

Report of the auditor-general to Limpopo Provincial Legislature and Council of the Mopani District Municipality

Report on the audit of the financial statements

Disclaimer of opinion

1. I was engaged to audit the financial statements of the Mopani District Municipality set out on pages 11 to 86, which comprise the statement of financial position as at 30 June 2017, the statement of financial performance, statement of changes in net assets and cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. I do not express an opinion on the financial statements of the municipality. Because of the significance of the matters described in the basis for disclaimer of opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

Property, plant and equipment

3. Included in property, plant and equipment are assets amounting to R1 068 828 847 (2016: R121 463 809) that could not be verified. Consequently, I was unable to determine whether any adjustments to the property, plant and equipment, depreciation for the period and accumulated surplus were necessary.
4. During 2016, I identified a difference of R143 066 690 between the amounts recorded as accumulated depreciation of R3 191 803 483 and my recalculation. Consequently, property plant and equipment and accumulated surplus was understated by R143 066 690. My audit opinion on the financial statements for the period ended 30 June 2016 was modified accordingly. My opinion on the current year financial statements was also modified because of the effect of this matter on the comparability of the property plant and equipment for the current period.
5. During 2016, I identified a difference amounting to R89 429 194 between the amount recorded as work in progress and my recalculation. Additionally, I was unable to obtain sufficient appropriate evidence for certain transactions amounting to R230 701 496 included in work in progress. Consequently, I was unable to determine whether any adjustment was necessary to property plant and equipment stated at R4 647 668 547. My audit opinion on the financial statements for the period ended 30 June 2016 was modified accordingly. My opinion on the current year financial statements was also modified because of the effect of this matter on the comparability of the property plant and equipment for the current period.

6. During 2016, I identified a number of movable and immovable assets belonging to the municipality that were not accounted for in the accounting records due to the absence of an adequate internal control system over the recording of assets. Consequently, I was unable to determine whether any adjustment was necessary to property plant and equipment stated at R4 647 668 547. My audit opinion on the financial statements for the period ended 30 June 2016 was modified accordingly. My opinion on the current year financial statements was also modified because of the effect of this matter on the comparability of the property plant and equipment for the current period.
7. Included in property plant and equipment is work in progress amounting to R38 386 381 accounted for as completed assets. A further R9 045 915 of completed assets was included in work in progress as incomplete assets. Consequently, property plant and equipment is not accounted for in accordance with the requirements of SA Standards of GRAP 17, *Property, plant and equipment*. Additionally, depreciation is overstated and there was a resultant impact on the surplus for the period.
8. The municipality did not recognise infrastructure assets in accordance with SA Standards of GRAP 17, *Property, plant and equipment*. A landfill site was not broken up into components as required by GRAP17. Consequently, I was unable to determine whether any adjustments to the property, plant and equipment, depreciation for the period and accumulated surplus were necessary.
9. The municipality did not have a system of control over property, plant and equipment as assets amounting to R23 183 581 were written off as repairs and maintenance. Consequently, property plant and equipment is understated by R23 183 581. Additionally, there was a resultant impact on the surplus for the period.
10. The municipality did not have a system of control over property, plant and equipment as assets amounting to R75 009 098 (2016: R54 720 015) that do not belong to the municipality, were recognised in the accounting records. Consequently, property plant and equipment is overstated by R75 009 098 (2016: R54 720 015). Additionally, there was a resultant impact on the surplus for the period.

Inventory

11. During 2016, I was unable to obtain sufficient appropriate audit evidence that inventory (water and consumables) had been properly accounted for, as internal controls had not been established over the recording of these transactions in the accounting records. I was unable to confirm inventory (water and consumables) by alternative means. Consequently, I was unable to determine whether any adjustment to the inventory amount stated as R55 143 120 in note 8 to the financial statements, was necessary. My audit opinion on the financial statements for the period ended 30 June 2016 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the inventory for the current period.

Receivables from exchange transactions

12. I was unable to obtain sufficient appropriate audit evidence that receivables from exchange transactions had been properly accounted for, as the municipality did not maintain an adequate system of internal controls over its record keeping. I was unable to

confirm the receivables by alternative means. Consequently, I was unable to determine whether any adjustment to receivables amount stated as R197 953 056 (2016: R145 480 314) in note 9 to the financial statements, was necessary.

Consumer debtors

13. The municipality did not assess consumer debtors for impairment individually for significant financial assets or collectively for insignificant financial assets in accordance with SA Standards of GRAP 104, *Financial instruments*. Furthermore, I identified differences amounting to R47 835 972 between the recorded amount and the supporting schedules. Consequently, I was unable to determine whether any adjustments to the provision for doubtful debt balance amounting to R608 946 408 (2016: R571 131 593) as disclosed in note 11 to the financial statements, was necessary.

VAT receivable

14. I was unable to obtain sufficient appropriate audit evidence that the municipality accounted for VAT output in terms of the act, as the municipality did not maintain an adequate system of internal control over cash collections from consumer debtors. Furthermore, I was unable to determine whether VAT input transactions were accurately accounted for due to lack of supporting records. Consequently, I was unable to determine whether any adjustments to the VAT receivable balance stated as R119 537 056 (2016: R131 906 873) in note 10 to the financial statements, was necessary.
15. During 2016, the municipality did not account for VAT on taxable transactions in terms of the VAT Act. The total value of VAT that was not recognised in the financial statement amounts to R50 993 052. Consequently, the VAT receivable in note 10 the financial statement is understated by R50 993 052. My audit opinion on the financial statements for the period ended 30 June 2016 was modified accordingly. My opinion on the current year financial statements was also modified because of the effect of this matter on the comparability of the vat receivable for the current period.

Payables from exchange transactions

16. I identified differences amounting to R73 798 829 (2016: R55 105 539) between the amount recorded of R1 333 043 885 and the amount as per the underlying accounting records. Consequently, payables from exchange transactions are understated by R73 798 829 (2016: R55 105 539). Additionally, there was a resultant impact on the surplus for the period.
17. I was unable to obtain sufficient appropriate audit evidence that payables from exchange transactions had been properly accounted for, as the municipality did not maintain an adequate system of internal controls over its record keeping. I was unable to confirm the payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment to payables from exchange transactions amount stated at R1 333 043 885 (2016: R1 070 150 252) in note 16 to the financial statements, was necessary.

Provisions

18. I identified differences amounting to R15 004 620 between the amount recorded as R44 835 083 in note 15 to the financial statements and my recalculations. Consequently, provisions is understated by R15 004 620. Additionally, there was a resultant impact on the surplus for the period.
19. The municipality did not disclose the employee benefits in accordance with SA Standards of GRAP 25, *Employee benefits*. Included in the long service awards amounting to R61 284 711 as disclosed in note 15 to the financial statements, is leave provisions amounting R44 835 083 which was not separately disclosed.

Post-employment benefits

20. During 2016, I identified differences amounting to R8 340 940 between the recorded amount of R1 274 232 in note 26 to the annual financial statements and the underlying records. Consequently, post-employment benefits are understated by R8 340 940. My audit opinion on the financial statements for the period ended 30 June 2016 was modified accordingly. My opinion on the current year financial statements was also modified because of the effect of this matter on the comparability of the post-employment benefits for the current period.

Government grants and subsidies

21. During 2016, the municipality did not recognise monies received as the implementing agent for certain projects, in accordance with SA standards of GRAP 109, *Accounting by principal and agents*. Amounts reimbursed by the principal were incorrectly recognised as revenue. Consequently, revenue was overstated by R34 148 607. Furthermore, the costs incurred amounting to R22 532 576 for these projects were recognised as expenditure in the accounting records instead of a receivable from the principal. My audit opinion on the financial statements for the period ended 30 June 2016 was modified accordingly. My opinion on the current year financial statements was also modified because of the effect of this matter on the comparability of the government grants and subsidies for the current period.
22. During 2016, the municipality did not account for the Department of Water and Affairs refurbishment conditional grants amounting to R23 200 000 as revenue after the conditions were met. Consequently, government grants and subsidies was understated by R23 200 000. My audit opinion on the financial statements for the period ended 30 June 2016 was modified accordingly. My opinion on the current year financial statements was also modified because of the effect of this matter on the comparability of the government grants and subsidies for the current period.

Prior period error

23. I was unable to obtain sufficient appropriate audit evidence for the correction of errors amounting to R87 990 671 as per the statement of change in net assets, as supporting information was not provided. Furthermore, I identified a difference amounting to R223 074 639 between the corrected amount for the prior period error as disclosed in

note 39 to the financial statements and the amount as per the statement of changes in net assets. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to accumulated surplus stated at R3 989 739 359.

Expenditure

24. I was unable to obtain sufficient appropriate audit evidence that expenditure had been properly accounted for, as the municipality did not maintain adequate controls over its record keeping. I was unable to confirm expenditure by alternative means. Consequently, I was unable to determine whether any adjustment to expenditure stated at R797 610 687 (2016: R841 838 518) to the financial statements was necessary.
25. The municipality did not account for all expenditure transactions that occurred before 30 June 2017 to the amount of R95 093 922. Consequently, expenditure is understated by R95 093 922. Additionally, there was a resultant impact on the trade payables from exchange transactions.

Compensation of employees

26. I was unable to obtain sufficient appropriate audit evidence that overtime claims had been properly accounted for, as the municipality did not maintain adequate controls over its record keeping. I was unable to confirm this expenditure by alternative means. Consequently, I was unable to determine whether any adjustment to compensation of employees stated at R321 188 887 (2016: R297 101 783) to the financial statements was necessary.

Contingent liabilities

27. I was unable to obtain sufficient appropriate audit evidence that contingent liabilities have been properly accounted for, as the municipality did not maintain accurate and complete records of all its contingent liabilities. I was unable to confirm this balance by alternative means. Consequently, I was unable to determine whether any adjustment to contingent liabilities stated at R319 316 871 (2016: R151 457 347) in note 37 to the financial statements was necessary.

Commitments

28. I identified differences amounting to R164 443 113 (2016: R216 880 836) between the recorded amount of R384 077 299 included in note 36 to the financial statements and my recalculation. Consequently, commitments are overstated by R164 443 113 (2016: R216 880 836).
29. The municipality incorrectly disclosed a commitment on projects for which it acts as an implementing agent amounting to R86 569 570. Consequently, commitments are overstated by R86 569 570.
30. The municipality incorrectly disclosed commitments amounting to R20 454 063 (2016: R21 498 710) for contracts which were completed as at 30 June 2017. Consequently, commitments is overstated by R20 454 063 (2016: R21 498 710).

31. I identified a number of projects which were still in progress as at 30 June 2017 that were not disclosed as commitments in the financial statements. Due to the status of the accounting records I was unable to determine the amounts for these outstanding projects that should have been disclosed as commitments. Consequently, I was unable to determine whether any adjustment to commitments stated at R384 077 299 in note 36 to the financial statements, was necessary.

GRAP 104 Disclosure

32. The municipality did not disclose the qualitative disclosures in the financial statements as required by SA Standards of GRAP 104, *Financial instruments*.

Statement of budget and actual comparison

33. The SA Standards of GRAP 24, *Presentation of budget information in financial statements* requires that the municipality presents separately, by way of a disclosure note, an explanation of material differences between the budgets for which the entity is held publicly accountable and actual amounts. The municipality did not provide explanations for the material differences between budgeted and actual amounts as required by the standard.

Irregular expenditure

34. The municipality did not include the required information on irregular expenditure in the notes to the annual financial statements, as required by section 125(2)(d) of the MFMA. The municipality made payments in contravention of the supply chain management requirements, resulting in irregular expenditure of R226 839 325 (2016: R28 295 627). As the municipality did not implement and maintain an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective, I was unable to determine the full extent of the understatement by alternative means. Consequently, I was unable to determine whether any further adjustments relating to irregular expenditure disclosed at R186 332 521 (2016: R169 214 083) disclosed in note 44 to annual the financial statements, was necessary.

35. I identified differences amounting to R98 001 978 between the current year comparative amount and prior year audited financial statements. Consequently, irregular expenditure as stated in note 44 to the financial statement is understated by R98 001 978.

Unauthorised expenditure

36. I identified differences amounting to R10 059 501 between current year comparative amount and prior year audited financial statements. Consequently, unauthorised expenditure as stated in note 42 to the financial statements is understated by R10 059 501.

Related parties

37. During 2016, I identified differences amounting to R24 538 915 between the amount recorded at R23 671 010 and my recalculation of related parties. The municipality could not provide explanations for these differences. Consequently, the recorded amount of

R23 671 010 in the underlying records has been understated by R24 538 915. My audit opinion on the financial statements for the period ended 30 June 2016 was modified accordingly. My opinion on the current year financial statements was also modified because of the effect of this matter on the comparability of the related parties for the current period.

Distribution losses

38. During 2016, I was unable to recalculate the water losses as disclosed in note 45 to the annual financial statements. The municipality's records did not permit the application of alternative audit procedures. I was unable to confirm the distribution loss by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the distribution loss. My audit opinion on the financial statements for the period ended 30 June 2016 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the distribution loss for the current period.

Material uncertainty related to going concern/financial sustainability

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

40. As disclosed in note 40 to the financial statements, which indicates that as at 30 June 2017 the municipality's current liabilities exceeded its current assets by R 886 339 820. As stated in note 40, these events or conditions, along with other matters as set forth in Note 40, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matter

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

Restatement of corresponding figures

42. As disclosed in note 39 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2017

Debt Impairment

43. As disclosed in note 30 to the financial statements, material losses to the amount of R56 580 736 were incurred as a result of a write-off of irrecoverable trade debtors.

Other matters

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

Unaudited disclosure notes

45. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. 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

46. 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 schedule(s) and, accordingly, I do not express an opinion thereon.

Withdrawal from the audit engagement

47. Due to the limitation imposed on the scope of the audit by management, I have disclaimed my opinion on the financial statements. However, for the legislated requirement to perform the audit of municipality, I would have withdrawn from the engagement in terms of the ISAs.

Responsibilities of accounting officer for the financial statements

48. The accounting officer is responsible for the preparation and fair presentation of the 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, 2003 (Act No. 56 of 2003) (MFMA), Division of Revenue Act of South Africa, 2015 (Act No 3. of 2016) 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.

49. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting officer either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

50. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

51. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

Introduction and scope

52. 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 material findings on the reported performance information against predetermined objectives for selected directorates presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
53. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators/measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
54. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected directorates presented in the annual performance report of the municipality for the year ended 30 June 2017:

Directorates	Pages in annual performance report
Planning and Development Directorate	27 – 30
Engineering Services Directorate	30 – 32
Water Services Directorate	33 – 35
Community Services Directorate	36 – 40

55. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
56. The material findings in respect of the usefulness and reliability of the selected directorates are as follows:

Planning and Development Directorate

Number of SSME's supported

57. The planned target of 12 was changed to 4 without the necessary approval as required by section 25(2) of the Municipal Systems 2000 (Act No.32 of 2000).

Number of jobs created through SMME Initiatives

58. The method of calculation for the achievement of the planned indicator was not clearly defined, as required by the Framework for Managing Programme Performance Information (FMPPI).

Number of long term jobs created through municipal Initiatives

59. The reported achievement for target of 255 jobs created, planned target of 34 was misstated as the evidence provided indicated 212 jobs created and not 255 as reported.

Number of jobs created through EPWP Initiatives year to date

60. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of target of 310 jobs created through EPWP Initiatives. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of 310 jobs created through EPWP Initiatives

Engineering services

Number of jobs created through IDP implementation and Budget year to date

61. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of target of 333 jobs created through IDP Implementation and Budget. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of 333 jobs created through IDP Implementation and Budget.

Number of water projects completed for the provision of water year to date

62. The reported achievement for planned target of 26 water projects completed for the provision of water was misstated as the evidence provided indicated 9 projects were completed and not 4 as reported.

Water Services Directorate

Number of functional water metres at reservoirs year to date

63. I was unable to obtain sufficient appropriate evidence that clearly defined the predetermined source information, evidence and method of collection to be used when measuring the actual achievement for the indicator, as required by the FMPPI. This was due to a lack of proper systems and processes. I was unable to test whether the target for this indicator was clearly defined by alternative means.

Percentage of initiatives taken to reduce water loss year to date

64. I was unable to obtain sufficient appropriate evidence that clearly defined the predetermined source information, evidence and method of collection to be used when measuring the actual achievement for the indicator, as required by the Framework for

managing programme performance information (FMPPI). This was due to a lack of formal standard operating procedures or documented system descriptions. I was unable to test whether the indicator was well-defined by alternative means.

Number of villages provided with water year to date

65. The municipality did not have an adequate performance management system to maintain records to enable reliable reporting on achievement of targets. Sufficient appropriate audit evidence could not be provided in some instances. In other cases, the evidence provided did not agree to the recorded achievements which resulted in a misstatement of the target achievement reported as the evidence provided indicated that it was 218 villages provided with water and not 236. I was also unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievements.

Mega litres of water produced year to date

66. The reported achievement for target 50370 mega litres of water produced was misstated as the evidence provided indicated 38251 mega litres and not 44001 as reported.

Mega litres of waste water treated year to date

67. The reported achievement for target 12192 of mega litres of waste water treated was misstated as the evidence provided indicated 1815 mega litres and not 2935 as reported.

Community Services Directorate

Number of inspections Conducted on water Purification plants

68. The reported achievement for target of 20 Inspections of water purification plants was misstated as the evidence provided indicated 21 inspections and not 36 as reported.

Number of inspections conducted on Sewage treatment plants

69. The reported achievement for target of 20 Inspections on sewage treatment plants was misstated as the evidence provided indicated 22 Inspections and not 64 as reported.

Other matter

70. I draw attention to the matter below.

Achievement of planned targets

71. Refer to the annual performance report on page 7 to 36 for information on the achievement of planned targets for the year and explanations provided for the under / overachievement of a significant number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 57 to 69 of this report.

Introduction and scope

72. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

73. The material findings on compliance with specific matters in key legislations are as follows:

Consequence management

74. Unauthorised, irregular and fruitless 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) and 32(2)(b) of the MFMA and Municipal budget and reporting regulations 75(1).

Annual financial statements

75. 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 identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving disclaimer audit opinion.

Expenditure management

76. Effective steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified as indicated in the basis for disclaimer paragraph.

77. I could not obtain sufficient appropriate audit evidence that money owed by the municipality had always been paid within 30 days, as required by section 65(2)(e) of the MFMA.

78. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R181 207, in contravention of section 62(1)(d) of the MFMA.

Procurement and contract management

79. Some of the contracts were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b).

80. Some quotations were awarded to bidders based on preference points that were not calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act, 2000(Act No.5 of 2000)(PPPFA) and its regulations.

81. Some quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of PPPFA and Preferential Procurement Regulations.
82. Some of the quotations were accepted from 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).
83. Awards were made to providers who were in the service of other state institutions or whose directors/principal shareholders were in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).
84. Sufficient appropriate audit evidence could not be obtained that all extensions or modifications to contracts were approved by a properly delegated official, as required by SCM regulation 5.
85. Sufficient appropriate audit evidence could not be obtained that contractors were monitored on a monthly basis, as required by section 116(2) (b) of the MFMA.
86. Sufficient appropriate audit evidence could not be obtained that contract performance, monitoring measures and methods were sufficient to ensure effective contract management as required by section 116(2)(c) of the MFMA.

Assets management

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

Internal control deficiencies

88. I considered internal control relevant to my audit of the separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

89. Actions plans were developed however; they were not fully implemented, reviewed and monitored during the course of the year and thus the reoccurrence of the findings that were reported on in the prior year.
90. Management did not provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the interests of the municipality, hence some of the Municipal Infrastructure Grant was redirected to implementing agents.

91. The accounting officer and management did not exercise adequate and sufficient oversight responsibility over the enforcement and implementation of SA Standards of GRAP in preparation of the financial statements.

Financial and performance management

92. The municipality did not have a proper system of record management that provides for the maintenance of information that supports the financial statements and reported performance information.
93. Management did not provide the required supervision and review over daily and monthly recording and reconciliation of transactions and account balances to ensure that the municipality complies with applicable financial reporting and legislation.

Governance

94. Those charged with governance did not regularly provide adequate oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.

Auditor-General

Polokwane

06 December 2017



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected directorates and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in the auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - obtain an understanding of internal control relevant to the audit 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.
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Mopani District Municipality ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor’s report. However, future events or conditions may cause a municipality to cease to continue as a going concern.
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and here applicable, related safeguards.