

---

**RESOLUTIONS OF THE PROVINCIAL PUBLIC ACCOUNTS COMMITTEE**

---

**SECOND REPORT, 2010**

**RESOLUTION NO. 3**

(As presented to the North West Legislature)

---

**REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF VENTERSDORP 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. As reported in the prior year, a disclaimer of audit opinion was issued. During the year under review, management did not implement corrective measures on the qualifications raised in this regard.
2. Accumulated funds of R16 840 568 disclosed in the Balance sheet were not adequately covered by concomitant assets as at 30 June 2008. The concomitant assets disclosed in the financial statements amounted to only R8 425 750, resulting in a shortfall of R8 414 818.
3. The loan annuity register differed with the third party confirmations received during the audit by R264 690. Management could not supply a reasonable explanation for this difference, resulting in Long term liabilities being understated by R264 690.
4. Details of the current year additions of R10 718 225 could not be provided and the municipality did not maintain a fixed asset register for the financial years ended 30 June 2006, 30 June 2007 and 30 June 2008, detailing information regarding the descriptions, location and cost of assets.
5. An investment of R107 239 with interest received during the year under review of R21 449, held with Absa Bank as per the bank confirmation, was not recorded in the investment register nor disclosed in note 6 to the financial statements. This resulted in investments being understated with R128 688.
6. Stand sales were recognised as revenue at transaction date notwithstanding the fact that the municipality had not transferred the risk and rewards of ownership to the buyer.
7. Provision had not been made for possible refunds that may be due to buyers' who fail to settle the stands in full within the prescribed period.
8. The municipality failed to reverse all the transactions relating to the incorrect revenue and the corresponding long-term debtors and to recognise liabilities until such time that the risk and rewards were transferred to the buyer.
9. A difference of R669 030 between the debtors' age analysis of R40 104 746 and the current debtors of R40 773 776 disclosed in note 9 to the financial statements, could not be explained by management.
10. A difference of R406 302 between the consumer deposit register of R819 474 and the consumer deposits of R1 225 776 disclosed in note 11 to the financial statements, could not be explained by management.

11. A difference of R4 851 312 between grants and subsidies received of R22 169 303 as per the financial statements and the grants and subsidies receivable of R27 020 615 as per Government Gazette No. 30592 dated 20 December 2007 could not be explained by management. This resulted in income being understated with R4 851 312.
12. A reconciliation of revenue received and the valuation roll was not performed.
13. The valuation roll was not approved during the current year; consequently the 2006 valuation roll was used to determine assessment rates.
14. Not all the bank statements were provided in order to satisfactorily test the traffic fines received by the municipality amounting to R6 689 740.
15. Revenue generated from the letting of municipal assets could not be tested due to the unavailability of records of revenue generated.
16. A recalculation of the interest charged on long-term debtors, indicated variances of approximately 26% when compared against the interest actually charged. Management could not confirm the method used to calculate interest received from these debtors.
17. An adequate explanation could not be obtained for a difference of R3 383 579 between the general ledger (R22 093 682) and the Payday payroll system (R18 710 103).
18. The municipality has been experiencing reconciliation differences between the general ledger, the Venus system and the Payday payroll system.
19. An adequate explanation could not be obtained for a difference of R1 389 568 between the general ledger (R22 093 682) and the financial statements (R20 704 114).
20. The municipality did not have a commitment register nor could management provide supporting documentation regarding commitments of R7 million disclosed in note 24 to the financial statements.
21. Sufficient appropriate audit evidence could not be obtained for the following year-end journals, as no supporting documentation was provided for audit:
  22. GRAP-IMFO reverse funds written off amounting to R16 297 533
  23. Funds from previous year amounting to R300 421
  24. Total year-end journal entries amounting to R6 082 263.
25. The municipality's application for an overdraft facility was declined by the bank during the year under review due to the high risk rating of the municipality. The reported deficit for the current year and accumulated funds that are not cash-backed indicate a material uncertainty which may cast significant doubt on the municipality's ability to continue as a going concern and its ability to realise its assets and discharge its liabilities in the normal course of business. Management did not make an assessment of the going concern assumption. Consequently it was not possible to obtain reasonable assurance as to the municipality's ability to continue as a going concern. The financial statements and notes thereto do not disclose this fact.
26. Various instances of non-compliance with applicable legislation occurred.
27. Contrary to section 111, the council did not approve a supply chain management policy.
28. Contrary to section 46 of the MSA and section 121(3)(c) of the MFMA, council did not prepare a performance report which reflects the municipality's and any service provider's performance during the financial year, provides a comparison with the targets and the performance in the previous financial year and measures that were or are to be taken to improve performance.
29. The integrated development plan (IDP) of the municipality did not include the following core components in terms of its performance management system as required by section 26(i) of the MSA.
  30. Disaster Management Plan,
  31. A financial plan, which must include a budget projection for at least the next three years;
  32. Performance targets determined in terms of section 41 of the MSA.
33. Contrary to section 38 of the MSA, a performance management system was not developed and implemented within the applicable prescribed period.

34. The key performance indicators set by the municipality did not include the general key performance indicators applicable to the municipality, as prescribed by section 43(1) of the MSA.
35. Contrary to section 45 of the MSA, the municipality did not appoint a performance audit committee, neither was another audit committee utilised as the performance audit committee.

**The committee recommends that:**

1. Control measures should be implemented **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. Control measures should be implemented **on or before 17 June 2010** to ensure that accumulated funds are adequately covered by concomitant assets at all times.
- 3.1 The difference of R264 690 between the loan annuity register and the third party confirmations received should be investigated and corrected **on or before 17 June 2010**.
- 3.2 Control measures should be implemented **on or before 17 June 2010** to ensure that any differences are detected and corrected before finalizing the financial statements.
4. 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)
5. Control measures should be implemented **on or before 17 June 2010** to ensure that all investments are recorded in the investment register and these measures should be monitored regularly.
- 6-8. The incorrect recording of the stand sales should be corrected **on or before 17 June 2010** and control measures should be implemented to ensure that the municipality's policy is adhered to.
9. The difference of R669 030 between the debtors' age analysis of R40 104 746 and the current debtors of R40 773 776 should be investigated and corrected **on or before 17 June 2010**.
10. The difference of R406 302 between the consumer deposit register of R819 474 and the consumer deposits of R1 225 776 should be investigated and corrected **on or before 17 June 2010**.
11. The difference of R4 851 312 between grants and subsidies received of R22 169 303 as per the financial statements and the grants and subsidies receivable of R27 020 615 as per Government Gazette No. 30592 dated 20 December 2007 should be investigated and corrected **on or before 17 June 2010**.
12. Control measures should be implemented **on or before 17 June 2010** to ensure that reconciliations of revenue received and the valuation roll are performed on a monthly basis.
13. The valuation roll should be approved **on or before 17 June 2010**.
- 14.1 The bank statements required to verify traffic fines received should be submitted for audit **on or before 17 June 2010**.
- 14.2 Control measures should be implemented **on or before 17 June 2010** to ensure that supporting documentation is safeguarded and accessible at all times.

- 
15. The documentation required to confirm revenue generated from the letting of municipal assets should be submitted for audit **on or before 17 June 2010**.
  16. The variances resulting from the recalculation of the interest charged on long-term debtors, should be investigated and corrected **on or before 17 June 2010**.
  17. The difference of R3 383 579 between the general ledger and the Payday payroll system should be investigated and corrected **on or before 17 June 2010**.
  18. The reconciliation differences between the general ledger, the Venus system and the Payday payroll system should be investigated and corrected **on or before 17 June 2010**.
  19. The difference of R1 389 568 between the general ledger and the financial statements should be investigated and corrected **on or before 17 June 2010**.
  20. A commitment register should be implemented **on or before 17 June 2010** and supporting documentation regarding commitments of R7 million disclosed in note 24 to the financial statements should be submitted for audit.
  21. Control measures should be implemented **on or before 17 June 2010** to ensure that no journals can be processed without the attached supporting documentation.
  22. A turn-around strategy should be submitted to the committee **on or before 17 June 2010**.
  23. Control measures should be implemented **on or before 17 June 2010** to ensure compliance with all applicable legislation.
  24. A supply chain management policy should be approved and implemented **on or before 17 June 2010**.
  - 25-29. Control measures should be implemented **on or before 17 June 2010** to ensure compliance with regulatory requirements in respect of performance information.