
RESOLUTIONS OF THE PROVINCIAL PUBLIC ACCOUNTS COMMITTEE

SECOND REPORT, 2010

RESOLUTION NO. 9

(As presented to the North West Legislature)

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

The Committee, having heard evidence on 6 November 2009 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 infrastructure assets with a carrying value of R534 358 454 disclosed in note 9.1 to the financial statements, due to inadequate information in the asset register regarding the descriptions, location and unbundling of infrastructure assets as required by GAMAP 17 (Property, plant and equipment).
2. A refund of R2 200 000 to the National Electricity Regulator for a grant received but not used during the year, was incorrectly capitalised as additions to fixed assets..
3. As reported in the prior year, housing debtors as included in long and short-term receivables was qualified. During the year under review, management did not implement corrective measures on the qualification raised in this regard.
4. Accounting records and supporting documentation could not be obtained for housing debtors included in long-term receivables and other debtors, resulting in a limitation on the scope of my audit imposed by management.
5. An amount of R10 280 000 relating to the long-term receivable for the sale of the Abattoir remains outstanding from prior years. As the municipality failed to obtain surety for the debt as stipulated in the agreement of sale, the recovery of this debt is considered doubtful. This amount has however not been impaired as required by GAMAP 19 (Provisions).
6. Sufficient, appropriate audit evidence could not be obtained for debtors of R85 822 936, due to the failure of management to provide supporting documentation. This disclosure also differed by R7 717 523 from the balance of R78 105 413 as per the general ledger.
7. The municipality's approved policy for the calculation of the provision for bad debts is not adequate due to the fact that it is based on the prior year age analysis and thus does not adequately determine the recoverability of the current debtors. Furthermore, the calculation for the provision of bad debts of R476 696 056 disclosed in note 12 to the financial statements could not be adequately substantiated in line with paragraph 58 of IAS 39 (AC 133): Financial instruments: Recognition and measurement and the approved council policy.
8. The municipality did not have a control mechanism to reconcile the leave taken to the authorised leave application forms.
9. Management did not raise a provision for the restoration of the dumping (landfill) site near Orkney, in line with the requirements of paragraph 28(e) of GAMAP 17 (Property, plant and equipment) and paragraph 18 of GAMAP 19 (Provisions, contingent liabilities and contingent assets).

10. All creditors, trade and other, were paid at year-end based on invoices that have been received in the month of June. Outstanding cheque payments totalling R55 490 253 have not been reversed to trade creditors at year-end. Creditors and bank and cash balances respectively disclosed in notes 5 and 15 to the financial statements are understated by the said amount.
11. Supporting documentation could not be obtained for suspense accounts of R4 242 219 disclosed in note 5 to the financial statements.
12. The combined carrying value of property, plant and equipment of R437 426 806 financed by the Government Grant Reserve and the Donations and Public Contribution Reserve as per the asset register, differed with the combined balance of R440 208 850 of these reserves as disclosed in the Statement of Changes in Net Assets by R2 782 .
13. Sufficient appropriate audit evidence could not be obtained for depreciation of R22 774 543 against the Government Grant Reserve, disclosed in the Statement of Changes in Net Assets.
14. An explanation could not be obtained for the previous year adjustment of R2 261 287 processed by management against the Accumulated Surplus, disclosed in the Statement of Changes in Net Assets.
15. Unallocated deposits of R11 116 568 in the bank reconciliation were not processed in the cashbook. The bank overdraft of R8 686 900 disclosed in note 15 to the financial statements was understated and individual debtor accounts overstated and/or creditors understated by the same amount.
16. A reconciliation of revenue received and the valuation roll was not performed.
17. There were numerous outstanding amendments including rezoning, consolidations, subdivisions and city council sales to the valuation role that were not processed at year end. Assessment rates have therefore not been levied on these prospective amendments within the prescribed period.
18. Certain newly developed properties have not been included in the valuation role. Given the retrospective nature of these developments, I am unable to quantify the error on revenue and debtors.
19. An unexplained difference of R116 032 613 existed between Grants and subsidies of R264 731 991 disclosed in the Statement of Financial Performance and the trial balance amount of R148 699 378..
20. Sufficient appropriate audit evidence could not be obtained for the current year short-term insurance cover of R5 847 603, as neither the signed contract between the municipality and the broker, nor the insurance policy from the underwriter, , were available for audit. Consequently, I was unable to determine the accuracy and occurrence of the expenditure incurred.
21. Sufficient appropriate audit evidence regarding the mayoral expenses of R7 757 828 included in general expenses in the Statement of Financial Performance could not be submitted for audit.
22. General expenses of R162 702 656 disclosed in the Statement of Financial Performance differed by R9 881 285 from the trial balance amount of R172 583 941.
23. Salaries, wages and allowances of R162 257 522 disclosed in note 20 to the financial statements differed by R2 448 933 from the trial balance amount of R159 808 589. employee related costs of R225 995 000 disclosed in the Statement of Financial Performance.
24. Overtime payments of R8 951 105 disclosed in note 20 to the financial statements differed by R2 182 467 from the trial balance amount of R11 133 572.
 - a. Management disclosed irregular expenditure of R26 939 994 in note 32.3 to the financial statements due to an external loan being acquired without following all necessary processes. The audit however revealed that this matter did not meet the definition of irregular expenditure in terms of section 1 of the MFMA, but is regarded a non-compliance with section 46(2) of the MFMA.
 - b. During the year under review, capital and interest repayments were however made on the abovementioned external loan. The interest paid of R2 684 190 on this loan did fall within the definition of irregular expenditure in terms of section 1 of the MFMA and should be disclosed as such.

25. As disclosed in note 32.2 to the financial statements, fruitless and wasteful expenditure of R3 895 000 was incurred, as follows:
26. An overpayment of R2 500 000 on short-term insurance due to a late tender process.
27. Possible fruitless expenditure of R1 200 000 to a consultant.
28. Penalties of R195 000 due to a late payment made to SARS.
29. Contrary to section 62(c)(i) of the MFMA, the municipality did not have a risk management policy or a risk management strategy.
30. Contrary to section 65(2)(e) of the MFMA, invoices were not always paid within 30 days.
31. Contrary to section 104 of the MSA, council did not have a fraud prevention plan
32. Contrary to paragraph 12A of schedule 1 of the MSA, one councillor had consumer accounts outstanding for longer than 90 days as disclosed in note 33.6 to the financial statements.
33. Contrary to section 20(4) of the VAT Act, invoices which exceeded R3 000, received from service providers did not have both the VAT numbers of the user and supplier on them.
34. Contrary to regulation 14(2) of the Municipal Planning and Performance Management Regulations of 2001 (MPPMR), the municipality did not budget for or appoint a performance audit committee, neither was another audit committee utilised as the performance audit committee during the financial year under review.
35. Contrary to section 11 of the MPPMR, the municipality did not review its key performance indicators and targets in the IDP annually as part of the performance review process.
36. Contrary to section 46 of the MSA, the performance report of the municipality did not reflect a comparison of the performance with targets set for and performances in the previous financial year; and measures taken to improve performance.
37. The development priorities and objectives reported on in the annual performance report are different from predetermined development priorities and objectives as per the integrated development plan and budget.

The committee recommends that:

1. 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)
2. The incorrect recording of the refund of R2 200 000 to the National Electricity Regulator for a grant received but not used during the year, should be corrected in the books of the municipality **on or before 17 June 2010**.
- 3-4. The matter raised by the Auditor-General in the prior year in respect of housing debtors should be addressed by the municipality and accounting records and supporting documentation submitted for audit **on or before 17 June 2010** to comply with section 131 of the MFMA.
5. The recoverability of the debt of R10 280 000 relating to the long-term receivable for the sale of the Abattoir should be investigated and dealt with **on or before 17 June 2010**.
6. The difference of R7 717 523 between the debtors disclosed in the financial statements and the balance in the general ledger should be investigated and corrected and supporting documentation submitted for audit **on or before 17 June 2010**.

7. An adequate policy for the for the calculation of the provision for bad debts should be approved and implemented **on or before 17 June 2010**.
8. Control measures should be implemented **on or before 17 June 2010** to reconcile the leave taken to the authorised leave application forms and these control measures should be monitored on a regular basis.
9. A provision for the restoration of the dumping (landfill) site near Orkney should be raised **on or before 17 June 2010**, to comply with the requirements of paragraph 28(e) of GAMAP 17 (Property, plant and equipment) and paragraph 18 of GAMAP 19 (Provisions, contingent liabilities and contingent assets).
10. The outstanding cheque payments totalling R55 490 253 should be reversed to trade creditors **on or before 17 June 2010**.
11. Supporting documentation for suspense accounts of R4 242 219 should be submitted for audit and the suspense accounts cleared **on or before 17 June 2010**.
12. The difference of R2 782 between the combined carrying value of property, plant and equipment of R437 426 806 financed by the Government Grant Reserve and the Donations and Public Contribution Reserve as per the asset register, and the combined balance of as disclosed in the Statement of Changes in Net Assets should be investigated and corrected **on or before 17 June 2010**.
13. Sufficient appropriate audit evidence pertaining to the depreciation of R22 774 543 against the Government Grant Reserve, should be submitted for audit **on or before 17 June 2010**.
14. An adequate explanation for the previous year adjustment of R2 261 287 processed by management against the Accumulated Surplus should be submitted for audit **on or before 17 June 2010**.
15. Control measures should be implemented **on or before 17 June 2010** to verify the source of deposits made directly to the bank account to ensure that the deposits are correctly allocated.
- 16-18. Control measures should be implemented **on or before 17 June 2010** to ensure that a reconciliation of revenue received and the valuation roll is performed and that the valuation role is updated to include outstanding amendments and newly developed properties.
- 19.1 Control measures should be implemented **on or before 17 June 2010** to ensure that differences between reconciling items are detected and corrected before finalising the financial statements.
- 19.2 The unexplained difference of R116 032 613 that existed between Grants and subsidies of R264 731 991 disclosed in the Statement of Financial Performance and the trial balance amount of R148 699 378 should be investigated and corrected **on or before 17 June 2010**.
20. The signed contract between the municipality and the insurance broker as well as the insurance policy from the underwriter should be submitted for audit **on or before 17 June 2010**.
21. Sufficient appropriate audit evidence regarding the mayoral expenses of R7 757 828 included in general expenses in the Statement of Financial Performance should be submitted for audit **on or before 17 June 2010**.
22. The difference of R9 881 285 between the General expenses disclosed in the Statement of Financial Performance and the trial balance amount should be investigated and corrected **on or before 17 June 2010**.
23. The difference of R2 448 933 between Salaries, wages and allowances of R162 257 522 disclosed in note 20 to the financial statements and the trial balance amount disclosed in the Statement of Financial Performance should be investigated and corrected **on or before 17 June 2010**.
24. The difference of R2 182 467 between the overtime payments disclosed in note 20 to the financial statements and the trial balance amount should be investigated and corrected **on or before 17 June 2010**.

25. The irregular expenditure in respect of the interest paid of R2 684 190 should be investigated and reported to the relevant authority in terms of section 32 of the MFMA **on or before 17 June 2010**.
26. The fruitless and wasteful expenditure of R3 895 000 should be investigated and reported to the relevant authority in terms of section 32 of the MFMA **on or before 17 June 2010**.
27. A risk management policy and a risk management strategy should be approved and implemented **on or before 17 June 2010** to comply with section 62(c)(i) of the MFMA.
28. 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.
29. A fraud prevention plan should be approved and implemented **on or before 17 June 2010** to comply with section 104 of the MSA.
30. The councillor's consumer accounts outstanding for longer than 90 days should be recovered **on or before 17 June 2010**.
31. Control measures should be implemented **on or before 17 June 2010** to ensure compliance with section 20(4) of the VAT Act.
- 32-34. Control measures should be implemented **on or before 17 June 2010** to ensure compliance with all the regulatory requirements in respect of performance information. Contrary to regulation 14(2) of the Municipal Planning and Performance Management Regulations of 2001 (MPPMR), the municipality did not budget for or appoint a performance audit committee, neither was another audit committee utilised as the performance audit committee during the financial year under review.
35. Control measures should be implemented **on or before 17 June 2010** to ensure that the development priorities and objectives reported on in the annual performance report agree with the predetermined development priorities and objectives as per the integrated development plan and budget.