
RESOLUTIONS OF THE PROVINCIAL PUBLIC ACCOUNTS COMMITTEE

SECOND REPORT, 2010

RESOLUTION NO. 8

(As presented to the North West Legislature)

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

The Committee, having heard evidence on 16 October 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. Previous year expenditure of R1 868 674 should have been treated as a correction of a prior year error in terms of GRAP 3 *Accounting policies, changes in accounting estimates and errors*. This resulted in the comparative figures for creditors and general expenditure being understated.
2. Current year expenditure of R4 770 638 should have been accounted in the Statement of Financial Performance. This resulted in depreciation being understated by R4 915 639 and general expenses being overstated by R145 001.
3. Supporting documentation could not be provided for the "Correction of error" of R120 592 913 disclosed in the Statement of Changes in Net Assets.
4. The contribution for depreciation of R16 999 410 from the reserves was not allocated to the Accumulated Surplus as required in terms of the accounting policies of these reserves. Management could however not disclose the account where this contribution was transacted to. This resulted in the Accumulated Surplus being understated and the undisclosed account being overstated with R16 999 410.
5. The combined carrying value of property, plant and equipment of R250 583 751 financed by the Government Grant Reserve and the Capitalisation Reserve as per the asset register, differed with the combined balance of R239 963 867 of these reserves as disclosed in the Statement of Changes in Net Assets. The difference of R10 619 884 could not be substantiated.
6. Contrary to accounting policy 6.2, the municipality has, since conversion to GAMAP/GRAP, persisted in transferring new assets purchased from the Capital Replacement Reserve to the Capitalisation Reserve instead of to the Accumulated Surplus. This resulted in the Capitalisation Reserve being overstated and the Accumulated Surplus being understated by R70 147 509.
7. In terms of accounting policy 6.5, a Self Insurance Reserve was established to offset potential losses or claims that were not fully insured externally. The accounting policy further requires that the balance of this reserve should be based on the estimated insurance risk profile of the municipality. Management could however not provide the calculation of the estimated insurance risk done during the year under review.

8. Sufficient appropriate audit evidence for property plant and equipment with a carrying value of R295 283 005 disclosed in note 9.1 to the financial statements, due to inadequate information in the asset register regarding the descriptions, location and unbundling of property, plant and equipment as required by GAMAP 17 (Property, plant and equipment).
9. In terms of accounting policy 7.1, the municipality elected to re-value its land and buildings. Land and buildings were however disclosed at cost less depreciation with a carrying value of R37 734 505.
10. The basis of calculation used to determine the provision for rehabilitation of refuse landfill-site of R2 494 404 as disclosed in note 4 to the financial statements could not be produced by management.
11. The disaster fund provision of R392 049 disclosed in note 4 to the financial statements did not meet the definition of a provision as per paragraph 18 of GAMAP 19 (Provisions, contingent liabilities and contingent assets).
12. Supporting documentation could not be obtained for suspense accounts of R10 961 969 disclosed in note 7 of the financial statements.
13. Management did not consider the impairment of consumer debtors based on paragraphs 58 and 59 of IAS 39 (AC 133): Financial instruments: Recognition and measurement. Based on the results of audit procedures performed, debtors 90 days and older of R92 587 079 are deemed irrecoverable and needs to be impaired. The current provision of R58 214 907 for bad debts is thus understated by R34 372 172, resulting in consumer debtors and the surplus for the year both being overstated by R34 372 172.
14. Consumer debtors with credit balances of R1 260 534 were added back twice to the debtors balance as disclosed in note 14 to the financial statements. This resulted in both consumer debtors in note 14 and creditors in note 7 to the financial statements being overstated by R1 260 534.
15. The difference of R979 176 between inventory as disclosed in note 13 to the financial statements and the inventory listing was due to stock shortages found during the annual stock count. This resulted in both inventory and the accumulated surplus being overstated by R979 176.
16. GAMAP 9: Revenue determines that a conditional government grant is only recognised as revenue when there is compliance with the conditions attached to it. As disclosed in notes 19.1 to 19.20 to the financial statements, the government grants for which conditions were met during the year amounted to R43 735 129, whilst only an amount of R28 810 361 was disclosed as revenue in note 19 to the financial statements. This resulted in both revenue and expenditure in the Statement of Financial Performance being understated by R14 924 768.
17. Supporting documentation could not be obtained for interest of R2 293 185, received on external investments, included in the total interest received of R13 907 021 disclosed in note 37 to the financial statements.
18. Sufficient appropriate audit evidence could not be obtained for employee related costs of R13 901 369 included in total employee related costs of R125 112 325 disclosed in note 21 to the financial statements, due to employee files not being available for audit and a limitation imposed by circumstance on the physical verification of employees.
19. A deduction of R2 364 709 from employee related costs disclosed in note 21 to the financial statements could not be explained by management.
20. Contrary to section 125(2)(d) of the MFMA, the municipality incurred the following unauthorised expenditure, which was not disclosed in the financial statements:
 - Expenditure of R1 644 586 incurred for assets that were either not budgeted for or which exceeded the approved budget.
 - The operating budgets of the Office of the Executive Mayor, the Office of the Speaker and Corporate Services were overspent by a total of R5 027 076.
21. Various instances of non –compliance with the MFMA, MSA and VAT Act occurred.
22. 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.

The committee recommends that:

- 1-2. Control measures should be implemented **on or before 17 June 2010** to ensure compliance with GRAP 3 *Accounting policies, changes in accounting estimates and errors* and these measures should be monitored on an ongoing basis. This resulted in the comparative figures for creditors and general expenditure being understated.
3. The required supporting documentation should be provided for audit **on or before 17 June 2010** for the "Correction of error" of R120 592 913 disclosed in the Statement of Changes in Net Assets.
4. Control measures should be implemented **on or before 17 June 2010** to ensure that the accounting policies for reserves are adhered to. Furthermore, the account to which the contribution was transacted should be disclosed for audit purposes **on or before 17 June 2010**.
5. The difference of R10 619 884 between the combined carrying value of property, plant and equipment as per the asset register and the combined balance of these reserves as disclosed in the Statement of Changes in Net Assets should be investigated and corrected **on or before 17 June 2010**.
6. Control measures should be implemented **on or before 17 June 2010** to ensure that new assets are correctly transferred in terms of to accounting policy 6.2 and these control measures should be monitored on a regular basis.
7. The calculation of the estimated insurance risk done during the year under review should be submitted for audit **on or before 17 June 2010**.
8. 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)
9. Control measures should be implemented **on or before 17 June 2010** to ensure that the revaluation of land and buildings is correctly disclosed.
10. Management should submit the basis of calculation used to determine the provision for rehabilitation of refuse landfill-site for audit purposes **on or before 17 June 2010**.
11. Control measures should be implemented **on or before 17 June 2010** to ensure compliance with paragraph 18 of GAMAP 19 (Provisions, contingent liabilities and contingent assets).
12. The suspense accounts of R10 961 969 disclosed in note 7 to the financial statements should be investigated and cleared **on or before 17 June 2010**.
13. Control measures should be implemented **on or before 17 June 2010** to ensure that the impairment of consumer debtors is considered based on paragraphs 58 and 59 of IAS 39 (AC 133): Financial instruments: Recognition and measurement.
14. Control measures should be implemented **on or before 17 June 2010** to detect and correct any incorrect transactions regarding consumer debtor accounts.

15. The stock shortages should be investigated **on or before 17 June 2010** and control measures should be implemented to ensure the adequate management of stock.
- 16.1 Control measures should be implemented **on or before 17 June 2010** to ensure compliance with GAMAP 9: Revenue in terms of the treatment of conditional government grants.
- 16.2 The incorrect disclosure of the government grants for which conditions were met during the year should be corrected in the financial statements **on or before 17 June 2010**.
- 17.1 Supporting documentation for interest of R2 293 185 received on external investments should be submitted for audit **on or before 17 June 2010**.
- 17.2 Control measures should be implemented **on or before 17 June 2010** to ensure the adequate safekeeping of supporting documentation.
18. The employee files should be submitted for audit **on or before 17 June 2010**.
19. The deduction of R2 364 709 from employee related costs disclosed in note 21 to the financial statements should be investigated **on or before 17 June 2010** and submitted for audit.
20. The unauthorised expenditure should be investigated in terms of section 171(4) of the MFMA **on or before 17 June 2010** and submitted to the relevant authority for condonement.
21. Adequate controls should be implemented by management **on or before 17 June 2010** to ensure compliance with applicable laws and legislation and the accuracy and completeness of performance information and these controls should be monitored on a regular basis.
22. Control measures should be implemented **on or before 17 June 2010** to ensure that a performance report is prepared 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.