

# Report of the Auditor-General to the Limpopo Provincial Legislature and the council on Sekhukhune District Municipality

## Report on the financial statements

### Introduction

1. I have audited the financial statements of the Sekhukhune District Municipality set out on pages ... to ..., which comprise 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 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 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, 2015 (Act No.1 of 2015) (DoRA) 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 audit opinion.

## **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Sekhukhune 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.

## **Significant uncertainties**

8. With reference to note 31 to the financial statements, the municipality is the defendant in a various claim lawsuits. The municipality is opposing the claims as it believes the claims to be fraudulent. The ultimate outcome of the matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements

## **Restatement of corresponding figures**

9. As disclosed in note 34 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of an errors discovered during 30 June 2016 in the financial statements of the Sekhukhune district municipality at, and for the year ended, 30 June 2015.

## **Material impairments**

10. As disclosed in note 40 to the financial statements, material water losses to the amount of R75 981 598 were incurred as a result of losses incurred on distribution of water.
11. As disclosed in note 5 to the financial statements, significant impairment of debtors due to poor collection practices to the amount of R71 194 232 were incurred.

## **Additional matter**

## **Unaudited supplementary schedules**

12. 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

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

14. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2016:
- KPA 1: Basic services and infrastructure on pages x to x
  - KPA 4: Local economic development on pages x to x
  - KPA 5: Spatial Planning on pages x to x
15. 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 priorities. 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).
16. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
17. The material findings in respect of the selected development priorities are as follows:

### **KPA 1: Basic services and infrastructure**

#### Usefulness of reported performance information

18. I did not identify any material findings on the usefulness of the reported performance information.

#### Reliability of reported performance information

19. The FMPPI requires auditees 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. For important indicators the reported achievements against planned targets of important indicators, were not reliable because I was unable to obtain sufficient appropriate audit evidence for these targets. In addition, the reported achievements against planned targets of important indicators were not reliable when compared to the source information or evidence provided.

#### **KPA 4: Local Economic Development**

20. I did not identify any material findings on the usefulness and reliability of the reported performance information.

#### **KPA 5: Spatial Rationale**

Usefulness of reported performance information

Measurability of indicators and targets

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. It further requires that the related performance targets should be specific in clearly identifying the nature and required level of performance and measurable.

22. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. Important indicators were not verifiable.

Reliability of reported performance information

23. I did not identify any material findings on the reliability of the reported performance information

#### **Additional matters**

24. I draw attention to the following matters:

Achievement of planned targets

25. Refer to the annual performance report on pages xx to xx 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 xx and xx of this report.

## Adjustment of material misstatements

26. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Local Economic Development and Spatial Rationale. As management subsequently corrected only some of the misstatements, I identified material findings on the usefulness...

## Unaudited supplementary schedules or information

27. 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 express a conclusion on them.

## Compliance with legislation

28. 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:

## Expenditure management

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

## Annual report & AFS

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, current assets, liabilities, revenue and expenditure identified by the auditors in the submitted financial statement were subsequently corrected and/or the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

## Revenue management

32. An adequate management, accounting and information system which accounts for revenue was not in place, as required by section 64(2) (e) of the MFMA.
33. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2) (f) of the MFMA

## Procurement and contract management

34. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) & (c).
35. Invitations for competitive bidding were not always advertised for a required minimum period of days, as required by SCM regulation 22(1) & 22(2).
36. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA
37. Contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding, in contravention of SCM Regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations.
38. Contracts were awarded to providers whose municipal rates matters had not been adequately verified to be in order, as required by SCM regulation 38 (1)(d) (i).
39. Contracts were awarded to bidders who submitted false 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). Contracts and quotations were awarded to bidders who did not submit 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).

### **Internal control**

40. 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 basis of, the findings on the annual of performance report and the findings on compliance with legislation included in this report.

### **Leadership**

41. The municipality did not have sufficient monitoring controls to ensure adherence to the internal policies and procedures at a programme/objective level and for purposes of taking corrective action.
42. The leadership did not implement effective human resource management principles to ensure that relevant and sufficiently skilled resources are in place to manage performance information reporting and compliance with laws and regulations.
43. Although leadership developed an action plan to address the internal control deficiencies reported in the prior year, it was not monitored regularly and adhered to.

### **Financial and performance management**

44. Adequate controls over daily and monthly processing and reconciling of transactions were not properly implemented and as a result material misstatements were identified during the audit.
45. Although the leadership reviewed the annual financial statements and the annual

performance report prior to their submission for audit, the internal control environment is not operating effectively as a number of misstatements were still identified.

46. There was no adequate review and monitoring of compliance with applicable laws and regulations.

## **Governance**

47. The municipality did not fully implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks as the risk unit has capacity challenges.
48. The municipality conducted a risk assessment, as required by the MFMA. However the mitigation actions designed to address the identified risk were inadequate to prevent recurrence of prior year qualification issues.

## **Other reports**

49. I draw attention to the following engagements that could potentially impact on the municipality's financial, performance and compliance related matters. My opinion is not modified in respect of these engagements that are either in progress or have been completed.

## **Investigations**

50. A proclamation that authorises the Special Investigation Unit to conduct an investigation the district municipalities was pronounced after year end. The investigation was not finalised at the date of the audit report.

*Auditor-General*  
Polokwane

30 November 2016



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*