journalised to recognise income from conditional grants should be corrected on and correctly classified **on or before 17 June 2010**.
33. 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.
34. Control measures should be implemented to ensure compliance with the disclosure requirements in terms of section 125 (2)(a) of the MFMA **on or before 17 June 2010**.
35. The municipality should inform the National Treasury of the outstanding accounts of organs of state **on or before 17 June 2010** to comply with section 64(3) of the MFMA.
36. Control measures should be implemented **on or before 17 June 2010** to ensure that councillors declare their interests to comply with section 7(1) of the MSA.
37. A process set out in writing to guide the planning, drafting, adoption and review of its Integrated Development Plan should be approved and implemented **on or before 17 June 2010**.
- 38-40 Control measures should be implemented **on or before 17 June 2010** to ensure compliance with regulatory requirements in respect of performance information.
41. Control measures should be implemented **on or before 17 June 2010** to ensure that the reported performance information includes a complete and comprehensive coverage of planned performance indicators and targets as per integrated development plan and budget.
42. Control measures should be implemented **on or before 17 June 2010** to ensure that the actual achievement of targets is substantiated by adequate source documentation.
43. Control measures should be implemented **on or before 17 June 2010** to ensure that all variances are substantiated by adequate explanation.