

# Report of the auditor-general to the Provincial Legislature on Vhembe District Municipality

## Report on the audit of the financial statements

### Disclaimer of opinion

1. I was engaged to audit the financial statements of the Vhembe District Municipality as set out on pages 5 to 61, which comprise statement of financial position as at 30 June 2017, and 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 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. During 2016, I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment and to confirm the property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to property, plant and equipment stated at R8 172 105 483. 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 property, plant and equipment for the current period.
4. The municipality incorrectly calculated the replacement values for infrastructure assets in the current year by applying valuation rates incorrectly. I was not able to determine the impact on the net carrying amount of infrastructure assets as it was impracticable to do so. There was a resultant impact on the surplus for the period and on the accumulated surplus. In addition, I was unable to obtain sufficient appropriate audit evidence for the infrastructure assets, as the supporting information for some valuation rates was not provided. Consequently, I was unable to determine whether any further adjustment was necessary to the infrastructure assets stated at R7 382 376 677 (2016: R7 329 608710) in the financial statements.
5. The municipality did not recognise all items of property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. Additions to property, plant and equipment were incorrectly recognised as expenditure. Consequently, property, plant and equipment was understated and total expenditure was overstated by R9 733 481. In addition, some of the capital expenditures were duplicated resulting in work in progress being overstated by R11 020 526. There was a resultant impact on the surplus for the period and on the accumulated surplus.

## Cash and cash equivalents

6. I was unable to obtain sufficient appropriate audit evidence for cash and cash equivalents for current and prior year due to the poor status of the accounting records. I could not confirm the cash and cash equivalents by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to cash and cash equivalents stated at R257 060 610 (2016: R170 973 041) in the financial statements.
7. I identified long outstanding payments amounting to R66 697 468 that were processed in the general ledger but not processed by the bank. Consequently, cash and cash equivalents were understated by R66 697 468 and trade and other payables understated by the same amount. Additionally, there was a resultant impact on the surplus for the period and on the accumulated surplus.
8. I identified payments amounting to R30 459 876 that have been processed by the bank but not in the general ledger. These payments were also not included in the trade and other payables listing. Consequently, cash and cash equivalents were overstated by R30 459 876 and trade and other payables understated by the same amount. Additionally, there was a resultant impact on the surplus for the period and on the accumulated surplus.

## Receivables from exchange transactions

9. I was unable to obtain sufficient appropriate audit evidence to confirm the balance of receivable from exchange transactions for the current and prior year due to the poor status of the accounting records and non-billing of consumers. I was unable to confirm receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment to receivable from exchange transactions stated at R102 079 804 (2016: R23 343 333) in note 4 to the financial statements was necessary.
10. The municipality did not have adequate systems in place to maintain records of receivables from exchange transactions. I identified difference of R57 379 016 between receivables from exchange transactions as per the statement of financial position and the underlying accounting records. Consequently, I was unable to determine whether any adjustments relating to receivables from exchange transactions amounting to R102 079 804 disclosed in note 4 to the financial statements were necessary.
11. SA Standards of GRAP 104, *Financial Instruments* requires the municipality to first assess whether objective evidence of impairment exists individually for financial assets that are financial significant, and then collectively for financial assets that are not individually significant. The municipality made a provision of R289 303 920 (2016: R289 303 920) for the impairment of receivables from exchange transactions as disclosed in note 4 to the financial statements. However, this impairment was not assessed by the municipality at year end in accordance with GRAP 104. I was unable to calculate what the impairment charge against receivables from exchange transactions and impairment losses expense should have been if GRAP 104 had been applied correctly. Consequently, I was unable to determine whether any adjustments relating to receivables from exchange transactions amounting to R102 079 804 (2016: R23 343 333) disclosed in note 4 to the financial statements were necessary.

## Receivables from non-exchange transactions

12. I was unable to obtain sufficient appropriate audit evidence to confirm the balance of sundry debtors for the current and prior year due to the poor status of the accounting records. I was unable to confirm sundry debtors by alternative means. Consequently, I was unable to determine whether any adjustment to sundry debtors stated at R13 710 596 (2016: R13 710 596) in note 5 to the financial statements was necessary.

## VAT receivable

13. I was unable to obtain sufficient appropriate audit evidence to confirm the balance of VAT receivable for the current and prior year due to the poor status of the accounting records and non-submission of information. I was unable to confirm VAT receivables by alternative means. Consequently, I was unable to determine whether any adjustment to VAT receivable stated at R91 046 325 (2016: R40 517 321) in the financial statements was necessary.
14. The municipality did not correctly account for VAT receivable in accordance with GRAP 1, *Presentation of financial statements*. Incorrect and invalid journals were recorded under VAT receivable account. Consequently, VAT receivable was understated by R25 767 737 in the financial statements. Additionally, there was a resultant impact on the surplus for the period and on the accumulated surplus in the financial statements.

## Inventories

15. I was unable to obtain sufficient appropriate audit evidence for inventories for the current and prior year due to the poor status of the accounting records and non-submission of information. I could not confirm the inventories by alternative means. Additionally, I identified a difference of R16 956 452 between inventories as per the statement of financial position and the underlying accounting records. Further, the municipality did not carry Inventories at lesser of cost or net realisable value in accordance with SA Standards of GRAP 12, *Inventories*. Consequently, I was unable to determine whether any adjustment to inventories stated at R69 705 005 (2016: R34 936 205) in note 3 to the financial statements was necessary.

## Payables from exchange transactions

16. I was unable to obtain sufficient appropriate audit evidence for payables from exchange transactions for current and prior year due to the poor status of the accounting records. I could not confirm payables from exchange transactions by alternative means. In addition, I identified transactions that were not recorded resulting in payables from exchange transactions being understated by R19 785 334. Consequently, I was unable to determine whether any further adjustments were necessary payables from exchange transactions stated at R490 166 382 (2016: R401 807 663) in the financial statements.

## Revenue from exchange transactions

17. I was unable to obtain sufficient appropriate audit evidence that management has correctly charged consumers for all water supplied and accounted for all revenue from water transactions for current and prior year. Meter readings are not consistently done on a monthly basis which resulted in consumers not being billed. I was unable to confirm revenue from exchange transactions by alternative means. Consequently, I was unable

to determine whether any adjustments to revenue from exchange transactions amounting to R121 457 754 (2016: R91 578 005) disclosed in note 16 to the financial statements were necessary.

18. The municipality did not charge Musina local municipality consumers interest for the current year. I could not quantify the misstatement as it was impractical to do so. Consequently, revenue from exchange transactions and receivables from exchange transactions are understated by an unknown amount.

#### Expenditure

19. I was unable to obtain sufficient appropriate audit evidence for expenditure due to the poor status of the accounting records. I could not confirm the expenditure by alternative means. In addition, I identified expenditure which was not recorded resulting in expenditure being understated by R23 296 489. Consequently, I was unable to determine whether any further adjustments were necessary to expenditure stated at R1 044 062 931 in the financial statements.

#### Commitments

20. I was unable to obtain sufficient appropriate audit evidence for commitments for current and prior year due to the poor status of the accounting records. I could not confirm the commitments by alternative means. In addition, I identified commitments which were duplicated resulting in commitments being overstated by R647 733 544. Consequently, I was unable to determine whether any further adjustments were necessary to commitments stated at R1 287 631 443 (2016: R631 501 990) in note 41 to the financial statements.

#### Cash flow statement

21. The municipality did not prepare the cash flow statement in accordance with GRAP 2, *Cash flow statements*. I was unable to reconcile amounts reflected in the cash flow statement to the underlying records. I was not able to determine the impact on the cash flow statement, as it was impracticable to do so.

#### Material losses

22. The municipality did not include all material losses in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. In addition, the municipality did not have adequate systems in place to maintain records of water distribution losses. Consequently, I was unable to determine whether any further adjustments were necessary to the material losses stated at R89 960 722 in note 39 to the financial statements.

#### Irregular expenditure

23. The municipality did not include the required information on irregular expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. The municipality did not record all irregular expenditure incurred in the current year, resulting in irregular expenditure being understated by R36 808 524.

## **Emphasis of matters**

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

### **Uncertainty relating to the future outcome of exceptional litigation**

25. With reference to note 31 to the financial statements, the municipality is a defendant in various legal claims amounting to R358 098 873. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

### **Restatement of corresponding figures**

26. As disclosed in note 33 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of errors discovered in the financial statements of the municipality at, and for the year ended, 30 June 2016.

### **Material underspending of the conditional grant**

27. As disclosed in the financial statements, the municipality has materially underspent the budget on conditional grants to the amount of R46 506 331.

### **Unauthorised expenditure**

28. As disclosed in note 36 to the financial statements, the municipality incurred unauthorised expenditure amounting to R375 154 146 due to netting off savings from different votes against each other.

29. As disclosed in note 36 to the financial statements, unauthorised expenditure to the amount of R678 246 364 that was incurred in the previous years was still under investigation.

### **Fruitless and wasteful expenditure**

30. As disclosed in note 37 to the financial statements, the municipality incurred fruitless and wasteful expenditure amounting to R13 401 764 due to penalties and interest incurred on late payments.

31. As disclosed in note 37 to the financial statements, fruitless and wasteful expenditure to the amount of R41 327 447 that was incurred in the previous years was still under investigation.

### **Irregular expenditure**

32. As disclosed in note 38 to the financial statements, the municipality incurred irregular expenditure amounting to R226 017 053 due to the contravention of the supply chain regulations.

33. As disclosed in note 38 to the financial statements, irregular expenditure to the amount of R656 073 731 that was incurred in the previous years was not investigated.

## **Material Losses**

34. As disclosed in note 39 to the financial statements, material water losses to the amount of R89 960 722 were incurred as a result of work in progress which could not be located to physical assets and community projects.

## **Other matters**

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

## **Withdrawal from the audit engagement**

36. 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.

## **Unaudited supplementary schedules**

37. The supplementary information set out on pages 3 to 4 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.

## **Unaudited disclosure notes**

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

## **Responsibilities of the accounting officer**

39. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with and the requirements of the South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP), Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), the Division of Revenue Act of South Africa, 2014 (Act No. 3 of 2016) (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.
40. In preparing the financial statements, the accounting officer is responsible for assessing the district 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**

41. 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.

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

## Report on the audit of the annual performance report

### Introduction and scope

43. 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 development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
44. 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 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.
45. 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 development priorities presented in the annual performance report of the municipality for the year ended 30 June 2017:

Development priorities	Pages in the annual performance report
KPA 1- Service Delivery and Infrastructure Development	36 – 75
KPA 2- Local Economic Development	75 – 78

46. I performed procedures to determine whether the reported performance information was properly presented and whether performance 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.
47. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

## KPA 1– Service delivery and infrastructure development

48. A comparison between planned and actual or current and previous year's performance and/or the measures taken to improve performance for the following indicators were not disclosed, as required by section 46(b) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA):

Indicator	Planned target	Reported achievement
Number of prepaid water meters installed	1666	1224
Number of new conventional meters installed in rural areas	3000	2381
No. of street taps repaired/removed	110	15
Number of households with access to water through installation of prepaid meters (B2B Indicator) (General KPI)	1666	1224
Number of households with access to water through installation of conventional water meters (B2B Indicator) (General KPI)	3000	2381
The percentage of new households with access to basic level of sanitation (General KPI)	1%	0%
The percentage of households earning less than R1100 per month with access to free basic sanitation (General KPI)	1%	0%

49. I was unable to obtain sufficient appropriate evidence that clearly defined the predetermined source information to be used when measuring the actual achievement for the indicator, as required by the Framework for managing programme performance information (FMPPPI). This was due to a lack of technical indicator descriptions. I was unable to test whether the indicator was well-defined by alternative means.

Indicator	Planned target	Reported achievement
Reticulation Pipelines and Ancillaries	22.35km	22.5km
Rehabilitation of existing Boreholes source works	2	2
Metered standpipes for water supply	160	142
Number of mainline fixed and reticulation extended	2	2
Number of supply line upgraded at Ngovhela	1	1
Response to incidents within targeted time	100%	100%
Fire Safety Inspection	320	320
No. of Disaster Management risk reduction plan	1	1
No. of mainline fixed and reticulation extended	2	2



50. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the following. 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 the following:

Indicator	Planned target	Reported achievement
No. of preventative and routine maintenance of water pumps and motors conducted	4	4
Number of households with basic level of water	98412	89054
Reduction of number of household without electricity facilitated	4	4
The number of new households with access to basic level of water (General KPI)	6031	2378
Number of new households with access to sanitation (B2B Indicator) (General KPI)	400	400
Number of reservoirs constructed for Bulk supply and reticulation at Budeli, Mutoti and surrounding villages project	4	2
Length of water bulk and reticulation network constructed for Bulk supply and reticulation at Budeli, Mutoti and surrounding villages project	55.1km	78.5km
Number of reservoirs constructed for Luphephe Nwanedi RWS: Construction of Bulk Pipeline from Folovhodwe to Masisi project	3	3
Length of water bulk and reticulation network constructed for Luphephe Nwanedi RWS: Construction of Bulk Pipeline from Folovhodwe to Masisi project	47km	73km
Number of Valve Chambers constructed for Luphephe Nwanedi RWS: Construction of Bulk Pipeline from Folovhodwe to Masisi	5	8
Length of water bulk and reticulation network connected for Construction of Bulk pipeline from Vuwani to Middle Letaba System project	18km	11.8km
Number of Valve Chambers constructed for Construction of Bulk pipeline from Vuwani to Middle Letaba System project	46	32
Reticulation Pipelines and Ancillaries	22.3km	22.3km
Metered standpipes for water supply	160	142
Rehabilitation of existing Boreholes source works	2	2
Length of Reticulation Pipelines and Ancillaries constructed for Xikundu Zone3	17.3km	17.3km
Length of Reticulation Pipelines and Ancillaries constructed for Xikundu Zone 2	10.6km	9.73kn
Length of Reticulation Pipelines and Ancillaries constructed for Xikundu Zone 1	14.8km	14.8km
Number of Metered standpipes for water supply at Xikundu Zone 3	125	125
Number of Metered standpipes for water supply at Xikundu Zone 2	110	110

Number of Metered standpipes for water supply at Xikundu Zone1	90	90
Length of bulk pipeline (km) constructed for Xikundu Mhinga Bulk Water Supply	3.8km	3.05km
Number of valves constructed for Xikundu Mhinga Bulk Water Supply	41	58
% of water interruptions resolved within target time (48 hours)	100%	84.24%
% compliance to waste water quality on quarterly basis	100%	53.96%
% of sewer burstage resolved within target time (24 hours)	20%	18.61%
% of broken boreholes repair within target time 48 hours	100%	73.52%

51. 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 while in other cases the evidence provided did not agree to the recorded achievements. This resulted in a misstatement of the target achievement reported. 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.

Indicator	Audit results	Reported achievement
Number of prepaid water meters installed	1168	1224
Number of new conventional meters installed in rural areas	1564	2381
Number of yard connections applications processed	1857	333
Number of households with access to water through installation of prepaid meters (B2B Indicator) (General KPI)	1168	1224
Number of households with access to water through installation of conventional water meters (B2B Indicator) (General KPI)	1564	2381

52. The reported achievements of the indicators listed below were misstated, as the evidence provided did not agree with the reported achievements:

Indicator	Audit results	Reported achievement
Length of Reticulation Pipelines and Ancillaries constructed for Xikundu/Mhinga water reticulation: Gonani water reticulation project	4.95km	5.7km
Number of metered standpipes for water supply for Xikundu/Mhinga water reticulation: Gonani water reticulation	15.26km	13.95km
Number of Metered standpipes for water supply at Xikundu/Mhinga water reticulation: Matiani water reticulation project	135 metered standpipes	140 metered standpipes
Number of existing borehole and source works rehabilitated for the Xikundu/Mhinga water reticulation: Matiani water reticulation	1 boreholes	2 boreholes

Number of storage (reservoirs/ elevated steel tanks) constructed for Mulima, Ikhade, Lambani and Pfananani Water Supply project	2 storage tanks	5 storage tanks
Length of water bulk and reticulation network connected for Mulima, Ikhade, Lambani and Pfananani Water Supply	6.4km	5.4km
Length of water bulk and reticulation network connected for Block J ext and Tswinga internal reticulation project	77.026km	82km
Number of Standpipes constructed for Block J ext and Tswinga internal reticulation	113 stand pipes	75 stand pipes
No of pupils awarded with Mayoral bursary	99 mayoral bursary	95 mayoral bursary

## **KPA 2 – Local economic development**

53. I was unable to obtain sufficient appropriate evidence that clearly defined the predetermined source information and evidence be used when measuring the actual achievement for the indicator, as required by the FMPPI. This was due to requested information not submitted. I was unable to test whether the indicator was well-defined by alternative means. The following are the indicators where there was a limitation of scope:

- Number of EPWP jobs created
- Number jobs created through LED including capital Projects-Skills Development

Number of municipal LED intergovernmental platforms convened

54. The reported achievement for target 4 date was misstated as the evidence provided indicated 10 and not 15 as reported

### **Other matters**

55. I draw attention to the matters below.

#### **Achievement of planned targets**

56. Refer to the annual performance report on pages 36 to 75; 75 to 78 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 qualified and disclaimer of opinions expressed on the usefulness and reliability of the reported performance information in paragraphs.

#### **Adjustment of material misstatements**

57. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 1: service delivery and infrastructure development and KPA 2: local economic development. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

## **Introduction and scope**

58. 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.
59. The material findings on compliance with specific matters in key legislations are as follows:

### **Annual financial statements, performance and annual report**

60. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.
61. Material misstatements of non-current assets/ current assets/ liabilities/ revenue/ expenditure/ disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a disclaimer audit opinion.
62. 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.

### **Assets management**

63. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.
64. The municipality did not establish an investment policy that was adopted by council, as required by section 13(2) of the MFMA and Municipal Investment Regulation 3(1)(a).
65. I could not obtain sufficient appropriate audit evidence that all investments were made in accordance with the requirements of the investment policy (include details), as required by Municipal Investment Regulation 3(3).

### **Liabilities management**

66. An adequate management, accounting and information system which accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.
67. An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2)(c) of the MFMA

### **Expenditure management**

68. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
69. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, as required by section 65(2)(b) of the MFMA.

70. Effective steps were not taken to prevent irregular expenditure amounting to R257 397 841 as disclosed in note 38 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by awarding of contracts in contravention with SCM regulations.
71. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R1 460 836, as disclosed in note 37 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by penalties and interest charged against the municipality for late payments

#### Revenue management

72. A tariff policy was not adopted for the levying of fees for provision of municipal services, as required by section 74(1) of the MSA and section 62(1)(f)(i) of the MFMA.
73. A credit control and debt collection policy was not adopted, as required by section 96(b) of the Municipal Systems Act and section 62(1)(f)(iii) of the MFMA.
74. 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.
75. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.
76. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.
77. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

#### Procurement and contract management

78. 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).
79. Some of the goods and services of 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). Similar non-compliance was also reported in the prior year.
80. Competitive bids were not always evaluated by bid evaluation committees which were composed of at least one SCM practitioner of the municipality, as required by SCM regulation 28(2). Similar non-compliance was also reported in the prior year.
81. 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 MFMA 112(j) 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).

## Consequences management

82. Losses resulting from unauthorised expenditure were not recovered from the liable person, as required by section 32(2)(a) of the MFMA
83. Losses resulting from irregular expenditure were not recovered from the liable person, as required by section 32(2) of the MFMA.
84. Losses resulting from fruitless and wasteful expenditure were not recovered from the liable person, as required by section 32(2)(b) of the MFMA and Municipal Budget and Reporting regulations 75(2).
85. Allegations were not always investigated, as required by Disciplinary regulations for senior managers 5(3) and section 171(4) of MFMA.
86. Allegations of financial misconduct against senior managers were not always tabled before council, as required by Disciplinary regulations for senior managers 5(2).
87. Allegations of financial misconduct laid against officials of the municipality were not investigated in accordance with the requirements of Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings 5(4).
88. Terms of reference were not always approved by council for investigations of financial misconduct as required by Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings 6(1).
89. Disciplinary proceedings were not instituted by the council where the report of independent investigators confirmed the financial misconduct by a senior manager, as required by Disciplinary Regulations for Senior Managers 5(6) and Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings 6(8).
90. Allegations of financial misconduct laid against officials of the municipality were not investigated as required by section 171(4)(a) of the MFMA.
91. Allegations of financial misconduct laid against officials of the municipality were not investigated in accordance with the requirements of Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings 5(4).

## Human Resource management

92. I was unable to obtain sufficient appropriate audit evidence that the municipal manager disclosed financial interests within 60 days from the date of appointment, as required by regulation 36(1)(a) on appointment and conditions of employment of senior managers.
93. I was unable to obtain sufficient appropriate audit evidence that the senior managers disclosed financial interests within 60 days from the date of appointment, as required by regulation 36(1)(a) on appointment and conditions of employment of senior managers.

## Other information

94. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not

include the financial statements, the auditor's report thereon and those selected development priorities presented in the annual performance report that have been specifically reported on in the auditor's report.

95. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

96. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

### Internal control deficiencies

97. I considered internal control relevant to my audit of the 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

98. As the accounting officer was appointed late during the course of the year similar issues as those of prior year were identified during the audit including material misstatements in the financial statements and non-compliance with policies and procedures for performance information.

#### Financial and performance management

99. The municipality did not implement controls over daily and monthly processing and reconciling of transactions.

100. The municipality did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

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

#### Governance

102. The committee has provided the necessary oversight to the municipality as required by legislation and has presented to management recommendations and raised areas of concern that management should focus on. However, management has not implemented the recommendations of the audit committee.

## Other reports

103. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

### Performance audits

104. An audit of water infrastructure projects was conducted at the municipality. The purpose was to determine whether;

- The municipality engaged in adequate infrastructure planning for selected projects and implementation occurred as planned
- The municipality addressed prior year findings on projects that were selected on the prior year

The following were some of the findings raised

- Some of the documentation was not provided for audit, for examples requests and approvals of variation orders, procurement plan, and site handover minutes
- The municipality did not develop a policy to address the institutional arrangements required by the Standards for Infrastructure Procurement and Delivery Management
- The municipality did not adequately monitor, manage and supervise the projects. This included management of the contractor, milestones and payments.
- The municipality did not address the findings that were raised in the prior year

*Auditor-General*  
Polokwane

30 November 2017



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*