



# Report of the auditor-general to the North West provincial legislature and the council on the Dr Ruth Segomotsi Mompoti District municipality

## Report on the financial statements

### Introduction

1. I have audited the financial statements of the Dr Ruth Segomotsi Mompoti District Municipality set out on pages XX to XX, 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 and actual amounts 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 the 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 entity'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 entity'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 qualified audit opinion.

## Basis for qualified opinion

### Property Plant and Equipment

6. The municipality did not assess impairment on assets of R58 174 792 classified on the infrastructure asset register as “not in use”, “not equipped” and “decommissioned”.  
~~Furthermore, t~~ Furthermore, the municipality did not assess the residual values and useful lives of items with a zero carrying amount, ~~furthermore~~ assets with carrying values ~~s~~ less than the residual values are being depreciated and there were differences ~~s~~ identified between depreciation as calculated by the municipality and depreciation recalculated based on the information provided in the fixed assets register as required by GRAP 17, *Property, plant and equipment*. - I was unable to practicably determine the correct net carrying amount of infrastructure assets. Furthermore, I am unable to determine the impact of the above effects on depreciation disclosed in the financial statements.

### Receivable from non-exchange transactions

7. I was unable to obtain sufficient appropriate evidence for adjustments to receivables from non-exchange transactions due to the status of the accounting records. I was unable to confirm these receivables from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments relating to receivables from non-exchange transactions of R11 598 729 (2014: R9 634 421) in the financial statements were necessary.

### Unspent conditional grants and receipts

8. I was unable to obtain sufficient appropriate audit evidence for adjustments to the unspent municipal water infrastructure grant included in unspent conditional grants and receipts due to the status of the accounting records. I was unable to confirm these unspent conditional grants and receipts by alternative means. Consequently, I was unable to determine whether any adjustments relating to unspent municipal water infrastructure grants of R3 638 223 included in unspent conditional grants and receipts of R42 683 295 disclosed in note 9 to the financial statements were necessary.

### Revenue from non-exchange transactions

9. During 2014, I was unable to obtain sufficient appropriate audit evidence that management has properly accounted for revenue from government grants and subsidies due to the status of the accounting records. Consequently, I was unable to determine whether any adjustment to government grants and receipts of R421 592 949 was necessary. I was still unable to confirm this revenue by alternate means. My audit opinion on the financial statements for the period ended 30 June 2014 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

### Expenditure

10. The municipality did not account for expenditure transactions in the year that the service was rendered or goods received as required by GRAP 1 *Presentation of financial statements*. Payments made relating to services or goods received in the prior year were accounted for as current year expenditure. As a result the expenditure of the current year is overstated by R14 043 471 and the accumulated surplus relating to the prior year is overstated with the same amount.

~~10.~~



11. During 2014, I was unable to obtain sufficient appropriate audit evidence for general expenditure due to the status of the accounting records. Consequently, I was unable to determine whether any adjustment to general expenses of R31 698 837 was necessary. I was still unable to confirm this expenditure by alternate means. My audit opinion on the financial statements for the period ended 30 June 2014 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

### **Employee related cost**

12. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for employee costs in the financial statements. As described in note 32 the restatement was made to rectify a prior year misstatement, but the restatement could not be substantiated due to the status of the accounting records. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment to the employee related cost corresponding figure of R90 025 998 in the financial statements was necessary.

### **Commitments**

13. I was unable to obtain sufficient appropriate audit evidence for capital commitments due to the status of the accounting records and explanations for the differences between the expenditure on work in progress and expenditure as per the contract register not being available. I was unable to confirm these commitments by alternative means. Consequently, I was unable to determine whether any adjustments relating to commitments of R409 208 649 (2014: R409 933 940) disclosed in note 29 to the financial statements were necessary.

### **Qualified opinion**

14. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Dr Ruth Segomotsi Mompati 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 the DoRA.

### **Emphasis of matters**

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

### **Unauthorised and irregular and fruitless**

16. As disclosed in note 24 to the financial statements, unauthorised expenditure of R78 501 468 was incurred in the current year and the unauthorised expenditure in respect of prior years of R189 104 950 had not yet been dealt with in accordance with section 32 of the MFMA.

17. As disclosed in note 25 to the financial statements, irregular expenditure of R266 065 164 for the current year and R348 155 607 from prior years had not yet been dealt with in accordance with section 32 of the MFMA



## Restatement in corresponding figures

18. As disclosed in note 32 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of an error discovered during 30 June 2015 in the financial statements of the Dr Ruth Segomotsi Mompati District Municipality at, and for the year ended, 30 June 2015.

## Additional matters

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

## Unaudited disclosure notes

20. In terms of section 125(2) (e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

## Unaudited supplementary schedules

21. 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

22. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (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

23. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development objective presented in the annual performance report of the municipality for the year ended 30 June 2015:
- Development objective 1: Basic services on pages XX to XX
24. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
25. 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).
26. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
27. The material findings in respect of the selected development objectives are as follows:



## **Development objective 1: Basic services**

### **Usefulness of reported performance information**

28. The FMPPI requires that performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 24% of the indicators were not well defined. This was because management did not adhere to the requirements of the FMPPI by ensuring that input, activity, output, outcome and impact indicators are defined before deciding on the key performance indicators.

### **Reliability of reported performance information**

29. 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. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the reported performance information. This was due to limitations placed on the scope of our work due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information and the auditee's records not permitting the application of alternative audit procedures.

### **Additional matters**

30. I draw attention to the following matters:

### **Achievement of planned targets**

31. Refer to the annual performance report on pages XX to XX 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 usefulness and reliability of the reported performance information for the selected development objectives reported in paragraphs 28 and 29 of this report.

### **Unaudited supplementary information**

32. 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**

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

### **Annual financial statements and annual reports**

34. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current liabilities and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records



were provided subsequently, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

35. The oversight report, containing comments on the annual report, was not adopted by council within two months from the date on which the 2013-14 annual report was tabled, as required by section 129(1) of the MFMA.

## **Strategic planning and performance management**

36. The performance management system did not provide for policies and procedures to take steps of improvement where performance targets were not met, as required by section 41 (1)(d) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).
37. The key performance indicators (KPIs) set by the municipality did not include indicators on the percentage of households with access to basic level of water, sanitation and solid waste removal as required by section 43(2) of the MSA and regulation 10(a) of the Municipal planning and performance management regulations (MPPMR).
38. The annual performance report for the year under review did not include measures taken to improve performance as required by section 46 (1)(c) of the MSA.
39. The performance management system and related controls were inadequate as it did not describe and represent the processes of performance planning and improvement as required by section 38 of the MSA and regulation 7 of the MPPMR.

## **Expenditure Management**

40. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
41. Reasonable steps were not taken to prevent unauthorised expenditure and irregular expenditure, as required by section 62(1)(d) of the MFMA.

## **Procurement and contract management**

42. Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value of below R200 000 were procured by means of obtaining the required price quotations, as required by SCM regulations 17(a) and (c).
43. Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value above R500 000 were procured by means of inviting competitive bids and that deviations approved by the accounting officer were only if it was impractical to invite competitive bids, as required by SCM regulations 19(a) and 36(1).
44. Sufficient appropriate audit evidence could not be obtained that bid specifications for procurement of goods and services through competitive bids were drafted in an unbiased manner that allowed all potential suppliers to offer their goods or services, as required by SCM regulation 27(2)(a).
45. Sufficient appropriate audit evidence could not be obtained that bid specifications were drafted by bid specification committees which were composed of one or more officials of the municipality as required by SCM regulation 27(3).
46. Sufficient appropriate audit evidence could not be obtained that bids were evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services and at least one SCM practitioner of the municipality as required by SCM regulation 28(2).
47. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding, as required by SCM regulations 21(b) and 28(1)(a) and Preferential Procurement



Regulations.



48. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded only to bidders who submitted a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
49. Awards were made to providers who are in the service of other state institutions or whose directors/ principal shareholders are in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44.
50. Persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by SCM regulation 46(2)(e) and the code of conduct for staff members issued in terms of the MSA.
51. Sufficient appropriate audit evidence could not be obtained that contracts were only awarded to providers whose tax matters have been declared by the South African Revenue Service to be in order as required by SCM regulation 43.

## **Budgets**

52. The total unforeseen and unavoidable expenditure incurred exceeded the greater of R5 million or 4% of own revenue, in contravention of regulation 72 of the Municipal Budget and Reporting Regulations.

## **Revenue management**

53. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

## **Consequence management**

54. Unauthorised, irregular, fruitless and wasteful 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.
55. Allegations of financial misconduct laid against officials of the municipality were not investigated in accordance with the requirements of section 171(4)(a) and 172(3)(a) of the MFMA and regulation 5(1) of the Municipal regulations on financial misconduct procedures and criminal proceedings.

## **Audit committee**

56. The audit committee did not advise the council on matters relating to risk management and accounting policies as required by section 166(2)(a) of the MFMA.
57. The audit committee did not advise the council on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.
58. The audit committee did not review the annual financial statements to provide the council with an authoritative and credible view of the financial position of the entity, its efficiency and effectiveness and its overall level of compliance with legislation, as required by section 166(2)(b) of the MFMA.
59. The audit committee did not respond to the council on the issues raised in the audit reports of the Auditor-General, as required by section 166(2)(c) of the MFMA.





## Internal control

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

## Leadership

61. The leadership did not exercise adequate oversight over financial and performance reporting, compliance monitoring and related internal controls. Policies and procedures did not adequately guide financial, performance and compliance activities. Leadership did not implement effective HR management to ensure that adequate and sufficiently skilled resources are in place

## Financial and performance management

62. Management's internal controls and processes over the preparation and presentation of the financial statements and performance information were not able to ensure that the financials were free from material misstatements, as well as compliance with laws and regulations.

## Governance

63. The audit committee were not afforded sufficient time to adequately perform their duty with regard to the review of the financial statements and performance report to ensure its adequacy, reliability and accuracy before the submission for auditing.

Potchefstroom

30 November 2015



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

