

Report of the auditor-general to the Free State Legislature and the council on the Thabo Mofutsanyana District Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Thabo Mofutsanyana District Municipality set out on pages ... to ..., which comprise of, the statement of financial position as at 30 June 2016, 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 Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2015 (Act No. 1 of 2015) (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 the 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 Thabo Mofutsanyana District Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with the 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.

Going concern

8. Note 29 to the financial statements indicates that the district municipality incurred a net loss of R14 964 147 during the year ended 30 June 2016 and, as of that date, the district municipality's current liabilities exceeded its current assets by R8 559 338. There is also a contingent liability of R36 000 000 that the district municipality may have to settle in the 2016-17 year. These conditions, along with other matters as set forth in note 29, indicate the existence of a material uncertainty that may cast significant doubt on the district municipality's ability to operate as a going concern and to meet its service delivery objectives.

Irregular expenditure

9. As disclosed in note 33 to the financial statements, the district municipality incurred irregular expenditure of R8 089 589 (2015: R387 801) in 2015-16 mainly due to non-compliance with supply chain management (SCM) requirements.

Material impairments

10. As disclosed in note 4 to the financial statements, receivables from exchange transactions were impaired by R2 561 287 (2015: R2 470 646).

Restatement of corresponding figures

11. As disclosed in note 36 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of errors discovered during 2015-16 in the financial statements of the district municipality at, and for the year ended, 30 June 2015.

Additional matters

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

Unaudited disclosure notes

13. In terms of section 125(2)(e) of the MFMA the district 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 on it.

Report on other legal and regulatory requirements

14. In accordance with the Public Audit Act, 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 of selected key performance areas 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 them.

Predefined objectives

15. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected key performance areas presented in the annual performance report of the district municipality for the year ended 30 June 2016:

- Key performance area 1: Service delivery and infrastructure development on pages x to x
- Key performance area 2: Local economic development on pages x to x

16. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned key performance areas. 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 (FMPP)*.

17. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

18. The material findings in respect of the selected key performance areas are as follows:

Key performance area 1: Service delivery and infrastructure development

Usefulness of reported performance information

19. The FMPPI requires performance indicators to be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use. Important indicators were not well defined.

Reliability of reported performance information

20. The FMPPI requires the district municipality to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. The reported achievements against planned targets of important indicators were not reliable when compared to the source information or evidence provided.

Key performance area 2: Local economic development

Usefulness of reported performance information

21. The FMPPI requires that performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use. Important indicators were not well defined.

Reliability of reported performance information

22. The FMPPI requires the district municipality to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. The reported achievements against planned targets of important indicators were not reliable when compared to the source information or evidence provided.

Additional matters

23. I draw attention to the following matters:

Achievement of planned targets

24. Refer to the annual performance report on pages x to x and x to x for information on the achievement of 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 in paragraphs 19 to 22 of this report.

Unaudited supplementary information

25. The supplementary information set out on pages x to x 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 on them.

Compliance with legislation

26. 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:

Annual financial statements

27. 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, liabilities, expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

28. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(a) and (c).
29. Goods and services with a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer, even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).

Expenditure management

30. An effective system of expenditure control, including procedures for the payment of funds, was not in place, as required by section 65(2)(a) of the MFMA.
31. Reasonable steps were not taken to prevent unauthorised, irregular, fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Liability management

- 3.2 An effective system of internal control for liabilities was not operating effectively, as required by section 63(2)(c) of the MFMA.

Asset management

32. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Internal control

33. 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

34. The Leadership did not adequately exercise their oversight function over financial, performance and compliance matters effectively. There was a lack of adequate and effective controls within supply chain management processes. Management should ensure that those officials responsible for not adhering to supply chain management processes are held accountable.

Financial and performance management

35. The financial statements contained numerous misstatements that were corrected. This was mainly because of incorrect application of the requirements of the financial reporting framework. Management did not record transactions on an accrual basis which resulted in misstatements in expenditure and payables. Management did not monitor full compliance with municipal supply chain management regulations resulting in irregular expenditure that could have been avoided.
36. Officials do not fully understand the applicable performance reporting requirements which in turn contributed to the deterioration in performance measures within the organisation.

Auditor - General

Bloemfontein

30 November 2016



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence