

Report of the auditor-general to the Limpopo provincial legislature and the council on the Capricorn District Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Capricorn District Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA)], and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Capricorn District Municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with SA standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

8. As disclosed in note 37 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of an error discovered during 2015 in the financial statements of the municipality at, and for the year ended, 30 June 2014.

Material underspending of budget and conditional grants

9. With reference to note 11 to the financial statements, the municipality materially underspent its conditional grants by R77 201 780.
10. As disclosed in the financial statements, the municipality has materially underspent their capital budget to the amount of R104 113 349. As a consequence, the municipality has not achieved all of its objectives in the infrastructure services department.

Additional matter

11. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Significant uncertainties

12. With reference to note 29 to the financial statements, the municipality is the defendant in various lawsuits. The ultimate outcome of these matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Unaudited supplementary schedules

13. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Report on other legal and regulatory requirements

14. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development objectives presented in the

annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

15. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development objectives presented in the annual performance report of the municipality for the year ended 30 June 2015:
 - Objective 2: Infrastructure Services on pages xx to xx
 - Objective 3: Community Services on pages xx to xx
16. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
17. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
18. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
19. The material findings in respect of the selected development objectives are as follows:

Development objective 2: Infrastructure services

Usefulness of reported performance information

20. I did not identify material findings on the usefulness and reliability of the reported performance information for development objective 2: Infrastructure services

Reliability of reported performance information

21. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to a lack of technical indicator descriptions and standard operating procedures or documented system descriptions for the accurate recording of actual achievements and monitoring of the completeness of source documentation in support of actual achievements.

Development objective 3: Community services

Usefulness of reported performance information

22. I did not identify material findings on the usefulness and reliability of the reported performance information for development objective 3: Community services

Reliability of reported performance information

23. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to a lack of technical indicator descriptions and standard operating procedures or documented system descriptions for the accurate recording of actual achievements and monitoring of the completeness of source documentation in support of actual achievements.

Additional matters

24. I draw attention to the following matters:

Achievement of planned targets

25. Refer to the annual performance report on pages x to x and x to x for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the reliability of the reported performance information for the selected development objectives reported in paragraphs 20 and 22 of this report.

Unaudited supplementary schedules

26. The supplementary information set out on pages XX to XX does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.

Compliance with legislation

27. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

28. The performance management system and related controls were inadequate as it did not appropriately address the processes of performance planning, monitoring, measurement and reporting and how it is conducted, organised and managed, as required by sections 38 of the MSA and regulation 7 of the *Municipal planning and performance management regulations*

Budgets

29. Expenditure was not incurred in accordance with the approved budget and was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 87(8) of the MFMA.

Financial statements, performance and annual reports

30. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.
31. Material misstatements of non-current assets, expenditure, accounts receivable, accounts payable and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

32. Awards were made to providers who are in the service of other state institutions, in contravention of section 112(j) of the MFMA and *Supply Chain Management (SCM) regulation 44*. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).

Expenditure management

33. Reasonable steps were not taken to prevent irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Assets and liability management

34. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
35. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Consequence management

36. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.

Internal control

37. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

38. The municipality did not have sufficient monitoring controls to ensure the proper implementation of the overall process of reporting on predetermined objectives and compliance with legislation.
39. The accounting officer did not adequately review the financial statements and the annual performance report prior to their submission for audit and thus material misstatements, which were subsequently corrected, were not prevented and identified at an earlier stage.

Financial and performance management

40. The financial statements contained numerous misstatements. This was mainly due to inadequate review of the financial statements by management.
41. Non-compliance with laws and regulations could have been prevented had compliance been properly reviewed and monitored by management and those charged with governance.
42. Management has not implemented proper record keeping to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

Governance

43. Those charged with governance did not provide adequate oversight over the effectiveness of the internal control environment over financial statements and reported performance information.

Auditor-General

Polokwane

30 November 2015



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence